

The Investment Analysts Journal

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Die Beleggings- ontleiders Tydskrif

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Inhoud

This issue in brief

Investor overreaction on the Johannesburg Stock Exchange

This study investigated the efficiency of the JSE. It is proposed that investors place too much store on recent information and too little on long-term information. Behavioural psychological factors drive investors to push prices up and down to unsustainable levels far from their intrinsic value.

A survey of the investment appraisal techniques used by South African unit trust portfolio managers

In this study an adaptation of the questionnaire methodology of Arnold and Moizer (1984) is applied to South African unit trust portfolio managers. Fundamental analysis is the clear favourite investment appraisal approach with 74% of respondents not believing that the Johannesburg Stock Exchange is efficient in the Fama (1970) semi-strong form. In contrast, the usage of the academically motivated Capital Asset Pricing Model and Arbitrage Pricing Theory is relatively low. The most popular appraisal technique was found to be an estimation of market value by forecasting earnings per share for two to five years ahead and applying an 'appropriate' price-earnings ratio to this forecast. Financial statements are perceived as the most useful information source. It was found that discussions with management are also a key source of information to portfolio managers with 91% of respondents discussing a company's performance with its management at least once a year. The most popular topic of discussion was found to be the management's long term plans and objectives.

A test of the differential information hypothesis on the Botswana and the Zimbabwe Stock Exchanges

In a bid to gain further insight into the level of integration of regional stock markets, this paper uses earnings and market data derived from the banking and financial services and retail stores industry sectors of the Botswana Stock Exchange, (BSE) and the Zimbabwe Stock Exchange (ZSE) to test the differential information hypothesis. The findings; in keeping with earlier studies (Grant (1980) and Atiase (1985)), suggest that the relationship between market capitalization and returns variability is due to the presence of differential information and that the variability of returns in announcement weeks is significantly larger than in the pre-announcement period. The variability in the level of returns increase is significantly higher for the ZSE than it is for the BSE. This difference in the level of returns makes conclusions regarding the integration of the two markets questionable.

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The market was shown to be inefficient in the long term and that it provided excess market returns up to 20% p.a. for holding periods beyond one year for loser strategy portfolios, and yielded positive excess market returns of up to 15% p.a. for winner strategy portfolios after 600 days. Optimum portfolio size was found to be between 20 and 40 shares depending on winner or loser strategy.

Are today's winning institutions tomorrow's losers?: A note

This article evaluates whether there is persistence in performance in the investment results achieved for pension funds by professional investment institutions in South Africa. An elementary approach was simulated where trustees appoint the institution which achieved the best performance over a predefined preceding period and contrasted the fund's performance with the performance of a fund where the trustees appoint the institution that ranked worst over a predefined period. It was found that in general there is no statistically significant evidence of persistence of performance. Two way contingency tables and Chi square tests showed that the probability that historic "winners" will outperform historic "losers" to be extremely low. Correlation and regression analysis on independent data confirmed that historic relative performance should not be used to predict future relative performance. Trustees should thus not place any or little value on historic performance when deciding on which institution should manage their retirement fund!

The announcement effect of prime rate changes on South African capital markets: A note

Companies that use debt to obtain financial leverage when financing new projects are willing to pay the rate charged by commercial banks in order to protect surprise monopoly profits for current equity holders. International studies have found that prime rate changes do contain information about the future cash flows of companies and therefore influence players on the capital markets of the world.

The aim of this research was to establish whether the South African capital market perceives the announcement of a change in the prime rate to carry information. The study does so by looking at the announcement effect of a change in the prime rate on the Johannesburg Stock Exchange and the yield on long term securities for the period 1986 to 1996. The findings support the view that changes in the prime rate influence the valuation of industrial and financial corporate equity as well as the yield on the Eskom 168 bond.