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Beta

What is beta?

Beta measures the volatility or level of risk reflected in a security or portfolio relative to the overall market.

What is a high beta share or security?

Shares with a beta value of less than one have less volatility and are generally considered to carry less risk, whereas shares or securities with a high beta value are generally considered to be a lot more risky.

What is a beta coefficient?

It's a measure of how closely a security or stock follows a benchmark index.

How do investors interpret beta in rising and falling markets?

Since the benchmark beta value is always one, when a share has a beta value of 1,24 on average it is expected to increase 24% more than the benchmark in rising markets. And when markets fall it is expected to fall by 24% in declining markets on average.

How does a low beta stock perform relative to the overall market?

Low beta stocks underperform the benchmark indices during rising markets, but when markets fall the stock tends to hold up a lot better.

What is the weakness of using beta as a tool?

It is not always an accurate predictor of the future.

Lindo Xulu

Source: stocks.about.com; ehow.com; FM research

ENTREPRENEUR

Talent for finance

It all started for Masimo-a-badimo Magerman, MD and cofounder of Mergence Investment Managers, in 1990, when, aged 20, he got a scholarship to attend Kean University in New Jersey. After completing a management science degree, majoring in finance, he landed a job on Wall Street as a financial data analyst for Thomson Financial Group.

"I worked for three years on Wall Street before pursuing an MBA in finance, which I self-funded at Rutgers University," says the Soweto-born Magerman. This was followed by a year in London, working for Merrill Lynch on the convertible bonds desk.

He returned to SA in 2000 to run the equity derivative book of Gensec Bank (now Sanlam's Capital Market). But the thrill of trading derivatives began to wane, and three years later he moved into asset management, known in the industry as the mature man's enclave, to run an absolute return fund.



The desire to start his own business soon took hold and in 2004 he and a few partners started Mergence. It hasn't been easy. "The asset management fraternity in SA is a fairly tight and loyal community, and attracting good talent and assets through expensive marketing campaigns is the hurdle that small players need to overcome."

Making a profit while addressing social needs is the ethos Magerman lives by. As the largest private donor of the Brave Foundation, which works in the Gugulethu/Nyanga area, helping people with HIV/Aids, Magerman

believes in making a difference. He has also pioneered the Mergence internship programme for previously disadvantaged students.

By following a pragmatic investment style while recognising the cyclical nature of financial markets, Magerman hopes that Mergence, which now manages R15bn, will grow to handle R25bn-R50bn in assets under management in the next 10-15 years.

Lindo Xulu

QUOTE OF THE WEEK

"After having repeatedly examined my conscience before God, I have come to the certainty that my strengths, due to an advanced age, are no longer suited to an adequate exercise of the Petrine ministry"

— POPE BENEDICT XVI
announcing his intention to resign on February 28, making him the first pontiff to step down voluntarily since 1294