
This issue in brief

Responsible investing in South Africa

Given growing interest in the phenomenon of Responsible Investing (RI), both locally and internationally, the purpose of this paper is to provide an overview of the RI sector in South Africa. It focuses on the definition and characteristics of RI within the South African context; the size and nature of the local RI sector and the obstacles which impede on the growth of the local RI sector. Recommendations are made on overcoming these barriers. It is suggested that local institutional investors drive the re-branding of RI in South Africa and that more RI products be developed to cater for the diverse needs of RI investors, both locally and internationally.

A distributional comparison of size-based portfolios on the JSE

This paper examines the non-normality of two smaller capitalization and two larger capitalization portfolios, under different weighting schemes. It demonstrates the superior fit from using two-component mixture of normal distributions instead of a single normal distribution. Additionally, the paper analyzes the components of the mixtures in order to contrast the smaller and larger capitalization portfolios. In doing so, it is shown that the portfolios behave similarly during periods of low volatility, but quite differently during periods of high volatility.

Another look at the cross-section of average returns on the JSE

This study takes another look at the cross-section of average returns on the JSE. The study provides convincing evidence of the presence of the size and value premia on the JSE. In addition, it is established that size and value survive adjustment for trading costs which have a profound impact on the magnitude and persistence of the effects, especially the size premium. It is further shown that restrictions on price have a much stronger impact than the restriction on liquidity. It is found that the book-to-market effect has the strongest power to predict returns and that the earnings-to-price effect is the weakest. It is also shown that all the estimates of the value premia are lower than leading prior SA research has shown. This may indicate that illiquidity and the absence of testing for trading costs may be a partial source of the excessively high value premium documented in previous studies. In addition, the value effect and the size effect have been found to be independent of each other. Lastly, this study corroborates the evidence that the best measure of the value premium is the book-to-market ratio.

A note on applying the Markowitz portfolio selection model as a passive investment strategy on the JSE

Harry Markowitz is generally acknowledged as the father of modern portfolio theory after publishing his seminal paper in 1952, for which he (jointly) received a Nobel Prize in 1990. Markowitz (1952) and Tobin (1958) showed that it was possible to identify the composition of an optimal portfolio of risky securities, given forecasts of future returns and an appropriate covariance matrix of share returns. This research endeavours to apply the theory of Markowitz to the Johannesburg Securities Exchange (JSE) to establish whether an optimal portfolio can be identified and used as an effective trading rule.

Weekly data over 11 years on the top 40 JSE listed companies was analysed to construct Markowitz mean-variance optimised portfolios using *ex-ante* data. The optimal portfolio was then selected and re-balanced periodically, and the returns compared against the FTSE/JSE ALSI40 index. The study found that the trading strategy significantly outperformed the market in the period under review.

Macroeconomic effects on individual JSE stocks: A GARCH representation

A GARCH framework was invoked to investigate the effects of discount rate and gold price changes on individual stocks traded on the JSE Securities Exchange of South Africa. It was found that the discount rate was clearly important in describing the dynamics of mean returns, while gold price changes largely influenced return volatilities. The importance of both variables was bolstered when they were decomposed to capture asymmetric effects of news about them. In addition to supporting the hypothesis of symmetric effects, there was evidence of a substitution effect between non-resources and resources stocks in reaction to changes in the gold price.