

The
Investment
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Journal

Number 32 – Summer 1989/90

Die
Beleggings-
ontleders
Tydskrif

Nommer 32 – Somer 1989/90

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Inhoud

This issue in brief

The use of ex post inter-country correlation coefficients to predict gains from international portfolio diversification from the standpoint of a South African investor

In the past, South African investors would have benefited from including foreign securities in their investment portfolios. Such diversification requires the investor to predict future patterns of price movements on stock exchanges in different countries. The author investigates the stability of the relationships between national stock exchanges over the period 1969-83, by means of inter-country correlation coefficients. His analysis suggests that, with regard to the countries included in the analysis and the period of time involved, for South African investors the conditions required for successful international portfolio diversification are satisfied.

The welfare effects of a boycott on investment in South African securities

This paper by Professor R A Brealey and E C Kaplanis, both of the London Business School, deals with how an investment boycott reduces the degree of portfolio diversification as well as forcing a cut in share price in order to keep shares sufficiently attractive. The combination of these two effects on the welfare of the boycotters and the boycotted are assessed. Their findings will be of general interest to all our readers.

Should MBA students study the Theory of Finance?

Any practising manager who is sceptical about the usefulness of managerial theory would no doubt find it difficult to reconcile this view with the high value he very probably attaches to the academic qualification MBA. The focus of Professor Firer's paper is on the theory of financial management, and why it should be taught to MBA students. The abstraction inherent in financial theoretical models creates a gap between the business school and the real business environment, but this is a gap which can be bridged. Theory and practice can suggest different solutions to the same financial problem, and it is one of the tasks of the MBA programme to clarify the ways in which theory and practice relate to one another.

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The determination of the price of South African stock index futures contracts

This discussion draws from a broad framework and looks at the expected price of the deliverable instrument by using a relatively simple arbitrage relationship to set limits on the price of the futures instrument. The discussion progresses from a relatively simple case where no dividends and a zero tax rate are assumed, to a case where dividends and taxes are included in the model.

Investment basics XXIII – Technical analysis

In this introductory article, the authors distinguish between “fundamental analysis,” which entails a detailed estimate of companies’ financial prospects, and “technical analysis,” which makes use of historical data (share prices etc.) to predict future short term movements. Can technical analysis be relied upon to indicate the direction of investment taken by those in possession of private information and who are consequently in a position to make more informed decisions? This is a question the article attempts to answer. Subsequent articles will review some of the tools employed in technical analysis.

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Die Beleggingsontleders Tydskrif

Twee-en-dertigste uitgawe – Somer 1989/90

The Investment Analysts Journal has received the following poem from a contributor. He is not a member of the analytical profession; nor is he from the white business establishment. Yet his message has a simple power and is one all those of the financial community would do well to heed as South Africa moves towards a new and challenging future. The gap that separates the poet and the people on whose behalf he speaks, and the privileged members of our vigorous, self-confident, industrial society, is a gap that must be narrowed if we are all to realise the future that we want for ourselves and our children.

The Editor

I CAN'T UNDERSTAND

The function of the economist
Who pulls wool over eyes
Shielded by catchy words
Of inflation, depression and recession,
I can't understand.

As long as I've got some money
Buy some food, wear some clothes
Untie the noose around my neck
Business must wait with their financial reports
For I can't understand.

Import and export, what is that?
When the country is crying for food
Wailing for a better education
To make me understand what I can't understand.

Gold and platinum are holding their own
Against the world's currencies
In the corridors of the earth's stock exchanges
Where dollar dominates and is stronger than metal
The yen, franc, sterling, Deutschmark and oil are secondary
That's what I can't understand.

Universities are there
Next to poverty here
Begging for more knowledge
Yet I can't understand.

There's talk of soaring budget deficits
Accepting debits and credits
And an allegiance to the shareholder
Safeguards of profits through loans
But that leaves me unclear
For I can't understand.

Foreign exchange rates
Coupled with capital yields
Do not control price indices
Rural folks are hungry
Child mortality rate is high
So I can't understand.

Die Beleggingsontleders Tydskrif het die volgende gedig van 'n bydraer ontvang. Hy is nie lid van die ontleedkundige profesie nie; nóg kom hy uit die blanke besigheidsestablishment. Tog het sy boodskap 'n eenvoudige innerlike krag en die finansiële gemeenskap kan met vrag ag daarop slaan in die huidige klimaat waarin Suid-Afrika sterk beweeg in die rigting van 'n nuwe toekoms vol uitdagings. Die gaping wat daar is tussen die digter en die mense namens wie hy praat aan die een kant, en die bevoorregte lede van ons lewenskragtige en selfversekerde nywerheidsgemeenskap aan die ander kant, is 'n gaping wat vernou moet word indien ons almal daadwerklik 'n mooi toekoms vir onself en ons kinders wil skep.

Die Redakteur

The politician doesn't want to marry business
There's love lost between the two
They are both rich
Looking out for losses in their interests
I really can't understand.

Operation Hunger, World Vision,
Those are charities that benefit
From the tall towers of business
But at the end of the day
After dividends, they still manage more profits
So I can't understand.

Black workers are ever striking
For a better living wage
Thinking of the company's constitutional protective page
Yet they get fired.
Factor capital yield is beyond imagination
That is a business I can't understand.

Directors lauded world over
Belong to exclusive clubs
Lavishing one another with praise
Forgetting about those who maintain
Their businesses with loyalty
I really can't understand.

Moving around in expensive cars,
In the lap of undreamt luxury
Swilling beers and vintage wines
Flying anywhere in the world like birds
I really can't understand.

Profits sponsor sports and sportsmen
Who've never set foot in this factory
But are the reapers from our sweat
Robbing us of an increment
After twelve months of exploitation
Man!! I want an answer for I can't understand.

Tayfield Nzo