

# The Investment Analysts Journal

Number 8 August 1976

# Die Beleggings- Navorsers Tydskrif

Nommer 8 Augustus 1976

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## Inhoud

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## This issue in brief

### **Political developments and international relations in Southern Africa**

Delivered when the crisis in Angola was at its peak, the address of Prof Olivier still makes captivating reading today. Indeed, it has gained in importance since then because of recent developments in South Africa. Prof Olivier's concern is with the future rather than with the past or even the present. The future is something for which we must prepare and plan if we are to safeguard our place in it. Prof Olivier argues that the present generation of South Africans is saddled with an awesome burden. Problems of great complexity must be solved and solved quickly if the future is to be made safe and the growth of the economy is to continue without interruption. They cannot any longer be swept under the carpet and left to later generations to clear up. Prof Olivier's conclusion is optimistic but it is tempered with a sober appreciation of realities.

### **An investigation into the behaviour of earnings and share prices of South African listed companies**

Although fundamental and technical analysts have long been at loggerheads over the effectiveness of their respective approaches to security evaluation, both have operated on the basic assumption that a knowledge and understanding of the past is relevant to a prediction of the future. In the case of fundamental analysts, the past-future issue has concerned the growth of earnings per share; in the case of technical analysts it has related to the movement of share prices. However, this basic assumption has been subjected to serious criticism in recent years. In the United States and Britain, in particular, many empirical tests have demonstrated that future earnings growth cannot be predicted from past earnings growth and that share prices, instead of fluctuating in a comprehensible fashion, move quite randomly. Mr Hadassin's article is a report on an investigation into the behaviour of earnings and share prices in South Africa and it comes to some interesting conclusions.

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### **The practice of capital investment decision-making in South Africa**

On what criteria do South African corporations base their decisions regarding capital investment? This is the question Dr I. J. Lambrechts attempted to answer through an investigation of more than fifty of the country's leading listed companies. What he discovered is illuminating. Although most of the firms concerned compiled annual budgets and drew up plans for the control of capital expenditures, their approach to the evaluation of investment opportunities differed widely pointing to greatly differing results. In some cases the methodology applied by the firms was not fully understood or was applied incorrectly; in others organisational inadequacies or a failure to reconcile corporate objectives with evaluation procedures interfered with efficiency. Dr Lambrechts concludes that a gap exists in South Africa between the theory and the practice of capital investment and that this gap can only be narrowed by closer co-operation between the business sector and our universities.

### **Some aspects of share investment and the law**

The basic rules governing market dealings are a mixture of ordinary contractual principles, statutory regulations and the established customs and practices of the Johannesburg Stock Exchange. Although most of these rules are simple and well-known, some are not fully appreciated by either buyers or sellers when entering into particular transactions. Mr Rivalland's article takes a look at some of the less common aspects of South African investment law touching particularly on points relating to the transfer of shares, the rights of share holders and the duties and responsibilities of directors. Although it is short, it draws attention to some interesting matters and should help to stimulate future discussion of them and related issues within and outside the financial community.

# The Investment Analysts Journal

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As we go to press with this eighth issue of The Investment Analysts Journal, a cloud looms over equity investment in South Africa. Although the shares of a handful of metal and mineral companies are at or are close to peak levels, the gold share market is depressed and industrials, measured in terms of dividend yields and opportunity costs, are lower than they have been for over ten years.

At the heart of this unhappy situation is the country's balance of payments. This continues in massive deficit on current account and there appears to be little prospect of early recovery notwithstanding the measures announced towards the end of last month to discourage the growth of imports. A deficit before overseas borrowing in 1976 even greater than last year's record deficit of R1 616 m is a real prospect and another large deficit in 1977 seems unavoidable. Worse still, our gold and foreign exchange reserves are negative on a net basis, i.e. after the deduction of short-term foreign loans, if gold holdings are valued at the official rate of R29,55 an ounce, and even valuing gold holdings at current market prices fails to restore our present position to a level satisfactory in terms of traditional import requirements.

While South Africa's present balance of payments difficulties can be explained in part by economic trends, account has also to be taken of other factors which are non-economic in nature even though they have a direct influence on economic developments. Most important of these non-economic factors is the changed political situation in Southern Africa. This has had a very great effect on investor confidence both inside and outside the country and finds quantitative expression in a securities rand discount of between 35 and 40 per cent and the failure of the prices of local industrial equities to respond to the lead in recovery of the prices of comparable securities overseas.

Since Prof Olivier presented his address to the Investment Analysts Society's February seminar, the political situation in Southern Africa has undergone an important change. Though the crisis of Angola has receded, that in Rhodesia has intensified and within South Africa a period of unrest in our Black urban townships has become manifest. Unfortunately, what reached a crescendo in Soweto and Alexandra a month ago, has still not completely subsided and for all we know, may never really do so.

If investment analysts ever believed that economics and politics could be separated, they have been reminded very forcibly in recent weeks that such a belief is erroneous. But recognising the link between economics and politics does not require of analysts that they also give up in despair. Changed political situations may create new economic realities, but such realities are seldom without opportunities for those who are prepared to be objective and to apply scientific method to the formulation of investment judgements.

THE EDITOR

# Die Beleggingsnavorsers Tydskrif

Agtste uitgawe  
Augustus 1976

Met die ter perse gaan van hierdie agtste uitgawe van Die Beleggingsnavorsers Tydskrif, hang daar 'n dreigende wolk oor aandeelbelegging in Suid-Afrika. Hoewel die aandeel van 'n handjievol metaal- en mineraalmaatskappye spitspeile bereik het, of baie naby daaraan is, het die goudaandele mark 'n laagtepunt bereik, en is nywerheidsaandele, gemeet aan dividendopbrengste en geleentheidskoste, laer as wat hulle vir meer as tien jaar was.

Aan dié ongelukkige situasie lê die land se betalingsbalans ten grondslag. Dit bly 'n baie groot tekort op lopende rekening toon en dit wil voorkom of daar min hoop op herstel in die nabye toekoms is, ten spyte van die maatreëls wat teen die einde van verlede maand aangekondig is om die toename van die invoer te ontmoedig. 'n Tekort, voor buitelandse lenings, in 1976 wat selfs groter is as verlede jaar se rekordtekort van R1 616 m is 'n werklike vooruitsig en nog 'n groot tekort in 1977 lyk onvermydelik. Wat nog erger is, is dat ons goud- en buitelandse valutareserwes negatief is op 'n netto grondslag, d.i. na die aftrekking van korttermyn- buitelandse lenings, as die goudreserwe teen die amptelike koers van R29,55 per ons waardeer word; en selfs al word dié goud teen heersende markpryse waardeer, kan dit nog nie ons huidige posisie terugvoer na 'n peil wat volgens tradisionele invoervereistes bevredigend is nie.

Terwyl Suid-Afrika se huidige betalingsbalans-moeilikhede gedeeltelik uit ekonomiese neigings verklaar kan word, moet ander faktore, wat nie-ekonomies van aard is, ook in aanmerking geneem word omdat hulle 'n regstreekse uitwerking opekonomiese ontwikkelings het. Die belangrikste van dié nie-ekonomiese faktore is die veranderende politieke situasie in Suidelike Afrika. Dit het binnelands sowel as buitelands 'n sterk invloed op beleggersvertroue gehad, en kom kwantitatief tot uiting in 'n effekteranddiskonto van tussen 35 en 40 persent en die onvermoë van die pryse van nywerheidsaandele alhier om te reageer op die voorbeeld van die herstel van pryse van vergelykbare effekte in die buiteland.

Sedert prof. Olivier die Februarie-seminaar van Die Beleggingsnavorsersvereniging toegesprek het, het die politieke situasie in Suidelike Afrika 'n belangrike verandering ondergaan. Hoewel die Angolakrisis afge neem het, het die een in Rhodesië verhewig en binne ons landsgrense het 'n tyd van onrus in ons stedelike Bantoe-gebiede aangebreek. Ongelukkig het die gebeure wat in Soweto en Alexandra 'n maand gelede 'n hoogtepunt bereik het, nog nie volkome tot uitgewoed nie, en dit mag selfs vir onbepaalde tyd voortduur.

As beleggingsnavorsers ooit geglo het dat ekonomie en politiek geskei kan word, het die geweldpleging van die afgelope weke hulle daaraan herinner dat dié oortuiging ongegrond is. Maar die erkenning van die verband tussen ekonomie en politiek vereis nie dat navorsers ook uit wanhoop tou opgooi nie. Veranderde politieke situasies kan nuwe ekonomiese realiteite skep, maar sodanige realiteite is selde sonder gepaardgaande geleentheid vir diegene wat bereid is om objektief te wees en beleggingsoordele volgens wetenskaplike metodes te vorm.

DIE REDAKTEUR