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Fund size and returns on the JSE

N Pillay, C Muller and M Ward

Market sentiment, the popular press and academia are divided on the question of whether the size of a fund affects its performance. This study examines the issue by constructing hypothetical portfolios of varying sizes, using historical data for each of the years 1991 to 2008. Each portfolio consisted of 40 randomly selected stocks, chosen from an investment universe of the top 160 JSE listed shares in terms of market capitalisation. Rules were applied to limit the concentration of any particular share and to ensure that trading volumes were practical. Simulation was then used to explore the boundaries of possible returns for each portfolio. The results of the simulation indicate that a fund's size is a contributing factor to its performance; liquidity being the underlying reason for this relationship. Performance was found to be affected for fund sizes greater than about R5bn. Large funds are increasingly forced towards market-cap weightings with a resulting concentration in resource stocks. The relevance of these findings to the South African fund management industry is that large funds should switch to passive investment strategies. Small to medium sized portfolio managers must be aware of the size effect and ensure that their funds are 'capped'.

Feasibility of the Fama and French three factor model in explaining returns on the JSE

PG Basiewicz and CJ Auret

We test the feasibility of the Fama and French (1993) three factor model on the JSE Limited (JSE) to explain the size and value effects. In time-series tests on grouped data, we show that both the models can capture a substantial amount of time-series variation in most assets, and yield small pricing errors. In tests on ungrouped data, the three factor model can explain the value effect, and goes in the right direction to explain the size effect. Given these results, we propose that our three factor model could be used in expected return estimation for firms listed on the JSE.

The long-term share price reaction to Black Economic Empowerment announcements on the Johannesburg Securities Exchange

M Ward and C Muller

Black Economic Empowerment has been one of the South African government's primary mechanisms for addressing the economic imbalances of the *apartheid* era. Voluntary sector "charters", and more recently legislation, have required largely white owned business enterprises to become more inclusive across key areas of economic empowerment, including the provision of minimum levels of ownership for black shareholders. This research employs event study methodology to examine the long-term impact on the share prices of listed companies after announcements are made relating to black empowerment deals which impact equity ownership. The research examines 118 announcements and finds a positive cumulative abnormal return of around 10% after the first year. The positive result is confined to smaller companies, with market capitalisation of less than R3,5bn, whilst large companies experience a marginally negative cumulative abnormal return. The results also show that those companies which made BEE announcements prior to May 2005 ('first-movers') did somewhat worse than those who followed. Finally, the results were found to be consistent for companies making further BEE related announcements, although the cumulative abnormal returns were lower at around 6%.

Calendar "anomalies" in the Portuguese Stock Market

PM Silva

In this paper we search for calendar regularities in the Portuguese stock market. No evidence was found of the weekday or the January "anomalies" but other significant regularities were found which constitute evidence against market efficiency. The significant "anomalies" were the Pre-holiday effect (where average returns are twelve times higher the other day's returns) and a Turn-of-the-month effect. Statistically, the most robust of these "anomalies" is the holiday effect but, economically, the most significant is the turn-of-the-month effect.