ß – BETA

Do you find the ßeta factor useful?

Little has been written about it. Its definition according to *How to use REFS* page 63 is:-

"The Beta factor which indicates how rapidly and consistently a company's share moves up and down with the market. The market's Beta coefficient is one, shares with a Beta larger than one are more volatile than the market and shares with a Beta of under one less risky."

What is the connection between volatility and risk?

Negative values of ß mean that companies are totally contrarian to the market and possibly candidates for Hedge Funds!

The *Financial Mail on Sunday* has been running a High ß portfolio and a Low ß portfolio for the last twelve months. The regular *Midas* feature set up its two portfolios by selecting the five highest ßs in the FTSE250 (all over 2) with the five lowest (all less than 0.36).

The FTSE250 index lost 23.6% from November 01 to November 02. The high ßs fell 71% and the low ßs 31%. The high ßs were – Mysis, Autonomy, Colt Telecom, Telewest & Energis. The low ßs – W.S. Atkins, South Staffordshire, Geest, Taylor & Francis & Derwent Valley.

Midas's conclusion is that if you believe the market will rally, you choose high ß FTSE100 companies to reduce the risk.

According to David Dreman in *Contrarian Investment Strategies* ß appeared to have its day in the 1980s in the States:-
"The impact of beta went far beyond the market itself. The Capital Asset Pricing Model had long been used by corporate managers to determine the attractiveness of new ventures. Because the accepted wisdom holds that companies with higher betas must pay commensurately higher returns, chief financial officers of high beta companies might be loath to invest in new plants unless they feel they can earn the extra dollop of return.
{1983} …evidence mounted that beta had no value as a predictor of stock prices. Though the economic fundamentalists attempted to rationalise away their existence for almost three decades, these exasperating methods just did not have the good manners to disappear. That contrarian strategies worked and beta did not was a death knell for efficient markets."

Dan Oakey, Associate Editor of the *Investors Chronicle* wrote in the issue for 6 December 2002:-
"When you look at the other sectors that have gained since early September (software, media, pharmas and life insurance), it's clear we're watching a beta bounce….We would expect them to do well as optimism returns and markets rise. The puzzle is that markets have scarcely risen since September, yet high-beta sectors have trounced the low-beta dependables."

Christopher Pratt of our Technical Analysis comments:-
"I would not say that ß has no significance, but on the whole I had supposed it not to be very relevant except for fund managers and investors with very many shares. Standard deviation measures volatility relative not to the market, as ß does, but to the share itself and is more likely to be used by TA people. In fact I am currently using it on some of the indices. From a practical point of view, unless ß is up to date it can be misleading where a company has changed and the ß value has been slow to recognise it. For short term traders volatility of an individual security is extremely important and there is an enormous amount of analysis of the subject and a wide range of volatility indicators are used."

Your observations and comments?