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# The Investment Analysts Journal

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## This issue in brief

### **The value of analysts' consensus recommendations: Evidence from South African brokerage houses**

This study investigates the value of analysts' consensus recommendations on firms listed on the JSE from March 2000 to April 2003. The equally weighted return performance of analysts' consensus buy, hold and sell recommendations as well as the effect of transacting on changes in those recommendations is assessed. Raw returns, market-adjusted returns and risk-adjusted returns are examined.

It is found that if an investor strictly follows analysts' consensus recommendations, only the buy recommendations result in significant abnormal returns as estimated under a two-factor arbitrage pricing theory (APT) model. The hold and sell recommendations yield insignificant results under all measures of performance. Furthermore, the number of sell recommendations is very small representing only 3% of the sample. Examining the effect of changes in recommendations, over a two-month holding period shares with a downgrade from a hold to a sell or from a buy to a hold achieve significantly negative alphas. In contrast, the abnormal returns of the upgrade portfolios are not significantly different from zero. It appears that investors can benefit to a greater extent by acting on *downward changes* in analysts' consensus recommendations than on the level of recommendations themselves.

### **The effect of corporate divestments on shareholder wealth: The South African experience**

This study investigates the effect of voluntary sell-offs on the share returns of 58 sell-offs involving companies listed on the JSE during the period 1995 to 2001. Sell-off announcements have a positive effect on the shareholder wealth of both buyers and sellers. The cross sectional analysis reveals that prevailing company underperformance and focusing on fewer business segments are the only significant factors related to increase in shareholder wealth. The vastly different financial performance between the buying and selling companies suggest that sell-offs enable the transfer of resources from poorly performing and unfocused companies to those companies providing a higher value to the assets acquired.

### **Book-to-market ratio and returns on the JSE**

An inspection of the relevant literature reveals the need for the exploration of the ability of the book-to-market (BTM) ratio to explain stock returns across all stocks on the JSE, within a multi-attribute framework in the style of Fama and French (1992). The individual effect of the BTM ratio on returns is investigated, and is found to be significant. Then the question of whether the BTM ratio subsumes the role of other attributes, and furthermore, if it contributes to the size/PE model derived by van Rensburg and Robertson (2003) for explaining cross-sectional returns on the JSE over the same period are examined.

### **Mean reversion on the JSE**

This study examines the existence of mean reversion of share returns on the JSE over the period 1983 to 2005. This is tested for by tracing the cumulative excess monthly returns of winner and loser portfolios of shares traded on the JSE for the first time using data corrected for survivorship bias. The winner and loser portfolios are based on the top and bottom 35 shares ranked in terms of their price to earnings ratios at the portfolio formation point. The positive results are consistent with the overreaction hypothesis for the JSE.

### **Troubling long term trends in the South African retirement fund system**

Concern is being expressed world wide about the outlook for state retirement funds. In many countries this concern is one of public policy. In South Africa a situation has developed where payments out of the industry exceed contribution funds flowing into the industry and have done so since 1993. It is only the return on investment incomes that generates increasing returns for the industry. This paper takes these trends as its starting point and analyses the outlook for the South African Retirement Fund Industry based on long term trends using econometric analysis. Three scenarios are developed to test the outlook for the industry. Under a 'business as usual' scenario there will continue to be a net outflow of funds although the gap between outflows and inflows narrows. This could continue until 2018 when financial outflows will be matched by financial inflows. An optimistic scenario reinforces these trends and under this scenario inflows will match outflows by 2011. However, under a pessimistic scenario the gap between financial inflows and outflows simply continues to widen.