

The Investment Analysts Journal

Number 14 September 1979

Die Beleggings- Navorsers Tydskrif

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This issue in brief

Measuring the investment performance of pension funds in South Africa

The measuring of investment performance, though in one sense the last stage of the investment management process, must, if it is to be meaningful, be regarded as a continuing operation. It is reasonable to assume that the owner or owners of a portfolio are interested in achieving an investment performance that is better than average or better than the performance that would have been achieved had a method of random selection – buy hold been adopted. But how can performance be measured given the intrusion of erratic forces in stock markets? Superior performance may well be the result of luck, inferior performance the result of quite unpredictable adverse developments. Peter Milburn-Pyle's article is concerned specifically with the measuring of the investment performance of pension funds in South Africa. It is the first article on this important topic that we have published and there is little doubt that what it has to say will be of considerable interest to those concerned with institutional investment in this country.

The pricing of industrial shares on The Johannesburg Stock Exchange

Brian Gilbertson will by now be well known to most of our readers. In this article he provides a detailed and useful review of the major features of contemporary investment theory before proceeding to a discussion of the capital asset pricing model and its application to investment in the South African context. He reports on empirical findings relating to research conducted with respect to shares listed on The Johannesburg Stock Exchange and in so doing makes a valuable contribution to the local literature on the theory and practice of finance and investment in the Republic.

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Valuation of fixed interest securities

This article by S. M. Place follows an earlier one by John Rogers which was published as part of our Investment Basics series. With the massive growth in the turnover of fixed interest securities on The Johannesburg Stock Exchange over the past two years, interest in the valuation of such securities and in the management of fixed income security portfolios has grown considerably. The article provides a comprehensive discussion of the theory of compound interest and the theory of discounting relating these to the specific problems of security price determination.

A principal component index subject to constraints

Stock market price indices are used by most investors, professional and otherwise, as an aid in the timing of investment decisions and as a tool for the measuring of investment performance. However, few investors are aware of the problems associated with the construction of such indices and how these problems relate to the practical matters with which they (the investors) are immediately concerned. This article by Messrs Affleck-Graves, Money and Troskie discusses a technical matter which will be of interest to all those wanting to know how indices can best be used in security and portfolio analysis.

Adjusting per share earnings and dividend data for capital changes

This is the fifth article appearing in our Investment Basics series. It is concerned with the difficult problem of determining what the actual performance of a company has been when changes have taken place in its capital structure which changes interfere with the consistency or comparability of historical per share data. The article shows how misleading such data can be if they are not adjusted in a proper manner and provides some suggestions as to how adjustments may be effected so as to eliminate distortions caused by acquisition issues and rights issues.

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Die Beleggingsnavorsers Tydskrif

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As we go to press with this issue of the Investment Analysts Journal, the price of gold on the free market has risen to an unprecedented level and all indications are that a decisive moment in stock markets, and, indeed, in the world economy, will soon be reached. It seems unlikely that domestic interest rates in the United States and the gold price will go on rising together indefinitely. They are too much, each in its own right, a reflection of opposite forces. The gold price is rising because inflation has been getting worse in America and because many fear that the U.S. Government will not act decisively to bring the process of inflation under control. U.S. domestic interest rates have been rising precisely to demonstrate that the Federal Reserve, under the new leadership of Mr Paul Volcker, is prepared to do what needs to be done even if that means pushing the American economy into a recession during an election year.

It is difficult to imagine anybody in a more difficult position today than President Carter. With his popularity discouragingly low, he is not well placed now to obtain the Democratic Party nomination let alone win the November 1980 election itself. He must surely have wanted to have been in a position where economic stimulation would now have been the logical policy course. But it was not to be despite his planning of a year ago. The Iranian revolution intervened and with it has come a new crisis with all that that has meant for energy costs in all industrialised countries. Though less severe in its proportional magnitude of price increase than the crisis of 1974, the current crisis is proving disturbingly resilient and recent reports indicate a resumption of price firmness in the spot market for crude petroleum.

As in 1974, the oil crisis has had an initial favourable effect on South Africa's balance of payments. Gold earnings have increased massively providing a current account surplus on the balance of payments that has more than counter balanced the still persisting deficit capital account. However, memories of what happened to the South African economy and to share prices in the aftermath of the 1975 gold price decline are still very much alive and nobody, from the Minister of Finance downwards, is prepared to take anything for granted. The sharp fluctuations in the prices of gold shares on The Johannesburg Stock Exchange in recent weeks are a measure of the uncertainty and nervousness of investors in present circumstances.

It is not the purpose of this Journal to prognosticate about the gold price or about the performance of either

Veertiende uitgawe

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Met die ter perse gaan van hierdie uitgawe van die Beleggingsnavorsers Tydskrif, het die goudprys op die vrye mark tot 'n ongeëwenaarde peil gestyg en alles dui daarop dat 'n beslissende oomblik binnekort in effektemarkte en, inderdaad, in die wêreldekonome sal aanbreek. Dit lyk onwaarskynlik dat binnelandse rentekoerse in die Verenigde State en die goudprys vir 'n onbepaalde tyd sal voortgaan om saam te styg. Hulle is elkeen op sigself té verteenwoordigend van teenoorgestelde kragte. Die goudprys styg omdat inflasie in Amerika erger geword het en daar uit baie oorde gevrees word dat die regering van die VSA nie beslissend sal optree om die inflasieproses onder beheer te bring nie. Binnelandse rentekoerse in die VSA is juis besig om te styg om te wys dat die Federale Reserwe, onder die nuwe leierskap van mnr Paul Volcker, bereid is om die nodige te doen, selfs al beteken dit dat die Amerikaanse ekonomie gedurende 'n verkiesingsjaar in 'n resessie ingedwing moet word.

Dis moeilik om 'n mens enigiemand voor te stel wat vandag in 'n moeiliker posisie verkeer as President Carter. Sy gewildheid het sodanig afgeneem dat dit ontmoedigend is, en derhalwe verkeer hy nie tans in 'n goeie posisie om die nominasie vir die Demokratiese Party te verkry nie, om nie eens van die oorwinning in die verkiesing in November 1980 self te praat nie. Hy sou sekerlik nou in 'n posisie wou wees waar ekonomiese stimulering die logiese beleidsrigting sou gewees het. Maar dit was nie vir hom beskore nie, sy beplanning van 'n jaar gelede ten spyte. Die rewolusie in Iran het tussenbeide gekom en 'n nuwe krisis meegebring met alles wat dit vir energiekoste in alle nywerheidslande ingehou het. Hoewel die afmetings wat dié prysstygings aangeneem het nie so hewig is soos die krisis van 1974 nie, blyk die huidige krisis onrusbarend veerkragtig te wees en onlangse verslae dui op 'n hervatting van prysstandvastigheid in die kontantmark vir ru petroleum.

Net soos in 1974, het die oliekrise aanvanklik 'n gunstige uitwerking op Suid-Afrika se betalingsbalans gehad. Goudopbrengste het geweldig toegeneem, wat 'n surplus op die lopende rekening van die betalingsbalans verskaf het wat meer as opgeweeg het teen die steeds heersende tekort op die kapitaalrekening. Herinnerings van wat met die Suid-Afrikaanse ekonomie en met aandeelpryse in die nadraai van die goudprysafname in 1975 gebeur het, staan egter nog baie vars in die geheue en niemand, van die Minister van Finansies tot onder uit, is bereid om enigiets as vanselfsprekend te aanvaar nie. Die skerp skommelings in die pryse van goudaandele op Die Johannesburgse Effektebeurs die

the stock market as a whole or of individual securities. Suffice it to say, therefore, that the events which we are presently witnessing have all the qualities of potential drama. If the battle is won by Mr Carter and his administration, the gold price is likely to sink with all that that implies for us as a country and for our gold share market in particular. If the battle is lost by Mr Carter and his administration, a general inflationary blow off could well take place accompanied by a stampede out of cash and into assets of all kinds and not just into equities. Either way the judgement and professionalism of investment analysts and portfolio managers is likely to be put dramatically to the test. Is that judgement and professionalism in better shape today than it was ten years ago?

THE EDITOR

afgeloopde weke is 'n maatstaf van die onsekerheid en senuweeagtigheid van beleggers in huidige omstandighede.

Dit is nie die doel van hierdie Tydskrif om voorspellings oor die goudprys of oor die prestasie van òf die effektemark in die geheel òf afsonderlike effekte te waag nie. Dit is dus voldoende om te sê dat die gebeure wat ons tans beleef oor al die eienskappe van potensiele drama beskik. As mnr Carter en sy administrasie die mas kan opkom, sal die goudprys waarskynlik skerp daal, wat verreikende implikasies vir ons as land en vir ons goudaandelemark in die besonder sal meebring. As mnr Carter en sy administrasie nie die mas opkom nie, is die moontlikheid sterk dat daar 'n algemene inflasionistiese uitbarsting sal wees, gepaard met 'n stormloop weg van kontant na bates van alle soorte, en nie net aandele nie. In albei gevalle is dit waarskynlik dat oordeelsvermoë en professionalisme van beleggingsnavorsers en portefeuljebestuurders tot die uiterste op die proef gestel sal word. Is dié oordeelsvermoë en professionalisme vandag van 'n hoër gehalte as wat dit tien jaar gelede was?

DIE REDAKTEUR
