

The  
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Number 35 – Winter 1992

Die  
Beleggings-  
ontleders  
Tydskrif

Nommer 35 – Winter 1992

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# The Investment Analysts Journal

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## Die Beleggingsontleiders Tydskrif

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## Inhoud

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### **Market Timing Revisited**

This paper updates a 1987 study on market timing on the JSE. It shows that the crash of October 1987 had little impact on the probability of successfully using a timing strategy to “beat the market”. It was also found that there was little difference in the potential for timing between an investment in the All-Share Index and one in the gold sector only. The distinction lay in the higher volatility of the gold share index. Finally it is shown that investors who retain a degree of liquidity in their portfolios face dramatically lowered ranges of possible returns and require a higher level of forecasting ability in order to beat the returns on the market index.

### **Modelling a series of uneven deposits and a series of uneven percentage withdrawals**

The theory of interest is a widely discussed area of application in financial management. For practical purposes several basic interest formulas have also been developed to be selected depending on the circumstances under which they are to be applied. The most extensively used among them is the compound interest formula which is necessary to deal with long term investment. Usually in accountancy literature the development of the basic interest formulas are given case by case. Furthermore, the withdrawals and receipts are treated as exact values.

In this paper the development of a general formula for a series of uneven deposits and a series of uneven percentage withdrawals is presented. The derivation uses the “time value of money” concept which is central to the theory of interest arguments. It is also shown that the general formula can be reduced to obtain the commonly applied basic interest formulas instead of the traditional method of developing them separately for each case.

### **The Impact of the Efficiency of the South African Share Index Futures Market on Hedging Effectiveness and Optimal Exposure Management over the Period 1987 to 1989**

An empirical investigation was undertaken to assess the impact of futures market efficiency on hedging effectiveness and optimal exposure management in the South African SIF market for the period June 1987 to December 1989. It was found that hedge performance in the market has remained on the same levels over the period. Results further suggest that optimal (risk-minimising) hedges are significantly affected by contract mispricings albeit in a manner not consistent enough to formulate general conclusions.

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### **An evaluation of the market rating of retained earnings of companies listed on the Johannesburg Stock Exchange: An empirical analysis**

This investigation evaluates the efficiency of retained earnings of a sample of 50 companies listed on the Johannesburg Stock Exchange during the period 1978-1987. The empirical evidence shows that company managers are not always efficient in deciding how much profits should be retained for reinvestment. While, on average, the companies in the sample benefitted from an increase in market price associated with retained earnings, the majority of companies were penalized by the decision to retain earnings. There appears to be no correlation between the popular measures of company performance and the three measures representing shareholder interests.

Given the limitations of return on equity and other company performance measures, appropriate ratios are suggested which could be used to measure shareholder interests as well as operational decision criteria for company performance evaluation. The use of the suggested ratios could assist in removing the various impediments and structures which prevent shareholders from obtaining the maximum benefits from retained earnings. The suggested operational decision criteria could also assist in the creation of a more efficient capital market which redistributes capital from the less efficient to the more efficient companies.

### **A South African Corporate Bond Market?**

This paper explores the attitude of major players in the capital markets to the question of why there is virtually no corporate bond market in South Africa. Information was sought as to whether investors ought to be provided with a broader range of risk instruments; what criteria investors seek in a corporate bond market; whether these overlap with the criteria important to potential debt issuers, and what hurdles restrict the development of such a market.

Information was elicited through the medium of a mailed questionnaire sent to a sample of listed companies. Included were all life insurers and banks, together with the larger pension funds, investment companies and merchant banks.

It was found that the attitudes of South African financial managers were generally positive towards the issuing of corporate bonds. Enough potential issuers with appropriate attributes existed. High inflation was seen as a critical stumbling block impeding formation of such a market. Needed too were market makers and the establishment of a rating agency. The presence of derivative markets and the introduction of more floating rate debt were also seen as factors which would lead to the formation of a formal bond market.

### **Investment Basics – XXV Volume and the Bull-Bear Cycle**

Four basic assumptions on the relationship between market behaviour and price action enable a descriptive model of changes in turnover during a complete bull-bear cycle. It is found, contrary to common wisdom, that an increase in volume does not necessarily confirm the ruling trend. Instead, when turnover begins to increase following a period of sustained rising or falling trend, it may well signal the end of that trend. This fact can be used to anticipate changes in the trend.

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# Die Beleggingsontleders Tydskrif

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The failure of Working Group 2 at the Codesa negotiations to reach agreement on the institution of interim constitutional change will have come as a disappointment to most South Africans. After the decisive 'Yes' vote in April's referendum, a climate of expectation had built up regarding progress towards an interim government, this being seen as necessary not only for the final lifting of sanctions and the normalisation of South Africa's relationship with the IMF and World Bank, but also for the taking of important initiatives regarding the domestic economy. The economy has been stagnating for at least three years. During this time unemployment has continued to rise exponentially. Today, estimates of formal unemployment, ie the difference between the aggregate of the economically active population and the aggregate of employment in the formal sectors of the economy, range from a low of 4 million to well over 6 million. In these data are rooted all the evidence that we have of social breakdown including violent crime which has begun to spill over into the areas of residence of our more affluent communities. Physical insecurity has ceased to be only a problem of the poor. There can be no durable solution to the problem of violence and crime without sustained economic recovery, and it is now long overdue.

A factor in South Africa's disappointing economic growth over the last three years has been the global recession. Because of the Gulf war and German unification, this has lingered on for longer than most economic analysts and governments had expected. However, the evidence is now beginning to accumulate that the global economy is recovering. In Germany and Japan, the rate of real GDP growth has fallen sharply but is still positive, and likely to remain so. In the US and Britain, it has dipped into negative territory but is in the process of bouncing back. By the end of the year, recovery should be more widespread and advanced. All this augers well for South Africa. If sanctions etc can be removed, the chances are good that economic growth here will increase, perhaps even above the rate at which the economically active population is increasing.

Notwithstanding the abovementioned Codesa disappointment, progress has been made on the establishment of an Economic Forum. Organised business and labour between them have already agreed on a framework for deliberations, and government is being drawn into what is happening. At a meeting between business, labour and government on 15 May, the new Minister of Finance, Derek Keys, showed his awareness of the need to achieve the common ownership of all important economic initiatives in the new South Africa. The time has passed when government can hand down such initiatives from on high and expect others to follow compliantly. The Economic Forum could assume in time an importance as great as that of Codesa itself.

THE EDITOR

Die feit dat Werkgroep 2 tydens die Codesa onderhandelinge nie ooreenkoms kon bereik oor die daadwerklike instelling van tussentydse konstitusionele verandering nie, sal vir meeste Suid-Afrikaners 'n teleurstelling wees. Na die beslissende 'Ja' stem in die April Referendum, het verwagtinge al hoe meer toegeneem dat 'n tussentydse regering mettertyd daargestel sou word. Dit is nie alleenlik gesien as noodsaaklik, vir die finale opheffing van sanksies en die normalisering van Suid-Afrika se verhouding met die IMF en die Wêreldbank nie, maar is ook beskou in die lig van belangrike inisiatiewe betreffende die binnelandse ekonomie wat nou al vir drie jaar stagneer. Gedurende hierdie tyd het werkloosheid eksponensieel toegeneem. Vandag wissel ramings van formele werkloosheid, d.w.s. die verskil tussen die ekonomies aktiewe bevolking oor die geheel en indiensneming in die formele sektore van die ekonomie globaal geneem, van 4-miljoen tot ruim meer as 6-miljoen. In hierdie data vind 'n mens reeds al die bewyse dat ons sit met 'n sosiale ineenstorting met inbegrip van gewelddadige misdaad wat begin oorstort na die woongebiede van ons meer welvarende gemeenskappe. Fisiese gebrek aan sekuriteit is nie meer net 'n probleem van die armes nie. Daar kan geen blywende oplossing vir 'n probleem van geweld en misdaad wees sonder volgehoue ekonomiese herstel nie, en dit bly nou al lank uit.

'n Faktor in Suid-Afrika se teleurstellende ekonomiese groei oor die afgelope drie jaar was die wêreldwye resessie. Vanweë die Golf-oorlog en Duitse eenwording, het dit langer voortgeduur as wat die meeste ekonomiese ontleders en regerings verwag het. Daar is egter nou al hoe meer bewyse dat die wêreld ekonomie aan die herstel is. In Duitsland en Japan het die reële BBP groeikoers skerp gedaal, maar is steeds positief, en sal waarskynlik so bly. In die VSA en Brittanje was daar 'n kortstondige negatiewe daling, maar 'n herstel het begin intree. Teen die einde van die jaar behoort die herstel meer algemeen en verder gevorderd te wees. Dit alles beloof veel vir Suid-Afrika. Indien sanksies ens verwyder kan word, is die kans goed dat ekonomiese groei hier sal styg, selfs bo die koers waarteen die ekonomies aktiewe bevolking toeneem.

Nieteenstaande bovermelde teleurstellende gebeure by Codesa, is vordering gemaak met die stigting van 'n Ekonomiese Forum. Georganiseerde besigheid en arbeid het onderling ooreengekom oor 'n raamwerk vir raadpleging, en die regering word tans betrek in wat aan die gebeur is. Op 'n vergadering tussen sakemanne, georganiseerde arbeid en die regering op 15 Mei, het die nuwe Minister van Finansies, Derek Keys, getoon dat hy daarvan bewus is dat daar 'n behoefte bestaan aan gemeenskaplike eienaarskap van alle belangrike ekonomiese inisiatiewe in die nuwe Suid-Afrika. Die tyd is verby dat die regering net sulke inisiatiewe uit die hoogste van stapel kan stuur om dan te verwag dat diegene onder aan die ontvangant inskiklik moet volg. Die Ekonomiese Forum kan met verloop van tyd net so belangrik word soos Codesa self.

DIE REDAKTEUR