

The Investment Analysts Journal

Number 7 February 1976

Die Beleggings- Navorsers Tydskrif

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Inhoud

This issue in brief

The behaviour of industrial share prices in relation to Gross National Product and interest rates in South Africa

P. J. Blomkamp's article is essentially a report on an investigation he undertook to examine the behaviour of industrial share prices in South Africa.

The investigation followed similar lines to that undertaken by Professor J. Fred Weston in the U.S. twenty years ago but Blomkamp comes to different conclusions from these reached by Weston. Weston had argued that a relationship does exist between the long-term trend of share prices and GNP growth. Blomkamp's view is that that relationship is so theoretical as to have very little meaning. For it to have more meaning, account must also be taken of interest rate fluctuations.

Restating financial statements for inflation: Is it necessary? Is it sufficient?

Inflation has become a fact of life which neither politicians nor economists and accountants can ignore. Professor Seneque, however, is not concerned with a discussion of the causes of inflation or its effects on companies. His object is to look at the controversy surrounding proposals that corporate accounts should be restated to take account of price-level changes. He arrives at three main conclusions, namely, (1) that such restatement, while expensive, need not be beneficial; (2) that where it is beneficial, current Purchasing Power Accounting may not be sufficient; and (3) that for financial statements to fulfil their investment role, they must be restated using indices of specific Purchasing Power and the Net Realisable Value concept.

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Some fallacies in financial analysis

The process of comparison is implicit in all financial analysis which is concerned with measuring changes in the relationship between corporate entities and their environment and with identifying trends of profits and assets growth. This process of comparison is particularly important in ratio analysis but it is not without its shortcomings. David Collins, author of this article, draws attention to the shortcomings laying particular stress on the distorting influence inflation has on financial statements. He argues that where these are not adjusted for price level changes, they must be viewed as notional rather than as true representations of the financial positions of companies.

A comparison of two portfolio selection models

In the 1950's, Harry Markowitz published his now famous work on portfolio selection. This was an attempt at applying modern techniques of analysis and computation to the problem of finding the best combination of securities able to meet the needs of individual investors. Markowitz's work was followed by that of Professor William F. Sharpe, of Stanford University, and both had a revolutionary impact on thinking in the investment world. J. F. Affleck-Graves and Professor A. H. Money present, in this article, an examination of the Markowitz and Sharpe mathematical models as applied to securities listed on The Johannesburg Stock Exchange.

The Investment Analysts Journal

Seventh issue
February 1976

"... the Journal has the task ... of leading as well as reflecting opinion".

J. H. C. Leach, Hon. Editor of "The Investment Analyst" journal of the U.K. Society of Investment Analysts. September 1975.

This issue of The Investment Analysts Journal is not only different from its predecessors because it has a new cover. It marks the first of a new generation of issues which it is hoped will contain articles of greater practical interest for investment analysts as well as articles which will provide academicians with a medium for publishing the results of research and discussing matters of theoretical importance.

Until now The Investment Analysts Journal has been finding its feet. It was a new venture for The Investment Analysts Society of Southern Africa and many doubts existed as to whether it was justified and could endure. After more than three years, those doubts have been swept away. The Journal, today, is a respected, learned publication and it is being read by many, both inside and outside the Society's membership. In the Universities, particularly, it has a new and useful place. It is also financially sound having been generously supported by leading financial organisations which have recognised the need for a publication containing in-depth discussion of practical issues and considered examination of theoretical questions relating to finance and investment in our part of the world. Instead of competing with existing periodicals, whether academic or commercial, it complements them and so helps to promote the profession it was intended to serve.

However, the Journal has not been beyond criticism. It has been accused, for example, of being too scholarly and many have felt that its style has discouraged ordinary members of the Society (who may not have time for quiet thought because of the nature of their work) from reading it. And it has been accused of being unnecessarily mathematical.

These are important complaints and they cannot be dismissed simply because they pose a threat to academic elegance. In the final reckoning, the Journal must be judged on its ability to influence those at the centre of action; those concerned with the real business of buying, selling and evaluating securities. That such people often do not have time thoroughly to investigate relevant issues is acknowledged, but that does not mean that they should be ignored for those to whom time is a less critical scarce resource.

On the other hand, doing a proper job, a job that will also stand up to analyses which aim at the exposure of logical inconsistency, requires a firm avoidance of the half-baked and slipshod. Compromising on these would be taking a desire to please everyone too far. The contents of the Journal must be of a high standard and must be of such a nature that they do not quickly lose their relevance.

Clearly, a compromise is necessary but it is not one which will always be easy to find. In some cases, take the fourth article of the present issue as a case in point,

Die Beleggingsnavorsers Tydskrif

Sewende uitgawe
Februarie 1976

"... die Tydskrif het die taak om mening te rig asook weer te gee."

J. H. C. Leach, Eredakteur van die tydskrif "The Investment Analyst" van die Society of Investment Analysts in die V.K., September 1975.

Dié uitgawe van Die Beleggingsnavorsers Tydskrif verskil nie slegs daarin van sy voorlopers dat dit 'n nuwe buiteblad het nie. Dit verteenwoordig die eerste van 'n nuwe generasie uitgawes wat hopelik artikels sal insluit wat groter praktiese belang sal inhou vir beleggingsnavorsers, asook artikels wat akademië sal voorsien van 'n medium waardeur hulle navorsingsresultate kan publiseer en aangeleenthede van teoretiese belang kan bespreek.

Tot dusver was Die Beleggingsnavorsers Tydskrif nog besig om rigting te vind. Dit was 'n nuwe onderneming van Die Beleggingsnavorsers Vereniging van Suidelike Afrika en daar het heelwat twyfel bestaan of dit geregverdig was en sou kon voortbestaan. Na meer as drie jaar is dié bedenkinge uit die weg geruim. Die Tydskrif is vandag 'n geleerde publikasie wat hoog aangeskryf staan en 'n wye leserskring het, sowel binne as buite die Vereniging se ledetal. Veral aan die universiteite het dit 'n nuwe en nuttige plek ingeneem. Finansiële is dit ook goed gegrond, daar dit die ruim ondersteuning geniet het van toonaangewende finansiële organisasies wat die behoefte ingesien het aan 'n publikasie wat diepgaande bespreking van praktiese aangeleenthede en oorwoë ondersoek van teoretiese sake met betrekking tot finansies en belegging hier te lande bevat. In plaas van om met bestaande tydskrifte, hetsy akademies of kommersieel, mee te ding, vul dit hulle aan en dra op dié manier by tot die bevordering van die professie wat dit die voorneme was om te dien.

Die Tydskrif was egter nie bo kritiek verhewe nie. Daar is byvoorbeeld aangevoer dat dit te geleerd is en daar is gevoel dat die styl gewone lede van die samelewing (wat uit die aard van hulle werk miskien nie die tyd het vir rustige denke nie) ontmoedig om dit te lees. En dan was daar die beskuldiging dat dit onnodiglik wiskundig is.

Dit is belangrike klagtes en hulle kan nie afgewys word omdat hulle 'n bedreiging vir akademiese verfyning inhou nie. Die beslissende oordeel staan in verband met die Tydskrif se vermoë om diegene wat hulle midde-in die gebeure bevind te beïnvloed; diegene wat betrokke is by die werklike besigheid van die koop, verkoop en waardering van sekuriteite. Daar word besef dat dié mense dikwels nie die tyd het om aangeleenthede wat ter sake is deeglik te ondersoek nie, maar dit beteken nie dat hulle oor die hoof gesien moet word ter wille van dié wie se tyd as hulpbron nie so 'n ernstige skaarste toon nie.

Aan die ander kant verg die deeglike verrigting van 'n taak, 'n taak wat ook ontledings sal deurstaan wat gemik is op die blootlegging van logiese inkonsekwentheid, besliste vermyding van die onbekookte en slordige. Deur 'n kompromis na te streef sou die begeerte om almal tevrede te stel te ver gevoer word. Die inhoud van

mathematics will present the only way to convey a valuable or interesting message and we will fail in our duty, if, because of the objections of some, we let the message go undelivered. Strictly, there should not be a conflict between the interests of the practical and the theoretical.

Lastly, it must be stressed that there are limits to which any editorial board can influence the contents of a publication such as the Journal. What it contains must depend on the contributions submitted to it by both Society members and others interested in finance and investment. While a board may pick and choose when a selection of contributions is at hand, it may well not be so fortunate. In our own case, however, we can take considerable encouragement from the fact that the number of unsolicited contributions, particularly from people in our universities, has increased considerably over the past two years.

So for those who care about the Journal and believe that it has a worthwhile function to perform, there is a responsibility to be assumed which extends beyond the mere taking out of a subscription. We welcome contributions from all quarters that will help develop an investment literature in Southern Africa and we welcome, too, and at any time, comments our readers wish to make on the more general matter of editorial policy.

The Editor

die Tydskrif moet 'n hoë standaard handhaaf en moet van so 'n aard wees dat dit lank genoeg aktueel bly.

Dit is duidelik dat 'n kompromis wel nodig is, maar dit is een wat nie altyd maklik sal wees om te bereik nie. In sommige gevalle (neem die vierde artikel van dié uitgawe as voorbeeld) sal wiskunde die enigste wyse bied om 'n waardevolle of belangrike boodskap oor te dra en ons sal ons plig versuim as ons, uit hoofde van die besware van 'n paar mense, nie die boodskap oordra nie. Streng gesproke behoort daar nie 'n belangebotsing tussen die praktyk en die teorie te wees nie.

Ten slotte moet ons beklemtoon dat daar beperkinge is aan die invloed van enige redaksie op die inhoud van 'n publikasie soos die Tydskrif. Wat dit bevat hang noodwendig af van die bydraes wat ingestuur word deur Vereniginglede sowel as ander belangstellendes in finansies en belegging. Terwyl 'n raad kan kies en keur wanneer 'n verskeidenheid bydraes ter hande is, is dit nie altyd die gelukkige situasie nie. Wat ons betref kan ons egter aansienlike bemoediging put uit die feit dat die getal ongevraagde bydraes, veral van mense aan ons universiteite, oor die afgelope twee jaar aansienlik toegeneem het.

Diegene wat omgee vir die Tydskrif en glo dat dit 'n waardevolle funksie het om te verrig, moet dus 'n verantwoordelikheid aanvaar wat verby blote intekening strek. Ons verwelkom bydraes uit alle oorde wat sal help om 'n beleggingsliteratuur in Suidelike Afrika te ontwikkel en ons verwelkom ook, en te eniger tyd, kommentaar wat ons lesers te lewer het oor die algemener aangeleentheid van redaksionele beleid.

Die Redakteur