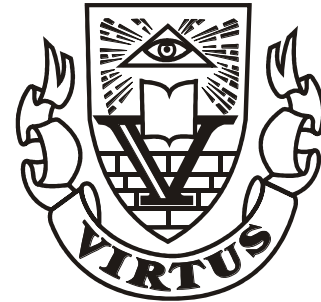


# RISK GOVERNANCE & CONTROL: Financial markets and institutions

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**APPLICATION OF MARKOWITZ MODEL IN ANALYZING RISK AND RETURN  
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*Manas Pandey*

In this paper the optimal portfolio formation using real life data subject to two different constraint sets is attempted. It is a theoretical framework for the analysis of risk return choices. Decisions are based on the concept of efficient portfolios. Markowitz portfolio analysis gives as output an efficient frontier on which each portfolio is the highest return earning portfolio for a specified level of risk. The investors can reduce their risks and can maximize their return from the investment, The Markowitz portfolio selections were obtained by solving the portfolio optimization problems to get maximum total returns, constrained by minimum allowable risk level. Investors can get lot of information knowledge about how to invest when to invest and why to invest in the particular portfolio. It basically calculates the standard deviation and returns for each of the feasible portfolios and identifies the efficient frontier, the boundary of the feasible portfolios of increasing returns.

**ECONOMIES OF DENSITY IN RAIL FREIGHT TRANSPORT: POTENTIAL FOR  
UTILISATION IN SOUTHERN AFRICA** - this paper was extracted 16

*W.J. Pienaar, A. de Bod, J.H. Havenga*

Road transport has replaced rail carriage as the dominant form of long-distance freight transport in Southern Africa. Road freight carriers can transport goods of various sizes and masses over long distances. This article highlights the significant cost-reduction opportunities possible through economies of density achievable in rail freight transport, especially over long distances, and the concomitant implications for increased profitability for railway organizations in Southern African countries. Traffic densification opportunities should focus on the development of transport corridors throughout the Southern African region.

**THE CONTINUOUS MARKET CYCLE OF THE SHORT-TERM INSURANCE  
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*L Essel, F J Mostert, J H Mostert*

The short-term insurance industry is a cyclical type of business due to the impact of the continuous market cycle. This cycle has a growth phase, soft market phase, hard market phase and a break-even phase. The objective of the research paper focuses on the improvement of financial decision-making

when executives of the short-term insurance industry are managing their business during the various phases of the continuous market cycle. Both a literature study and an empirical survey were necessary to achieve the research objective. The empirical survey included the contributions of the top nine commercial and corporate short-term insurers in South Africa. They represented more than 77% of the total gross written premiums in 2009 and can thus be considered as the leaders of the short-term insurance industry in this country. The conclusions of the study should be valuable to other developing countries with emerging market economies as South Africa is also classified as such. The study focused on the various factors which may cause the continuous market cycle, the problem areas which the executives experience concerning the continuous market cycle, and how often various factors are adjusted by the short-term insurers to account for changes in the continuous market cycle.

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**VENTURE CAPITAL AND RISK MANAGEMENT: EVIDENCE FROM INITIAL PUBLIC OFFERINGS** 30

*Charles E. Bamford, Edward B. Douthett, Jr.*

In this study we analyse a sample of initial public offerings (IPOs) to infer the sources of firm-specific risk associated with investment by venture capitalists. The results indicate that IPO backing by venture capitalists is associated with risk factors related to operating profit margins and on-going sales generation, but not operational financing. The results also indicate that venture-backed IPOs are associated with greater reductions in firm-specific risk over the course of a year that includes the date of the IPO. In sum, the findings suggest venture capitalists are willing to accept higher levels of uncertainty in those instances where they have an advantage in terms of managerial skill, and are able to reduce firm-specific risk subsequent to investment in order to maximize returns when they cash out. Our study also makes use of proxies that are representative of the ex-ante nature of firm-specific risk at the time of a new issue.

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*Annalieu de Vries, Pierre D. Erasmus, Willie D. Hamman, Nicolene Wesson*

This article reports on an investigation of whether the introduction of share repurchases in 1999 resulted in differences in the dividend payout ratios of South African listed firms. Dividend payout ratios for the two ten-year sub-periods preceding and following the introduction of share repurchases respectively are compared for a sample of repurchasing firms and all listed firms. The results indicate that dividend payout ratios were statistically significantly lower during the ten-year sub-period following the introduction of share repurchases than before. The payout ratios for those firms involved in specific share repurchases, however, were found not to differ significantly from payout ratios in general. Furthermore, the payout ratios of repurchasing firms did not change significantly during the two sub-periods.

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**FACTORS AFFECTING BANK GOVERNANCE IN MALAYSIA** 51

*Wan Masliza Wan Mohammad, Rapiyah Mohd Zaini, Haslina Hassan, Takunda Guest Charumbira*

Since the financial crisis in year 1997, banks in Malaysia had undergone various issues and transformations, including stricter regulation on merger and acquisitions and greater enforcement of corporate governance. Besides that, the institutions had also gone through the transformation in terms of the risk assessment practice due to the stricter rulings under Basel II regulations. Taking into account of these changes, this study empirically examines the effects of corporate governance, risk and capital on the performance of banks in Malaysia. Based on 132 firm-year samples for the period of 2004-2009, study indicates a significant and negative relationship between bank risks and performance. It further reveals that the risk weighted capital (RRWC) improves bank performance. However none of the corporate governance variables have any associations with banks performance. The detail explanations of the findings along with the suggestions for future research are provided in the full text of the reports.

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