Letters

Comments on: Gold shares or krugerrands — which is the better investment?

The above-mentioned article involves the application of a standard portfolio selection model to data on gold-share and krugerrand prices as well as yields on treasury bills (S. Afr. J. Bus. Mgmt. 17: 1 – 00). The data cover a period of three years (May 1980 – April 1983). The purpose is to determine whether over this period an 'efficient (gold) portfolio' would have included krugerrands.

The title of the article is misleading in that the evidence presented does not, and cannot, form a basis for *ex-ante* forecasts of efficient portfolios. At most the study provides insight into the relative performances of different assets over a limited period in the past. It offers a view on the much more restricted question of what *would have been* the better investment.

The study is technically competent, yet it only amounts to an application of a relatively simple model and does not offer any insights into the nature of the markets involved. No attempt is made to generalize about the implications — perhaps wisely in view of the limited scope — but, in this sense, it does not represent a contribution to knowledge in the area of portfolio selection. The fact that gold-related assets are involved does not disguise the nature of the exercise.

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Authors' response

The major criticism of the article concerns the fact that the analysis is an *ex-post* study. It is correctly pointed out that investors make *ex-ante* decisions and thus one has to be cautious in making conclusions about *ex-ante* behaviour on the basis of *ex-post* results. Indeed, we agree entirely with these views which is why we included a separate section in the article entitled '*Ex-post* vs *ex-ante* Arguments'. In this section we directly address the issues raised.

However, although agreeing with these sentiments in general we cannot agree that this problem renders the article worthless. If empirical studies, which are by necessity based on *ex-post* data, are to be considered valueless, one would have to conclude that highly respected journals such as the *Journal of Finance*, the *Journal of Financial and Quantitative Analysis*, the *Accounting Review*, the *Journal of Accounting Research*, etc. have had inferior academic standards over the past 25 years. Indeed, most of the major recent works in Finance have been empirical studies and one only needs to list the names of men such as Fama, Jensen, Roll, Beaver, and Sharpe to realize that empirically based research is universally accepted. The key of course is to find a consistent result. Therefore, in undertaking an analysis such as ours it is true that if only one period were examined, this would constitute a one-observation study. However, where several periods are independently examined and a consistent result is found, then surely this must provide some information which might cause investors to modify their current (*ex-ante*) behaviour.

In this article, what we attempted to show was that over all periods examined, on a risk-adjusted basis, krugerrands were never a desirable asset for SA investors to hold in their portfolios. If this was a well known and accepted fact then it is true that our study has no value. However, our belief based on the volume of sales in krugerrands over the periods examined is that this was not the case. As such we believe the results of the study may cause investors to adjust their *ex-ante* decisions. Surely that constitutes information and hence a contribution to knowledge.

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