

The  
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Number 39 – Winter 1994

Die  
Beleggings-  
ontleders  
Tydskrif

Nommer 39 – Winter 1994

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### **Measuring the impact of futures and options on investment portfolios: a South African perspective**

This document summarises the key issues and sets out a proposal for standards of reporting for the South African industry. Further guidance is needed on an appropriate standard for performance measurement.

### **Finance Research in South Africa**

This paper presents the results of a study undertaken using a database of all locally published research in the field of finance. The research productivity of finance researchers is discussed. The data is tested against theoretical bibliometric distributions. Finally an analysis of the subject matter of all published papers in the finance area is carried out.

### **Public holiday share price behaviour on the Johannesburg Stock Exchange**

This investigation evaluates the impact of the public holiday effect on the share returns of companies listed on the JSE during the period 1975-1990. On the trading day prior to holidays shares advance with disproportionate frequency and show mean returns averaging five times the mean returns for the remaining days of the year. Over one-fifth of the total return accruing to the market portfolio over the 1975-1990 period was earned on the nine trading days which fall each year before holiday market closings. The empirical evidence suggests that the pre-holiday return may, in part, be due to the simultaneous movements from "bid" to the "ask" price. The holiday effect appears to be related to the human tendency to bid up share prices prior to market closings for weekends and holidays.

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# Inhoud

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## **Aandeleopbrengste en Reële Ekonomiese Aktiwiteit – Die Suid-Afrikaanse Ondervinding**

This article investigates the relationships between real economic activity and share returns. A turning point analysis shows that returns consistently lead the business cycle, although with leads that substantially vary between turning points. Upswings appear to be easier to forecast than downswings, using share value indices. Causality tests show very little evidence of causality between returns and production growth. Also on the level of seasonal patterns in production growth and share returns, there is little evidence that the stock exchange leads real activity.

## **Window dressing by institutional investors on the Johannesburg Stock Exchange: an empirical analysis**

The purpose of this paper is to investigate the widely held belief that institutional portfolio managers “window dress” or adjust their share portfolios before the release of their quarterly reports. In this study, block trading on the JSE covering the period 1983 – 1990 is examined to determine if there is abnormal end-of-period trading activity. The empirical evidence clearly rejects the null hypothesis of no abnormal end-of-period trading activity. While the company data yield less clear results, there are indications that institutional window dressing is more likely in the securities of companies that have performed poorly during the current quarter or the recent past. Although the behaviour of institutional portfolio managers cannot be generalized to other types of corporate activity, they suggest that reporting requirements do affect managerial behaviour.

## **Cash Flow Statements: The importance of cash from operating activities – Investment Basics XXIX**

The objective of the Cash Flow Statement is to provide users of financial statements with details of cash generated or utilized by operations, investing activities and financing activities. The traditional income statement and balance sheet provide limited information regarding the timing and extent of cash flows of an enterprise. Cash flow statements therefore enable users to form a better assessment of the cash performance.

The cash flow from operating activities is usually considered the most important type of cash flow. A company which consistently fails to generate positive cash from operating activities is likely to land up in financial difficulties. In the long term a satisfactory return on assets, a healthy capital structure, high dividends and hopefully a reasonable rating in the market result from a positive cash flow from operating activities.

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# Die Beleggings-ontleders Tydskrif

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The general election held in April and the inauguration of the Government of National Unity on 9 May have opened the way for a paradigm shift in South African society. It is not simply that three hundred and forty-two years of white minority rule has now come to an end. All of a sudden the whole direction of society is set to change. It was always going to be the case that the day after the election was going to be very much the same as the day before. Like the traveller who, over a long journey, has reached a particular point and has now decided to turn around and face another way, nothing in his immediate surroundings alters on his doing so. The river in the valley beside him is still there and so are the hills that rise from its banks to the height of the surrounding escarpment. But the fact that he has now turned around means that gradually, as he proceeds on foot, the topography, the landscape, indeed all the views of earth and heaven, will begin to change as he moves on, and in time will become unrecognisable from the scene that currently surrounds him. As we write, it is only a matter of weeks since the election and the inauguration of the new government. Already, however, there are more than 100 000 South Africans who have been born and who, therefore, have never lived under apartheid. By the end of the year, their number will have grown to over a million and within the short span of fifteen years, perhaps a bit more, they will constitute the majority of the population of the country. None of these people will ever know the shame it was for Africans to have their existence defined in terms of serving Europeans, to be denied entry to post offices and toilets because of the colour of their skin, or to be restricted by law as to what work you could do, whom you could marry or where you could reside. Apartheid was a comprehensive system of subjugation and control that bureaucratized blacks in all spheres of life into positions of inferiority and hardship. Hardship there will continue to be in the new South Africa, but it will not be the hardship of discrimination imposed by law and self-serving authority. Rather it will be the hardship that exists everywhere there is poverty and underdevelopment.

It is worth reflecting for a moment how the new South Africa differs from the old from a policy formulation point of view. Because of White hegemony, the old South Africa was a society which saw itself as an extension of Europe in Africa. In all ways, it was a society which modelled itself on European society. From its legal system to its cultural and social habits, from its governmental institutions to its religions, it was a transplant from Holland and Britain, from Portugal, Greece, Italy, Germany and France, and a host of other countries. Membership of this society was dependent on race and so it excluded indigenous Africans. If you were dark skinned, but nonetheless not African, you got excluded anyway from the ultimate criterion of membership – the franchise.

For policy formulation, the existence of mass unemployment has always been a problem. In Europe and North America, during the 1930s, governments found themselves compelled to act to create jobs even though much of the policy wisdom of the time laid the cause of the problem at the doorstep of a deficiency of savings. To begin with, raising interest rates and trying to address the collapse of investment from the savings end only made matters worse. Keynes was to show why this thinking was wrong. But the governments of the day could not wait for the publication in 1936 of his famous book *The*

Die algemene verkiesing wat gedurende April plaasgevind het en die inhuldiging van die Regering van Nasionale Eenheid op 9 Mei het die deure geopen vir 'n paradigmatiese verskuiwing in die Suid-Afrikaanse gemeenskap. Dit is nie eenvoudig net driehonderd twee-en-veertig jaar se wit minderheidsbewind wat nou tot 'n einde gekom het nie. Skielik is die hele rigting van die gemeenskap blootgestel aan verandering. Dit is altyd verstaan dat die dag na die verkiesing baie dieselfde sou wees as die voorafgaande dag. Soos die reisiger wat na 'n lang reis 'n bepaalde punt bereik het en nou besluit om terug te kyk in die teenoorgestelde rigting, verander niks in sy onmiddellike omgewing as gevolg van hierdie optrede nie. Die rivier in die vallei langs hom is steeds daar en so ook die heuwels wat oprys vanaf die rivierbanke tot by die spits van die omliggende eskarp. Maar die feit dat hy omgedraai het, beteken dat geleidelik, soos hy te voet voortgaan, die topografie, die landskap, inderdaad al sy uitsigte op die aarde en hemel, sal begin verander soos hy voortbeweeg en mettertyd sal dit onherkenbaar wees van die toneel wat hom op daardie tydstep omring. Tans is dit slegs 'n kwessie van weke sedert die verkiesing en die inhuldiging van die nuwe regering. Daar is egter reeds meer as 100 000 Suid-Afrikaners wat sedertdien gebore is en wat nog nooit onder apartheid geleef het nie. Teen die einde van die jaar sal hierdie getal aangroei tot meer as 'n miljoen en binne die kort bestek van vyftien jaar, of miskien 'n bietjie meer, sal hul die meerderheid van die Suid-Afrikaanse bevolking uitmaak. Nie een van hierdie mense sal ooit die skande ken wat dit vir Swartes ingehou het om hulle bestaan gedefinieer te hê in terme van diens aan blankes nie, om ingang tot poskantore en toilette geweier te wees op grond van hul velkleur, of deur die wet beperk te wees in terme van die werk wat hul kon verrig, met wie hul kon trou of waar hulle mag woon nie. Apartheid was 'n omvattende stelsel van onderwerping en kontrole wat swartes geburokratiseer het in alle sferes van lewe, in posisies van minderwaardigheid en swaarkry. In die nuwe Suid-Afrika sal daar steeds swaarkry wees, maar dit sal nie die swaarkry van diskriminasie wees wat deur die wet en deur 'n selfdienende owerheid ingestel is nie. Dit sal die swaarkry wees wat jy oral vind waar daar armoede en onderontwikkeling is.

Dit is die moeite werd om vir 'n oomblik na te dink oor hoe die nuwe Suid-Afrika van die oue verskil uit 'n beleidsformuleringsoogpunt. As gevolg van wit heerskappy was die ou Suid-Afrika 'n gemeenskap wat sigself gesien het as 'n verlengstuk van Europa in Afrika. Op alle gebiede was die gemeenskap gemodelleer op die Europese model. Vanaf die regstelsel tot kulturele en sosiale gewoontes, vanaf die regeringsinstellings tot die geloofslewe, was dit 'n oorplanting van Holland en Engeland, van Portugal, Griekeland, Italië, Duitsland en Frankryk en nog vele ander lande. Lidmaatskap van hierdie gemeenskap was afhanklik van ras en het inheemse Swartes uitgesluit. As jy donkervellig was, alhoewel nie noodwendig 'n Afrikaan nie, is jy uitgesluit van die finale kriterium van lidmaatskap-stemreg.

Die bestaan van massale werkloosheid was altyd 'n probleem uit die oogpunt van beleidsformulering. In Europa en Noord-Amerika, gedurende die 1930's, is regerings genoopt om op te tree om werk te skep ten spyte van die feit dat die konvensionele wysheid die oorsaak van die probleem aan die deur van onvoldoende besparings gelê het. Ten aanvang het die

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*General Theory of Employment Interest and Money.* Well before then, Franklin Delano Roosevelt had instituted the New Deal in the United States and Hitler had started building his autobahns.

In the old South Africa, the mass unemployment of Africans did not matter in the way it would have in a democratic society. Because Africans did not vote, successive governments could ignore the problem although to begin with it tended to be hidden by the fact that most Africans were resident in the rural areas and their unemployment or underemployment was largely out of sight. However, even after decades of industrialisation and African urbanisation had changed the situation, the mass unemployment of Africans continued to be a neglected issue. White, ie European, governments could safely ignore it because it did not directly affect their position of power. If they were concerned about it at all, it was because it could pose a threat to social stability. This was the policy background of mass black unemployment in the whole of the post-war period in South Africa, even in the 1980s.

With the coming of the new South Africa, all this changes at the stroke of a pen. When the mass unemployed are enfranchised, the government, no matter what the party, will have to take note of them. For the foreseeable future, mass unemployment is going to be the first item on the policy agenda of all South African governments. This gives a special but realistic perspective to what the ANC has labelled reconstruction and development. It is not something, however, the investment community should lament. In tackling the problem of mass unemployment, South Africa is going to discover new, interesting and exciting opportunities for entrepreneurship and profit. And the point will be quickly reached when with a general voice business will proclaim 'Thank God for the change that was forced upon us!'

verhoging van rentekoerse en pogings om die ineenstorting van investering van besparingskant te beëindig, sake slegs vererger. Keynes het gewys waarom hierdie denkwyses verkeerd was. Maar die regerings van die dag kon nie wag vir die publikasie van sy beroemde boek *The General Theory of Employment, Interest and Money* in 1936 nie. Reeds voor daardie tyd het Franklin Delano Roosevelt sy "New Deal" plan tot uitvoering gebring en het Hitler begin om snelweë te bou.

In die ou Suid-Afrika het die massale werkloosheid van Swartes nie die gewig gedra wat dit in 'n demokratiese gemeenskap behoort te dra nie. Omdat Swartes nie gestem het nie, kon opeenvolgende regerings die probleem ignoreer, alhoewel die probleem verskuil is deur die feit dat die meeste Swartes in landelike gebiede gebly het en dat hulle werkloosheid of onderindiensname sodoende grootliks buite sig was. Na dekades van industrialisasie en swart verstedeliking die situasie verander het, het die massale werkloosheid van Swartes nog steeds 'n vergete saak gebly. Blanke regerings kon dit veilig ignoreer omdat dit nie direk 'n invloed op hulle posisie van mag uitgeoefen het nie. Indien hul daarvoor besorgd was, was dit omdat dit 'n bedreiging vir sosiale stabiliteit kon inhou. Dit was die agtergrond waarteen, in die totale na-oorlogse periode in Suid-Afrika, selfs in die 1980's beleid gevoer is rakende massale swart werkloosheid.

Met die koms van die nuwe Suid-Afrika verander dit met 'n penstreep. Wanneer die massa werkloos stemgeregtig word, sal die regering, dit maak nie saak van watter party nie, van hulle kennis moet neem. In die onmiddellike toekoms sal grootskaalse werkloosheid die eerste item op die beleidsagenda van alle Suid-Afrikaanse regerings wees. Dit gee 'n spesiale, maar realistiese, perspektief op wat die ANC rekonstruksie en ontwikkeling noem. Dit is egter nie 'n saak waaroor die beleggingsgemeenskap trane behoort te stort nie. In die aanpak van die probleem van grootskaalse werkloosheid sal Suid-Afrika nuwe interessante en opwindende geleenthede vir entrepreneurskap en wins ontdek. En die punt sal gou bereik word wanneer die sakesektor sal uitroep: "Dank die Here vir die verandering wat op ons afforseer is."