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Market timing on the JSE using exchange rate fluctuations

M Ward and RC Terblanche

Conventional market timing is the process of switching asset classes to meet expectations about economic or sector related forecasts. This paper extends existing research by examining the risk and return outcomes of a market timing approach in which portfolios of 'Rand-play' and 'Rand-hedge' shares are switched according to fluctuations in the exchange rate.

Three sets of exchange-rate sensitive portfolios are identified on the JSE. A market timing strategy of switching between these portfolios on a monthly basis is then examined for the 10 year period 1998 – 2008.

The results show that exceptional returns, in excess of 35% per annum above the benchmark can be obtained, dependant upon forecasting ability. To be certain of out-performing the benchmark, a forecasting accuracy of around 70% is required, but even with considerably lower ability it is possible to out-perform. These findings indicate that whilst similar levels of forecasting accuracy are required, bigger potential returns are possible for market timing strategies relating to currency fluctuations when compared to conventional asset switching strategies.

Key challenges facing the socially responsible investment (SRI) sector in South Africa

A Herringer, C Firer and S Viviers

This study explores the factors that impact the growth and development of the Socially Responsible Investment (SRI) sector in South Africa. In addition it investigates the role that SRI has to play in ensuring sustainable economic growth and development for South Africa going forward. Consistent with earlier research, the study's findings suggest that there are a number of factors which directly impact the growth and development of the local SRI sector. The success of the local SRI sector is dependent on a solid understanding of the concept as well as the ability of the various stakeholders to overcome the identified challenges.

How does traditional option hedging perform in the South African equity market?

E Maré

Derivative securities are frequently priced within the Black-Scholes methodology. Theoretically this entails maintaining a hedge consisting of the underlying asset and cash which needs to be rebalanced continuously. In practice, traders would only rebalance such hedges on a discrete basis. We examine the effects of discrete rebalancing of derivative hedges written on the FTSE/JSE TOP40 index.

The chairman's statements and annual reports: Are they reporting the same company performance to investors?

N Bhana

This paper analyses the chairman's statements of the top 50 and bottom 50 companies listed on the JSE ranked by percentage change in profit before taxation. The research examines whether companies with improving and declining performance report good and bad news in different ways. The findings are in line with expectations and both groups of companies show a preference to emphasise the positive aspects of their performance. Furthermore, both groups prefer to take credit for good news themselves, while blaming the external environment for bad news. Managers use accounting narratives in a self-serving manner, rather than reporting performance objectively. The research in this paper has implications for the current state of financial reporting whereby auditors do not formally audit but instead review the chairman's statement to ascertain its consistency with the financial statements.

Intraday momentum and contrarian effects on the JSE

JH Venter

Ultra short term return predictability based on intraday momentum and contrarian effects on the JSE is studied. Statistically significant return predictability is found to be present to some extent when returns are calculated from mid-quote prices. However, when returns are calculated under bid-ask pricing assumptions which are more realistic from a trading point of view, intraday momentum and contrarian effects largely disappear and cannot be exploited profitably.