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Die  
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ontleiders  
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Nommer 37 – Winter 1993

## Die Beleggings-ontleders Tydskrif

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## Inhoud

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### This issue in brief

#### **Bankers' Views on Securitisation in South Africa**

Asset securitisation is still in the embryonic stage of its development in South Africa. This paper documents the views of a group of senior bankers regarding the likely future trend of securitisation in South Africa. They are not convinced that the benefits of securitisation currently outweigh the costs, but believe that the phenomenon is likely to gather momentum.

The primary advantages of asset securitisation are perceived to be that it provides savings on capital, has the potential to increase the non-interest income earned by banks, can improve returns ratios and will provide diversification benefits to investors.

Major concerns expressed are that it is initially a complicated and time consuming process with high transaction costs. The reluctance of investors to accept these new securities is expected to be the most significant obstacle to their growth.

#### **A future-oriented approach to company annual reporting in South Africa: unit trust views**

To enhance the decision-usefulness value of company annual report information, the boundaries of traditional reporting have been extended to include management projections, predictions or forecasts of information relating to the future of a company. The approach has attracted varying attention in several countries. In South Africa, the subject is relatively new. To contribute to the knowledge on the subject, this article examines the opinions of the managing directors of unit trusts on the need for publishing future-oriented information in company annual reports, the presentation of the information, and the need for public accountant audit of the information.

#### **Hedging a share portfolio with futures contracts: A linear goal programming approach**

An investor wishing to hedge his share portfolio with futures contracts wants to ensure that the losses he incurs with his share portfolio during adverse market conditions are adequately covered by the profits he makes with the futures contracts he sells while wishing to minimise the costs involved with his participation in the futures market. These costs consist of transaction costs, cash outflows for margin deposits, and the opportunity cost of the margins deposited at the broker.

The traditional hedging methods do not take the above mentioned costs into consideration. A linear goal programming model for South African conditions is developed which optimises the conflicting needs of the investor by updating his position on a weekly basis.

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### **Die Suid-Afrikaanse Kapitaalmark en Aandelebeurs as Vooruitskatters van Reële Ekonomiese Aktiwiteit**

Two simple forecasting models are developed to forecast future real economic activity, the one based on information contained in the industrial share index and the other based on the term structure of interest rates. It is shown that both these models provide better ex ante forecasts of real activity than a number of leading South African economic forecasters.

### **Evidence of Symmetry in price behaviour**

Evidence has been found of a relationship between gradients of consecutive bull and bear markets. The gradient of a major resistance trend line of a bear market can be derived from the resistance line of the preceding bull market. Similarly, a major support line of a bull market can be derived from a support line of the previous bear market. This phenomenon reveals a symmetrical relationship between the gradients of the resistance or support lines on either side of a trend reversal, i.e. of consecutive bull and bear trends.

The relationship is inverse, as the gradient of the derived line is of opposite sign to that of the primary line. The magnitude of the new inverted gradient may be equal to that of the primary line, or it could differ by some multiple of the Fibonacci ratio.

In practice, this relationship can be used to anticipate where a key reversal could occur during a new bull or bear market.

The existence of a method to anticipate major reversals is of value for technical analysis, and is also likely to put new life into the debate on the Random Walk Hypothesis.

### **Investment Basics XXVII. The design of a trading system.**

A trading system is a set of procedures and techniques, which will include the use of technical analysis, designed to make the most of the skills and abilities of the user of the system, and of decision support tools available to the user.

When one first begins to trade, the trading system should be rudimentary, to reflect the level of skill and ability of the trader. Then as one's knowledge of trading improves, and of the analytical methods needed to support profitable trading, the trading system should also grow in sophistication and complexity.

The evolution of the trading system would be determined by the kind of questions asked of the system.

This article reviews the nature of the questions the trading system should be designed to answer, and how these should change over time to reflect the growing skill and knowledge of the user.

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# The Investment Analysts Journal

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As we go to press with this issue of the Journal, South Africa stands on the threshold of momentous political change. Multilateral negotiations, which include the participation of all key political parties (even the CP and PAC are there), have made good progress and the possibility cannot be excluded that by the end of June, a Transitional Executive Council (TEC) will be in place which will act as the country's first power-sharing administration. If a TEC comes into existence, the scene will be set for the later holding of a general election (probably sometime early in 1994) which will lead to the establishment of a Constituent Assembly (CA) to serve both as an interim parliament and a constitution-making body. Once this is in place, the TEC is likely to be replaced by a new interim government of national unity which would differ from the TEC in that parties forming part of it would be represented on the basis of their CA representation. In other words, whereas the TEC would have all key players represented on some arbitrary basis, the national unity government would be a democratic one and would reflect the seniority of parties according to constituency support. South Africa would have made its conversion from white minority domination to non-racial democracy, albeit in a framework of power-sharing, through negotiation rather than through revolution.

It is hardly surprising that there are many people, individuals and organisations, who withdraw in horror at this prospect. They are the ones who have held steadfastly to the belief that the only alternative to white domination is black domination, and they have been prepared to contemplate civil war rather than allow a negotiated solution along the lines described above to be implemented. It is not coincidental that each time the multilateral negotiations have made good progress, violence has increased not only of the black-on-black but also of the black-on-white kind to confuse the situation. Political assassination, too, has been used (the killing of Chris Hani is the most outstanding but not the only example) to raise the emotional temperature in order to check the progress of the negotiations. This is the last opportunity those opposed to change have to prevent the transfer from the old order to the new.

However, the question has to be asked: Can anything now turn back the clock to the kind of South Africa that has existed here for over three centuries? Prof Jan Lombard most fittingly has described the old South Africa as having been an extension of Europe in Africa; a society in which everything was directed to promote European culture and economy, and where the indigenous black people were cast in a role not of being citizens but of being like other natural resources. Thus, when the economy expanded, they were absorbed into it, but when it contracted they were cast off into disuse much as was the case with material production inputs. Because blacks did not vote, the government had no political reason to address the matter of black unemployment as a priority in economic policy formulation. All that will change in the new South Africa. Indeed, the most important difference between the old South Africa and the new is likely to be the prioritising than can be expected to place the problem of black unemployment, *mass black unemployment*, at the top of the policy agenda. No future South Africa government, once the political process has been democratised, will be able to neglect let alone ignore this matter. The problem will have become as compelling for governments as mass unemployment, and finding a solution to it, was for governments in Western Europe and North America during the

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# Die Beleggings-ontleders Tydskrif

Sewe-en-dertigste uitgawe – Winter 1993

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Met die ter perse gaan van hierdie uitgawe van die Tydskrif staan Suid-Afrika op die drumpel van gewigtige politieke verandering. Veelparty onderhandelings, met die deelname van alle sleutel politieke partye (selfs die KP en die PAC is teenwoordig), het goeie vordering gemaak en die moontlikheid kan nie uitgesluit word dat daar teen die einde van Junie 'n Oorgangs Uitvoerende Raad (OUR) in plek sal wees, wat sal optree as die land se eerste magsdelende administrasie nie. 'n Sodanige OUR sal die tafel dek vir die hou van 'n algemene verkiesing (waarskynlik vroeg in 1994) wat sal lei tot die vorming van 'n Grondwetskrywende Vergadering (GV) wat sal dien beide as tussentydse parlement en konstitusie-skrywende liggaam. Nadat dit in plek is, sal die OUR waarskynlik vervang word met die nuwe interim regering van nasionale eenheid wat van die OUR sal verskil in sover die deelnemende partye verteenwoordig sal word op die basis van hul GV verteenwoordiging. Met ander woorde, terwyl die sleutelspelers op arbitrêre wyse in die OUR verteenwoordig sal wees, sal die regering van nasionale eenheid demokraties wees in sover dit die senioriteit van partye gebaseer op kiesersteun sal weerspieël. Suid-Afrika sal die oorgang gemaak het vanaf wit minderheid dominasie tot 'n nie-rassige demokrasie, alhoewel in 'n raamwerk van magsdeling, deur onderhandeling eerder dan rewolusie.

Dit is nie verrassend dat baie mense, individue en organisasies, terugdeins voor hierdie vooruitsig nie. Dit is hulle wat vasgeklou het aan die geloof dat die enigste alternatief vir wit oorheersing, swart oorheersing is en hul sou eerder burgeroorlog oorweeg as om 'n onderhandelde skikking volgens die uiteengesette riglyne te aanvaar. Dit is nie toevallig nie dat elke keer as die veelparty onderhandelings goeie vordering toon, geweldsvlakke toeneem, nie alleenlik van die swart-op-swart tipe nie, maar ook van die swart-op-wit tipe, ten einde verwarring te skep. Politieke sluipmoorde is ook gebruik (die moord van Chris Hani is die uitstaande, maar nie die enigste voorbeeld nie) om die emosionele koers te laat styg en die vooruitgang van onderhandelings te vertraag. Dit is die laaste geleentheid vir diegene wat teen verandering gekant is om die oorgang vanaf die ou na die nuwe orde te keer.

Nietemin behoort gevra te word: Kan enigiets nou die horlosie terugdraai na die soort Suid-Afrika wat ons vir meer as drie dekades geken het? Prof Jan Lombard het die ou Suid-Afrika baie gepas geskryf as 'n ekstensie van Europa in Afrika; 'n gemeenskap wat ten doel gehad het om die Europese kultuur en ekonomie te bevorder en waar die inheemse swart bevolking eerder as produksiefaktore as landsburgers gesien is. Wanneer die ekonomie uitgebrei het, is hulle hierin geabsorbeer, maar wanneer dit ingekrimp het, is hul in onbruik forseer soos fisiese produksiefaktore. Omdat swartes nie gestem het nie, was daar geen politieke dwang op die regering om swart werkloosheid as prioriteit in ekonomiese beleidsformulering te hanteer nie. Dit sal alles in die nuwe Suid-Afrika verander. Om die waarheid te sê, die belangrikste verskil tussen die ou en nuwe Suid-Afrika is waarskynlik die prioritisering van die probleem van swart werkloosheid, bo-aan die politieke agenda. Geen toekomstige Suid-Afrikaanse regering na demokratisering van die politieke proses, sal hierdie aangeleentheid kan verwaarloos, om nie te praat van ignoreer nie. Die probleem sal net so dwingend word soos massale werkloosheid, en die oplossing hiervoor, was vir regerings in Wes-Europa en Noord-Amerika gedurende die depressiejare van die 1930's.

depression years of the 1930s.

Of course, there will be those who will argue that it is precisely for these reasons that the conversion of South Africa to a democracy should have been resisted in the first place. There is little prospect, in their judgement, of reducing black unemployment, and taking the democracy option will only mean that economic growth will be sacrificed on the altar of redistribution. The taxation of whites will have to increase so much, to make any significant impact on the problem, as to drive investment even deeper into the hole into which it has already fallen. Better, they say, would it have been to have carried on ignoring black unemployment, and the disaffection that follows from it, altogether.

While the economic challenge that now faces the country is huge, this vision of its viability and its future cannot logically be defended. Already the system of white minority domination had become unsustainable and the economy was in grave trouble. It had been brought to the very edge of the precipice and it was largely this that had persuaded the government to U-turn on its previous policies. Any attempt to push on with the political exclusion of blacks would have provided a guarantee of complete disaster. It was the realisation of this that persuaded the white electorate to vote 'Yes' in last year's referendum. All the reasons for that vote remain valid today notwithstanding the decline in popularity the government has suffered amongst white voters in recent months because of its ineptness and seeming mismanagement. Violence, corruption and further economic decline (the lastmentioned not entirely its fault) have engulfed it.

But even economically, things are beginning to change, and for the better. Inflation has been brought down to single digit levels from 16,8 per cent only eighteen months ago. (It had been over 20 per cent in January 1986.) A new finance minister has introduced a tough budget which starts to address the economy's serious structural defects. And the world economy has begun to show evidence of recovery. Admittedly, this still looks tentative because of disappointing first quarter real GDP growth figures from the US, but the global evidence of improvement is wider than just America. Britain is showing recovery also while the free fall of industrial production growth in Japan now looks as if it may be over. Beyond Japan, in the Pacific Rim area, growth continues at a high rate and shows no evidence yet of cyclical reverse. The odds are that the G7 economic recovery will continue even if its pace of improvement is held back by continuing problems associated with German unification.

What does all this mean for investors in South Africa? The answer is a short one. There is life after apartheid, and the post-apartheid era will have its own opportunities. The paradigm shift politically means that the economy's direction must change. But equally when it does there will be profit to be made for those companies quick to seek the opportunities out. The South African business sector has never been flatfooted. It has met the challenge of trade sanctions as its remarkable non-gold export performance since 1983 has demonstrated, and there is every reason to believe that it will keep ahead of the game in the future. Once the country's relationship with the IMF and the World Bank is normalised, and the constraint of financial sanctions is eased, its real GDP growth, and certainly its growth of real gross domestic expenditure, on a sustained basis, might just surprise the sceptics.

THE EDITOR

Natuurlik sal daar diegene wees wat argumenteer dat dit presies om hierdie redes is dat die oorgang na 'n demokrasie in Suid-Afrika in die eerste plek teengestaan behoort te word. Daar is weinig vooruitsig, volgens hul oordeel, dat swart werkloosheid verminder kan word en die demokratiese opsie sal slegs beteken dat ekonomiese groei geoffer sal word op die altaar van herverdeling. Die belastinglas van blankes sal sodanig moet toeneem om enige betekenisvolle impak op die probleem te maak, dat investering net verder sal afneem. Dit sou beter wees, argumenteer hulle, om voort te gaan om swart werkloosheid en die gepaardgaande ontevredenheid, te ignoreer.

Terwyl die land nou geweldige ekonomiese uitdagings in die gesig staar, kan hierdie voorafgaande gesigspunt nie logieserwys verdedig word nie. Die stelsel van wit corheersing het nou reeds nie-handhaafbaar blyk te wees en die ekonomie was in ernstige moeilikheid. Dit is tot op die rand van die afgrond gebring en dit was grootliks hierdie werklikheid wat die regering 'n ommekeer in beleid laat uitvoer het. Enige poging om die beleid van swart politieke uitsluiting voort te sit, sou 'n waarborg vir 'n totale ramp wees. Dit was hierdie insig wat blanke kiesers laat "Ja" stem het in verlede jaar se referendum. Al die redes vir daardie stemming bly vandag geldig nieteenstaande die afname in die regering se populariteit as gevolg van sy onbeholpenheid en die persepsie van wanbestuur. Geweld, korrupsie en verdere ekonomiese agteruitgang (laasgenoemde nie geheel die regering se fout nie) het die regering verswelg.

Maar selfs op die ekonomiese terrein begin positiewe veranderinge intree. Inflasie is afgebring vanaf 16,8% slegs agtien maande gelede, tot enkelsyfers. (Dit was meer as 20 persent in Januarie 1986). 'n Nuwe minister van finansies het 'n streng begroting ingedien wat begin om die ernstige strukturele gebrek van die ekonomie aan te spreek. En die wêreld ekonomie het begin om tekens van herstel te toon. Toegegee, hierdie herstel lyk maar tentatief as gevolg van die teleurstellende reële BBP groei in die eerste kwartaal in die VSA, maar die globale tekens van herstel is wyer as slegs in die VSA, Brittanje toon tekens van herstel, terwyl die skerp daling in industriële produksiegroei in Japan iets van die verlede skyn te wees. In die Pasifiese Kom area word steeds hoë groeikoerse aangeteken en is daar nog geen teken van 'n sikliese omswaai nie. Die kans is verder goed dat herstel in die G7 nasies se ekonomieë sal voortduur, alhoewel die tempo vertraag word deur die probleme geassosieer met Duitse eenwording.

Wat beteken dit alles vir beleggers in Suid-Afrika? Die antwoord is kort en bondig. Daar is lewe na apartheid en die post-apartheid tydperk sal sy eie geleenthede bied. Die politieke paradigma verskuiwing beteken dat die ekonomie se rigting behoort te verander. Maar wanneer dit gebeur, sal daar winste te maak wees vir maatskappye wat vinnig hierdie geleenthede uitbuit. Die Suid-Afrikaanse sakesektor is nog nooit onvoorbereid betrap nie. Dit het die uitdaging van handelsanksies die hoof gebied soos die verbasende nie-goud uitvoerprestasie sedert 1983 toon, en daar is alle rede om te glo dat dit ook in die toekoms die uitdagings die hoof sal bied. Wanneer Suid-Afrika se verhouding met die IMF en die Wêreldbank genormaliseer het en die beperking van finansiële sanksies verlig is, kan reële BBP groei, en sekerlik die groei in reële bruto binelandse besteding, dalk net die skeptici verbaas.

DIE REDAKTEUR