

FUNDAMENTAL INDEXING

Weighty subject

'Share prices can – and do – get caught up in sentiment and ignore fundamentals'

FUNDAMENTAL INDEXING is becoming increasingly popular with South African investors, with the RAFI exchange-traded funds gaining traction. But there may also be some clues for stock-pickers from those products. Whereas a traditional market-weighted index, such as the Satrix40, includes shares according to their size, the JSE/FTSE RAFI (short for research affiliates fundamental index) weights stocks according to a fixed set of investment criteria, such as cash flow, dividends, liquidity, book value and sales.

"One of the obvious advantages of the RAFI40 Index is that it avoids market sentiment by not using share prices as a basis for calculating the index," says Craig Chambers, MD of Dibanisa Fund Managers. "Share prices can – and do – get caught up in sentiment and ignore fundamentals at times, adding to volatility. In fact, investor sentiment is increasingly driving financial market behaviour. We've seen that earlier in the year, with investors developing a herd mentality into defensive stocks like retailers."

An interesting exercise is to see where the RAFI funds are positioned relative to a fund such as Chambers' Old Mutual RAFI40 Tracker Fund, which blends in a mixture of the RAFI methodology with its own stock-picking and weighting. Some examples where Dibanisa moves away from the index include:

- Bidvest – overweight compared with the average manager.
- Massmart – overweight compared against the average manager.
- MTN – underweight compared with the average manager.
- AngloGold Ashanti – underweight against the average manager.



CRAIG CHAMBERS Investment sentiment more popular

- Clicks – underweight compared with the average manager.
- Shoprite – overweight against the average manager.

A look at the quarterly unit trust data to end-September makes for interesting reading. Managers were:

- Net buyers of Bidvest.

- Net buyers of Massmart.
- Net sellers of MTN.
- Net buyers of AngloGold Ashanti.
- Net sellers of Clicks.
- Net sellers of Shoprite.

Of those, the two stocks likely to attract the most attention are Massmart, which is involved in a potential takeover deal with Walmart, and gold giant AngloGold.

While there remains plenty of uncertainty about whether the Massmart/Walmart deal will happen, the real excitement over the past few weeks is the gold price, which recently broke through US\$1 400/oz.

AngloGold has recently been tipped as a "buy" from a previous "hold" recommendation at stockbrokerage Imara SP Reid. "Following management's decision to eliminate the group's hedge book by 2011 we believe the group's prospects are robust," the firm noted.

Commenting on the rising gold price, stockbrokerage Barnard Jacobs Mellet noted: "Sovereign debt worries and a weakening euro seem to be the main drivers and the flight to quality has pushed the price of gold to another new milestone of \$1 413/oz."

It's been a bumpy 12 months for AngloGold. This time last year the stock was trading at R304 before hitting a low of R268 in February. The stock ran up to R340 in June before selling off to R287 and then bouncing back above the R340 mark.

At the end of the September quarter, the five biggest stocks in the Satrix RAFI portfolio were: BHP Billiton (9,9%), Anglo American (9,5%), Old Mutual (7%), Sasol (6,1%) and SABMiller (5,9%).

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