The Investment Analysts Journal

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Die Beleggings-ontleders Tydskrif

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Inhoud

This issue in brief

Share volatility after the introduction of index futures
This paper studies the effect of the establishment of the South African Futures Exchange in April 1990 on the volatility of equity index constituents on the Johannesburg Stock Exchange. It measures the volatility of a sample of index constituents from 1988 to 1994, and finds no statistically significant increasing trend in volatility over this period. It also compares the volatility of index constituents with matched samples of non-constituents over the period 1989 to 1994, and finds no statistically significant increasing trend in the relative volatility of the index constituents.

Contrary to popular opinion, but consistent with the findings of similar research in the United States, this study concludes that the establishment of the South African Futures Exchange and its listing of equity index futures contracts did not have a statistically significant effect on the volatility of index constituents listed on the Johannesburg Stock Exchange.

Are financial markets different?
It has often been argued that financial markets have special features which set them apart from other markets. Information is incomplete and, when it is available, is subject to asymmetry between suppliers and users. Potential investors find it difficult to distinguish between firms which are good and bad credit risks, nor do they have the incentive to make the socially optimal amount of investment in acquiring information. Because of these characteristics financial markets demand a degree of state intervention which would not otherwise be necessary. This article argues that the fashionable arguments have been exaggerated, that financial markets are not alone in being subject to information asymmetry and that the evidence does not suggest that they are in particular need of regulation.

A test of Graham's stock selection criteria on industrial shares traded on the JSE
Benjamin Graham believed in value investing, whereby he proposed that investors should purchase only those shares that are worth significantly more than they cost. He had listed ten criteria which investors could use to identify undervalued stocks.

The industrial shares traded on the Johannesburg Stock Exchange were screened in order to select those securities which met various sets of Graham's criteria.

The simulation of portfolios based on Graham's criteria yielded risk adjusted returns significantly higher than that predicted by the capital asset pricing model, at the ten percent level of significance. The lack of diversity in the portfolios presented the biggest problem to this investment approach.

The low price effect on the Johannesburg Stock Exchange
Studies in the United States and elsewhere have provided empirical evidence which suggests that low priced shares outperform high priced shares on a risk adjusted basis, commonly referred to as the "low price effect". The existence of such an anomaly undermines the evidence for an efficient market and questions the validity of traditional pricing models such as the Capital Asset Pricing Model.

This research examines share returns on the Johannesburg Stock Exchange over the period 1983 to 1993 to establish the existence of a low price effect. Five portfolios consisting of 20 shares each were reconstructed each year over the ten year period. The shares were selected from the entire population of listed companies using a stratified sampling technique on ranked share price. Great care was taken to control for survivorship bias. Two different risk adjustment methods were used and the risk adjusted monthly returns of portfolios comprising low priced shares were contrasted with those of high priced shares.

No evidence of a low price effect was found, however, the results indicate the possible existence of an anomaly of the opposite kind - a "high price effect". This supports the view that the JSE is an abnormal market in that share prices are driven by institutional demand. In view of the evidence against the misspecification of the CAPM, this anomaly is ascribed to market inefficiencies.

Professor Ronnie Bethlehem : An obituary

Members of the Investment Analysts' Society of Southern Africa owe the late Ronnie Bethlehem a special debt of gratitude.

He first became involved in our affairs in 1968, before the Society was even established, when he approached David Milton and myself to participate in the drawing up of its prospective constitution. He was already a member of the British Society (now part of the IIMR) and had formed a clear picture of the objectives that he felt we should share with it. These included providing a forum for management to communicate with analysts (and, through them, with the general body of investors), raising the standards of investment analysis in this country and participating with our sister societies throughout the world in internationalising our ideas and concepts.

The Society was formally established in March 1969, and the first challenge that confronted it was to survive the disenchantment of many investors with professional investment advisors after May 1969, when the share market underwent a spectacular collapse. Ronnie Bethlehem was undaunted, not only insisting that the setback was temporary (and how right he was!) but already formulating plans for his second major contribution to the Society, the establishment of this Journal. He became its founding Editor, brought two of the country's great universities into its editorial and financial processes and remained its Editor until his death. Every issue, including even this posthumous one, has carried his imprint.

His third great contribution was the annual Awards Dinner for Excellence of Corporate Reporting, which has now become a major event in South Africa's financial calendar. His was the concept and the format to which we still adhere today. The speeches, the basis of the awards, the festive atmosphere and even the much-treasured Squirrels were all Ronnie's ideas. He even supervised every detail of the design and manufacture of these statuettes.

It is difficult to believe he has gone forever. We shall all miss him. I still have the strange feeling I should telephone him about the lunch I owe him. How could one realise how little time he had left for his friendships to be pursued? It is one of the catastrophes of the New South Africa, for which he had so much hope, that he should have become one of the victims of the crime and lawlessness that now afflict it.

Our deepest sympathies go out to his widow, Paulette, and all his family.

JOHN ROGERS
MEMBER OF THE EXECUTIVE COMMITTEE

Corporate and institutional tribute

We wish to record our deep sorrow and regret at the tragic and untimely death of Professor Ronnie Bethlehem, Editor of the Journal. At the same time we wish to express our grateful thanks for the enormous contribution he has made to the Journal since its inception.

Absa Group	NBS Boland Bank
Afrox Ltd	Old Mutual Asset Management
Anglo American Corporation	PLJ Financial Services Ltd
Barnard Jacobs Mellet and Co	Raymond James Stewart (Pty) Ltd
BOE Asset Management	Rice Rinaldi Turner and Co
Deutsche Morgan Grenfell	Sage Group Ltd
Edey Rogers and Co (Pty) Ltd	Samancor Ltd
Engen Ltd	Sanlam Asset Management
Fedsure Holdings Ltd	Sappi Ltd
First National Bank	Sasol Ltd
Fleming Martin Securities	SBC Warburg
Foodcorp Ltd	Smith Borkum Hare (Pty) Ltd
GSBA, University of the Witwatersrand	Societe Generale Frankel Pollak (Pty) Ltd
Gencor Ltd	South African Druggists
Goldfields of SA Ltd	Standard Equities (Pty) Ltd
HSBC Simpson McKie	Thabex
Huysamer Stals (Ptyd) Ltd	The Fraser Alexander Group
Investec Bank Ltd	The Genbel Group
Irish & Menell Rosenberg (Pty) Ltd	The Liberty Life Group
Kohler Ltd	The South African Breweries Ltd
Liberty Asset Management	UAL Merchant Bank
Malbak Ltd	USB, University of Stellenbosch
Mathison & Hollidge (Pty) Ltd	VH Simmons and Co (Pty) Ltd
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