

# The Investment Analysts Journal

Number 9 March 1977

# Die Beleggings- Navorsers Tydskrif

Nommer 9 Maart 1977

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## Inhoud

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### This issue in brief

#### Responsibility and economic forecasting

Pronouncements about the economic future are not always responsibly made. Very often they emanate from people who profess to have insights into the workings of society denied academic economists and, very often, economists themselves fail to disclose what the assumptions are that underly their prognostications so that no objective evaluation of their opinions can be made. According to Professor De Wet, such people are little better than false prophets, oracles and throwers of bones, and their main contribution to the community consists in starting rumours and causing confusion. However, if Professor De Wet has harsh things to say about economic pronouncements that have no roots in systematic reasoning, he also has harsh things to say about the builders of econometric models whose economic projections are so objective in character as to be equally meaningless. He therefore advocates an approach to economic forecasting that has subjective as well as objective elements, that has a verifiable frame of reference but, which at the same time, is flexible and realistic.

#### The Johannesburg Stock Exchange as an efficient market

Are stock markets efficient markets? And what are the implications of stock market efficiency for fundamental and technical analysis and for portfolio management? In recent years much attention has been focused in overseas investment circles on these two questions but, to date, no generally accepted answers to either of them have been found. In this article, B. P. Gilbertson and F. J. P. Roux consider the results of a number of statistical tests and trading rule simulations on share price sequences in South Africa and also examine the performance of South African mutual fund portfolios. They conclude that the evidence supports the assumption that the JSE is an efficient market and, therefore, imply that technical analysis can have no more value to the prediction of future share prices in this country than it has to the prediction of future share prices on efficient capital markets elsewhere, and that fundamental analysis, here as abroad, is an activity that generally does not justify its cost. This is a controversial view and one local investment analysts cannot afford casually to dismiss.

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### **Simplified method of assessing the value of a South African gold mine**

The recent increase in the price of gold has focused attention once again on the South African gold mining industry. Despite the importance of gold mining investment and despite the fact that gold mining companies publish a wealth of information about their activities, many private investors and a good number of institutional portfolio managers remain ignorant of basic mining evaluation procedures. It is to their need that J. E. Whillier's article is directed. Mr. Whillier is not only a mining engineer himself, having worked in the mining industry in South Africa, but is also a financial analyst of many years' experience. He therefore brings to his discussion a knowledge both of the theory and of the practice of gold mining and of an awareness of the financial implications of changes in mining variables. He however leaves his readers in no doubt, despite the title of his article, that there are no short-cuts to success in this complicated field.

### **An analysis of the possible effects of a rights issue on the issuing company's share price**

Investment analysis, particularly as it relates to listed securities, is concerned with two primary objectives: first, with an uncovering and an assessment of the facts on which subsequent security evaluation ought to be based, and second with predicting the behaviour of the factors that form part of the investment equation. Because rights issues result in basic changes in balance sheet structures and often profoundly affect the companies to which they relate, they disturb the continuity of investment data and make it necessary for the data to be adjusted before it can be used for share evaluation purposes. Though this is appreciated by most professional analysts, many remain unaware of the general complexity of the problem either as it concerns the continuity of company accounts or share prices themselves. This article by Professor Woods deals mainly with the price-influencing factors in rights issues.

Although the transition in economics from "political economy" to "social science" was really completed more than a hundred years ago, the question, "Is economics a science or an art?", continues to be asked by both economists and laymen, and controversy still rages over what the correct answer is. If by science is meant exact science, and if by art is meant purely intuitive or imaginative manipulation to a given end, economics, strictly, is neither. It is, instead, some strange mixture of both enjoying, because of the ambiguity, repeated misidentification.

The reason for the continuing debate over the nature of economics eighty-six years after the publication of Marshall's famous "Principles" and forty-four years after the publication of Robbins' essay on the subject, has to do with economics' two-fold preoccupation. Economics is concerned with explaining a particular aspect of human behaviour and in doing so employs scientific method; but it is also concerned, or at least economists are concerned, with predicting what such behaviour will be, either in the general or in the particular, in specified future circumstances and it is here that we run into trouble. Whereas in the physical sciences it is possible to test theories with a reasonable degree of thoroughness and, thus, to reject those that are wrong and to accept those that are right, this is far more difficult in the social sciences, and for obvious reason. In the social sciences the subject-matter is people, as individuals and as groups, and people are not only self-willed but are the possessors of political rights which preclude resort to controlled testing of the kind physical scientists are able to initiate in the seclusion of their laboratories.

Because of this inability to test social theories in a controlled fashion and because of the complexity of economic relationships and the intrusion of random developments into regular social processes, economics, for a long time, defied the sort of quantification that came to characterise physics, engineering and other exact disciplines. Thus, though it made use of mathematics and statistical method, these played only a limited role in its development. Deductive rather than inductive analysis was its dominant characteristic.

All this, however, has begun to change. Since the Second World War, but more particularly since the end of the 1950's, there has been a veritable revolution in quantitative analysis and nowhere has this been more important than in the field of finance. Empirical studies, of the kind that have given rise to the efficient market hypothesis, made possible because of computers, have been undertaken on a vast scale, and have begun to effect a radical transformation of the subject.

The studies, however, rather than reducing uncertainty about the future through an improvement of the techniques of forecasting, have tended to emphasise just how difficult it is to make accurate economic and investment prognostications, and in some cases (for example, stock markets, commodity markets and foreign exchange markets) have even suggested that the taking of consistently effective anticipatory action is totally impossible.

That conclusions of this kind should meet with resistance is understandable for two reasons. Firstly, the

Hoewel die oorgang in die ekonomie van „politieke ekonomie” na „sosiale wetenskap” eintlik al meer as honderd jaar voltrek is, word die vraag „Is ekonomie ’n wetenskap of ’n kuns?” steeds deur ekonome sowel as leke gevra, en teenstrydigheid heers nog altyd oor wat die juiste antwoord is. As ons aan „wetenskap” die betekenis van eksakte wetenskap toesê, en aan „kuns” die betekenis van bloot suiwer intuitiewe of verbeeldingsmanipulasie met ’n gegewe doel voor oë, dan is ekonomie streng gesproke nie een van die twee nie. Dit is eerder ’n eienaardige mengsel van die twee, en word, as gevolg van dié tweeledigheid, herhaaldelik verkeerd geïdentifiseer.

Die rede vir die voortgesette debattering oor die aard van ekonomie ses-en-tagtig jaar na die verskyning van Marshall se beroemde „Beginsels” en vier-en-veertig jaar na die verskyning van Robbins se verhandeling oor die onderwerp, hou verband met ekonomie se tweeledige betrokkenheid. Ekonomie is gemoeid met die verklaring van ’n besondere aspek van menslike optrede en gebruik wetenskaplike metodes daarvoor; maar dit is ook gemoeid met (of, ten minste, ekonome is gemoeid met) die voorspelling van wat sodanige optrede, of oor die algemeen of in die besonder, in gegewe toekomstige omstandighede sal wees, en dit is hier waar die probleme ontstaan. Waar dit in die geval van die natuurwetenskappe moontlik is om teorieë met ’n redelike mate van deeglikheid te toets, en aldus dié wat foutief is te verwerp en dié wat korrek is te aanvaar, is dit om voor-die-hand-liggende redes moeilik in die geval van die sosiale wetenskappe. Die onderwerp van die sosiale wetenskappe is mense as individue en as groepe, en mense het nie slegs ’n eie wil nie, maar beskik oor politieke regte wat toevlug tot die soort gekontroleerde toetsing wat natuurwetenskaplikes in die afsondering van hulle laboratoria's kan uitvoer, uitsluit.

As gevolg van die feit dat sosiale teorieë nie op ’n gekontroleerde wyse getoets kan word nie en as gevolg van die kompleksiteit van ekonomiese verhoudings en die indringing van onreëlmatige ontwikkelings in reëlmatige sosiale prosesse, het ekonomie lank die soort hoeveelheidsbepaling wat so kenmerkend van fisika, ingenieurswese en ander eksakte dissiplines is, te bowe gegaan. Derhalwe, hoewel dit gebruik gemaak het van wiskundige en statistiese metodes, het hulle slegs ’n beperkte rol in die ontwikkeling daarvan gespeel. Deduktiewe, eerder as induktiewe ontleding was die oorheersende kenmerk daarvan.

Al dié dinge het egter begin verander. Sedert die Tweede Wêreldoorlog, maar meer in die besonder sedert die einde van die vyftigerjare, was daar ’n werklike omwenteling van kwantitatiewe ontleding en nêrens anders was dit van groter belang as op die gebied van finansies nie. Empiriese studies, soos dié wat aanleiding gegee het tot die doeltreffende markhipotese, wat deur rekenaars moontlik gemaak is, is op groot skaal onderneem, en het begin om ’n radikale transformasie van die onderwerp teweeg te bring.

Die studies was egter, eerder as om onsekerheid omtrent die toekoms te laat afneem deur ’n verbetering van die voorspellingstegniese, geneig om te beklemtoon presies hoe moeilik dit is om akkurate ekonomiese en beleg-

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conclusions pose a threat to vested interests and it is natural and inevitable that these should be defended. Secondly, the studies from which the conclusions derive provide, in most cases, only evidence that support a particular contention, not irrefutable proof that the principles to which the contention is opposed, are wrong. However, the fact that the conclusions give rise to dispute is to be welcomed, not regretted, for it is really only through dispute that the way to intellectual truth is to be found and it is, thus, only through dispute that the advancement of the study of both economics and finance will be achieved.

THE EDITOR

gingsvoorspellings te doen, en in sommige gevalle (byvoorbeeld effektemarkte, produktemarkte en buitelandsevalutamarkte) het dit selfs daarop gedui dat vooruitlopende optrede wat deurgaans doeltreffend is, geheel en al onmoontlik is.

Dat gevolgtrekkings van dié aard teenstand sou ondervind, is om twee redes verstaanbaar. In die eerste plek verteenwoordig die gevolgtrekkings 'n bedreiging van gevestigde belange en is dit natuurlik en onvermydelik dat hulle beskerm moet word. In die tweede plek bied die studies waaruit die gevolgtrekkings afgelei word in die meeste gevalle slegs bewyse wat 'n spesifieke bewering staaf, en nie onweerlegbare bewyse dat die beginsels wat die bewering weerspreek verkeerd is nie. Die feit dat die gevolgtrekkings aanleiding gee tot verskille, moet egter verwelkom en nie betreur word nie, want dit is inderdaad slegs deur middel van verskille dat die weg na intellektuele waarheid gevind kan word, en dus is dit ook slegs deur middel van verskille dat die bevordering van die studie van ekonomie sowel as finansies bereik sal word.

DIE REDAKTEUR

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## Letter to the editor

Dear Sir,

**Re: Article by M. E. Rivalland in Investment Analysts Journal**

In his article in the Investment Analysts Journal Number 8 August 1976, Mr M. E. Rivalland made certain statements concerning in effect the vindication of shares. It is felt that any statement made in connection with the vindication of shares must of necessity take into account the decision of the Appellate Division in Oakland Nominees Ltd. v. Gelria Mining and Investment Company (Pty) Ltd. In that case it was authoritatively held that an owner of shares which have been stolen can only be prevented or estopped from claiming those shares from an innocent purchaser where such purchaser, as a result of the *culpa* of the owner, was misled into the belief that the person from whom the purchaser acquired the shares was the owner of the shares or was entitled to dispose of them. The judgment in the case set out precise details of what must be proved in effect to ensure that the owners claim against the innocent purchaser can be frustrated by estoppel.

It is believed that this case casts grave doubts on previous Court decisions relating to the vindication of shares by owners against innocent purchasers. It seems perfectly clear that no distinction whatsoever is now to be made by the Courts between corporeals (for example, motor cars and refrigerators) and incorporeals such as shares in a company. It also seems clear that the beneficial as opposed to the registered owner of shares is to be regarded as having full vindicatory rights and any suggestion that a person buying shares and having those shares registered in the name of his brokers' nominee company has only a personal right against the nominee company to compel the nominee company to deal with the shares according to that person's instructions (an action lying at that person's instance against the nominee for any failure to follow instructions) must be discarded. It would appear that an owner of shares is (subject to estoppel) entitled to vindicate those shares against 'all the world' despite the fact that a share may be an incorporeal which may normally give rise only to personal rights.

R. G. Clarke  
General Manager  
The Johannesburg Stock Exchange