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A Comparison of Equity Portfolio Returns between

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ABSTRACT

The purpose of the research is to assess whether the developing markets of the world provide the same return on equity investment as South Africa. Portfolio investments in these markets have increased from US$ 100 million in 1985 to US$ 47.9 billion in 2000. With globalisation and investors looking for lucrative investment opportunities to enhance their portfolio returns (Harvey, 1995b), the researcher compared the South African and Bulgarian stock market returns and their Sharpe ratios over the past five years (2003-2008), in order to provide some guidance for investors wishing to diversify their securities investment portfolios in emerging market economies.

The Sharpe ratio is one of the most widely used statistical measures in financial analysis and is an approach to evaluate the performance of a portfolio in a mean-variance framework. It is the ratio of the expected excess return of an investment to its expected volatility (standard deviation) (Hodges, Taylor & Yoder, 1997) and is useful because it is an indication of whether a portfolio's returns are due to smart investment allocations or merely a result of excess risk.

Portfolios were created with large and small cap stock, as well as value and growth stocks. The primary methodology employed was quantitative mathematical modelling, and the results of the research were explained using both descriptive and inferential statistics.

The research showed clearly that some benefit exists when investing in both the Bulgarian and the South African markets. The benefit seems to increase when an intelligent weighting system (Solver) is used to allocate the holding weights of the individual stocks included in the portfolios.

The comparison of whether an investment in both markets is strategically better than having money invested in the individual markets, based on a risk to return comparison (Sharpe ratio), indicates that there is no statistical significant difference other than the South African large cap and value styles. A combined portfolio

investment in these styles produced Sharpe ratios that were statistically significantly better indicating that the return per unit of risk taken was superior.

The research reveals that when funds are invested in both markets, according to the style mandates and a comparison made between Solver weighted and equal weighted portfolios, the Solver weighted portfolios render Sharpe ratios that are statistically significantly better in three of the four styles, thus indicating that the return per unit of risk taken is better following a Solver weighted approach.