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New Niche: Palestine Shares

By **BRENDAN CONWAY**

Auerbach Grayson & Co. is opening up Palestine's stock market to institutional investors in the U.S., the first brokerage to offer trading in shares of the 46 companies listed in the war-torn region.

The New York-based brokerage, which connected investors to Iraq's stock market in 2009, in June partnered with Palestinian broker Sahem Trading & Investments to execute trades on behalf of qualified institutions that have a minimum of \$100 million. The first such trade took place in July.



DPA/Zuma Press

Trader Nagham Salameh at the Palestine Exchange in Nablus in March. Access is easing for U.S. investors.

With a combined market capitalization of \$2.8 billion, companies listed on the Palestine Exchange are too small to be included in any major emerging-markets index, so they don't show up on most investors' radar screens. "It's a tiny market, but it's also an undervalued market," said Auerbach Grayson Managing Director David Grayson. West Bank and Gaza posted 7% growth in real gross domestic product in 2009, the most recent figure available from the Central Intelligence Agency.

One obvious deterrent is the constant threat of war and political upheaval, but the performance of Palestinian shares during this year's Arab Spring shows the benefits of being inured to turmoil.

Egyptian stocks have lost a third of their value since mid-January, and Israel's TA-25 index is down nearly 17%.

Meanwhile, the Palestinian Al Quds index has lost 7%.

"It's an exchange born in a place where political turmoil and uncertainty are a constant," said Ahmad Aweidah, chief executive of the Palestine Exchange. But shares in Palestine are affected by these factors to a "much, much lower extent."

Larry Speidell, chief investment officer at Frontier Market Asset Management in La Jolla, Calif., said he holds shares in Palestine Development & Investment Co., or Padico. Roughly half of the \$100 million under management at his firm is in sub-Saharan African stocks, with holdings in places as farflung as Zimbabwe and the Ivory Coast.

"The beauty of it is, the stocks are not so efficiently priced," Mr. Speidell said. "There are some excellent and very well-run companies." The low correlation with global markets is another draw, Mr. Speidell added.

Padico is one of the most heavily traded stocks on the exchange, as well as the major shareholder of it.

The exchange is one of the smallest in the world, with trading volume this year at about \$306 million. That is larger than Bahrain Bourse's \$243 million but well behind the Amman Stock Exchange's nearly \$3.6 billion, according to the Federation of Euro-Asian Stock Exchanges.

The low liquidity and the specter of war so far have kept most of the international investing community at bay.

"Why go to what is one of the historically most politically risky areas there are?" said Tony Norris, co-manager of the [Wells Fargo Advantage International Bond Fund](#). The fund has held Egyptian bonds.

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