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Inhoud

The performance of family controlled companies on the JSE: A financial and investment evaluation

The problem of majority shareholder domination of minority shareholders has for a long time exercised the minds of corporate analysts. In this respect, family controlled firms constitute a special case. Messrs Shung, Stadler and Affleck-Graves of the Graduate School of Business of the University of Cape Town are concerned in this paper with an investigation of such firms from two perspectives: one concerned with the management of their financial aspects and the other with their performance when viewed by existing or prospective investors. Their findings will be of general interest to our readers.

The true cost of loans with rests between adjustment of principal

This paper by Professor John Rickard and doctors Neville Hathaway and Allen Russell, all of the University of Melbourne, Australia, investigates the structure of rested interest loans and compares these with conventional loans of comparable frequency. It is a largely mathematical based article and also presents a nomogram which allows for the easy determination of the regular payments with which a loan may be associated. In addition, it shows how the true cost of a loan can be obtained using both the effective rate of interest and the equivalent reducing rate per adjustment period.

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The role played by bullion and gold shares in international diversification

From a portfolio management point of view, gold is an interesting asset. On the one hand, it offers no income return. On the other, its co-variance with regular market returns tends to be low, making it an attractive asset for those investors with a high aversion to risk. On the other hand, gold shares do offer a return but they need to be regarded as wasting assets and their cost amortised over the period of their life. Professor G D I Barr and D J Bradfield, both of the Department of Mathematical Statistics at the University of Cape Town, examine whether the best diversification benefit is provided by gold bullion or gold shares, and whether or not the proportion invested in gold would best be left unchanged from one year to another.

Dividend policy, share price and return: A study on The Johannesburg Stock Exchange

It is an old question: Does dividend policy exercise an influence on the price of a company's shares? Some have contended that dividends matter, others that what counts is earnings, and particularly earnings growth. In this paper by Nicholas Sealy and Rory Knight, the subject is investigated with regard to shares listed on the JSE using an abnormal performance index and a method employing the capital asset pricing model of Sharpe.

Investment basics XX – Risk and return – Part 3

This is Graham Jones' concluding article in a three-part series.

The Investment Analysts Journal

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Since our last issue there has been a marked improvement in the state of the South African economy although this is more evident in the improvement of the balance of payments situation and in financial market changes than it is in actual increases in production levels. These have risen but from bases that were depressed during the recession and so it is too soon yet to proclaim a new upswing as an accomplished fact.

In part, of course, both the balance of payments improvement and the improvement in financial markets has come because the real economy has weakened. It has been the decline in domestic demand which has cooled the demand for imports and it has been the weakness in the demand for credit which has made it possible for interest rates to fall and that, thus, accounts for the bond market recovery. But we should not allow ourselves to forget that inflation still exceeds 16 per cent in South Africa, as measured by year-on-year changes in the All Items CPI, and that it could worsen in the months immediately ahead, despite the better performance of the rand in exchange markets, purely for statistical reasons. But even if the assumed prospective inflation rate is only 16 per cent, a long-term gilt rate of under that is too low because the real return requirement on such securities should still be in the region of 2,5 per cent to 3 per cent. In other words, long-term gilts are beginning to look distinctly overvalued on fundamental considerations unless the market's expectation is that the SA inflation rate is going to come down.

Why would the long-term gilt market be riding so high if an expectation of a fall in inflation does not exist? There are a number of reasons we can think of, not all of them exactly desirable from a strictly economic point of view. First is the need by portfolio managers to improve return at a time when the yield curve has become steeply positive. Very low short-term rates encourage some shift to the long end even if that does carry risks. Second, is the need for pension fund investors still to hold 53 per cent of their portfolios in prescribed fixed income securities unless they prefer cash, the return of which is also problematical. Third, is the speculation that despite the inflation rate, long-term rates could still be headed lower at least in the short run. Each of these reasons invites criticism, and the first and third especially because they imply that gilt investors as individuals are riding a tiger, trusting their ability to read a change for the worse in the market ahead of all the rest. This is tantamount to *all* individual investors believing that their personal performance capabilities are above average, which is nonsense, although to some extent a rise in the long-term gilt rate is already discounted in the gap between one-year and twenty-year yields to redemption. To go for the extra yield, therefore, or for the capital gain, could prove costly were market developments suddenly to take a turn for the worse.

What could cause a sudden market crack? One does not have to look very far for an answer to that question. The balance of payments is critically poised. A surplus of

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Nege-en-twintigste uitgawe
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Sedert ons jongste uitgawe sy verskyning gemaak het, was daar 'n merkbare verbetering in die stand van die Suid-Afrikaanse ekonomie alhoewel dit duideliker te bespeur is in die verbetering van die betalingsbalans-situasie en in die finansiële mark-veranderinge as in werklike verhogings in produksiepeile. Hierdie het wel gestyg, maar vanaf basisse wat gedurende die resessie bedruk was, en dus is dit té vroeg om nou al 'n nuwe opswaai as 'n voldonge feit te bestempel.

Die betalingsbalansverbetering sowel as die verbetering in finansiële markte is natuurlik gedeeltelik teweeggebring deur die verswakking van die reële ekonomie. Dit was die afname in binnelandse vraag wat die vraag na invoer gedemp het, en die swakheid in vraag na krediet het die rentekoerse laat daal wat dus tot die oplewing in die kapitaal mark gelei het. Ons moet dit egter nie uit die oog verloor nie dat inflasie in Suid-Afrika steeds 16 persent oorskry, soos gemeet deur jaar-tot-jaar-veranderinge in die Alle Items VPI, en dat dit in die eerskomende maande bloot om statistiese redes kan versleg, ongeag die beter vertoning van die rand in valutamarkte. Maar selfs indien die veronderstelde waarskynlike inflasiekoers slegs 16 persent is, is 'n langtermyn-primakoers benede dit té laag, aangesien die reële opbrengsvereistes uit sodanige effekte sowat 2,5 persent tot 3 persent behoort te wees.

Kortom: langtermyn prima effekte blyk in 'n toenemende mate op basiese oorwegings oorwaardeer te wees, tensy die mark te wagte is dat die SA-inflasiekoers gaan daal.

Waarom sou die langtermyn prima effekte hoogty vier as 'n verwagting van 'n daling in inflasie nie bestaan nie? Daar is heelparty redes waaraan ons kan dink, waarvan nie almal streng gesproke vanuit 'n ekonomiese oogpunt wenslik is nie. Eerstens is portefeuljebestuurders se behoefte om opbrengs te verbeter op 'n tydstop dat opbrengskromme kwaai positief is. Uiteraard lae korttermynkoerse bemoedig taamlieke verskuiwing na die lang ent, ondanks die risiko wat daaraan verbonde is. Tweedens is pensioenfondsebeleggers se behoefte om steeds 53 persent van hulle portefeuljies in voorgeskrewe vaste-inkomste-sekurieste te hou, tensy hulle kontant verkies, waarvan die opbrengs ook probleme oplewer. Derdens is die bespiegeling dat langtermynkoerse ondanks die inflasiekoers, ten minste op die korte duur steeds laer kan daal. Elk van hierdie redes ontlok kritiek, veral die eerste en derde, aangesien dit te kenne gee dat prima-beleggers as individue die onmoontlike probeer vermag deurdat hulle op hul vermoë vertrou om 'n markverandering ten slegste voor enigiemand anders raak te sien.

Dit kom neer op alle individuele beleggers wat van mening is dat hulle persoonlike prestasievermoëns bo gemiddeld is, wat onsin is, alhoewel 'n styging in die langtermyn-primakoers in sekere mate reeds in die gaping tussen een-jaar- en twintig-jaar-opbrengs tot aflossing verdiskonteer is. Om na die bykomende opbrengs of die kapitaalwins te mik, kan dus duur blyk te

around \$2 500 million must be earned on the current account this year to make possible debt repayment and to allow for some recovery in the net reserves. If that target looks like not being reached, monetary and fiscal policy would have to be adjusted. So three factors become of importance. The first is the gold price. If it falters, we could be in trouble although it still looks as if a further weakening of the dollar is going to have to happen to assist in a US BoP adjustment to a substantially lower level of trade deficit. The second is merchandise imports. If these rise because the economy does take off, interest rates would rise to hold the rise in credit in check. The third is a fall in merchandise exports. A failure to achieve the desired level of current account surplus could result as easily from falling exports as from rising imports but, in such a case, the problems for monetary policy would be more difficult. Increasing interest rates could be used to cool import demand, but only a rand exchange rate depreciation would maintain the shift of resources into the export sector that would still be required were either sanctions or disappointing world economic growth negatively to affect the performance of our foreign trade.

The second half of 1987 could prove to be more complicated than the encouraging results of the first quarter of the year might seem to suggest.

The editor

wees waar markontwikkelinge meteens 'n ongunstige wending neem.

Wat kan 'n skielike markineenstorting veroorsaak? 'n Mens hoef nie té diep te delf om 'n antwoord op daardie vraag te vind nie. Die betalingsbalans is sorgwekkend gebalanseerd. 'n Surplus van ongeveer \$2 500 miljoen moet vanjaar op die lopende rekening verdien word om skuldterugbetaling moontlik te maak, en om vir matige herstel in die netto reserwes voorsiening te maak. Indien dit voorkom asof daardie doelwit nie bereik kan word nie, moet monetêre en fiskale beleid aangepas word. Derhalwe word drie faktore belangrik. Die eerste is die goudprys. Sou dit wankel, gaan ons probleme ondervind alhoewel dit steeds lyk asof 'n verdere verswakking van die dollar sal moet plaasvind om te help met 'n VSA BB-aansuiwering tot 'n beduidende laer vlak van handelstekort. Die tweede is handels-invoere. Indien dit styg omdat die ekonomie herleef, sal rentekoerse styg om die kredietstyging te stuit. Die derde is 'n afname in handels-uitvoere. Versuim om die gewenste vlak van surplus op lopende rekening te behaal, kan eweneens spruit uit dalende uitvoere as stygende invoere, maar in sodanige geval sal die probleme vir monetêre beleid moeiliker wees.

Stygende rentekoerse kan gebruik word om die vraag na invoere te demp, maar slegs 'n depresiasie van 'n rand-wisselkoers sal die verskuiwing van hulpbronne na die uitvoersektor handhaaf, wat steeds vereis sal word indien hetsy sanksies of teleurstellende wêreld-ekonomie-groei, die prestasie van ons buitelandse handel negatief sou raak.

Die tweede helfte van 1987 kan meer ingewikkeld blyk te wees as wat die bemoedigende resultate van die eerste kwartaal van die jaar dalk te kenne wil gee.

Die redakteur