Review of:

***The influence of volatility spill-overs and market beta on portfolio construction***

This study aims to contribute to Modern Portfolio Theory (MPT) by providing an additional measure to market beta in the construction of a more efficient investment portfolio. The additional measure analyses the volatility spill-over effects between stocks within the same portfolio. The authors demonstrate that when a particular stock attracts fewer volatility spill-over effects from the other stocks in the portfolio, the overall portfolio volatility also decreases. The construct of a more efficient risk adjusted portfolio, requires a portfolio perfectly correlated with the market (beta-based), and stocks that showcase the least amount of volatility spill-over effects among each other.

There are not many studies which examine the impact of volatility spillovers, so this article is timely, relevant and interesting. The article is of a very high standard: tables are relevant (well-labelled, clear), the appendix and endnotes contain good background information and the references are largely Harvard style. The explanatory arguments are cogent and explanations provided are thoughtful and clear.

There are, however, a few minor issues which should be addressed – these are detailed below.

SAJEMS requirements:

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| --- | --- |
| 1.     Is the research question clear and concise? | Yes |
| 2.     Is the research method appropriate to address the research question? | Yes |
| 3.     Essentially, is this article suitable for publication in an ISI accredited journal?  | Yes |
| Please, elaborate by providing feedback on the following points. a.     If it is not suitable, are the necessary adjustments extensive or minor?  What are those adjustments? | I recommend publication after the corrections outlines below have been addressed |
| b.     If so, do you have any suggestions for improvement or shortening?  What are those suggestions? | No, the article is a good length – not too long and not too short as to omit relevant material |

**General comments**

* There are some grammatical and other 'finishing' errors (tabulated below) which could have been avoided by a simple, but careful, proofreading.
* Reference has not been made to the (relevant) article by Beirne et al [Beirne J, Caporale, G. M., Schulze-Ghattas, M. and Spagnolo, N. 2013. Volatility Spillovers and Contagion from Mature to Emerging Stock Markets, *Review of International Economics*, 21(5), 1060-1075]. I believe this article – although 5 years old now – remains a flagship article for volatility spillover effects and I believe it would be good to reference it.

**Technical**

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| --- | --- |
| **Position** | **Issue** |
| 1/3 of the way down page 3 | "Past four decades" – this must be contextualised. *Which* past 4 decades? |
| All footnotes in text | Footnote marks appear *after* punctuation |
| Equation 2, bottom page 5 | I think the "alt" may be a typo. If not, it has not [but should be] defined |
| Equation 3 – page 6 | Not all variables defined (e.g. $a\_{2}$) – $a\_{2} $ is the intercept and is never defined in journal articles  |
| Equation 4 | $δ$ not defined, $γ$ not defined |
| Page 7 – "Data" section | Annoying reference to *data* as a singular noun. Data means number**S** – plural – so "the data used in this study consist of …" and "the data for each of these stocks span a period…" |
| All tables after Table 1 – starting with Table 2 p9 | Too many decimal points for kurtosis, 2 would suffice. This is not a mere pedantic comment – it is difficult to extract relevant information from the data if they are cluttered with irrelevant and unnecessary decimal place accuracy (which is at best spurious in any case). A kurtosis of 5.1929 tells the reader NOTHING more than a reported kurtosis of 5.2.The same applies to the skewness – and the number of decimal points used is inconsistent in Table 2 anyway (sometimes 3 sometimes 4 decimal places). All but one are unnecessaryAnd the same applies to beta in Table 3 – a beta of 0.7005 conveys no more (useful) information than a reported beta of 0.70. |

**Issue 1**

1/3 of the way down page 3 "Past four decades" – this must be contextualised. Which past 4 decades?

**Reply**

We agree with reviewer A. This is ambiguous and it was changed to “*a theory feverously debated in the literature since the early 1970s*”

**Issue 2**

Footnote marks appear after punctuation

**Reply**

This was changed as requested by reviewer A.

**Issue 3**

Equation 2, bottom page 5. I think the "alt" may be a typo. If not, it has not [but should be] defined.

**Reply**

Alt was defined as requested by reviewer A: “*the AS model, the alternative stock returns (AltS) in a given portfolio is specified as*...”

**Issue 4**

Equation 3 – page 6. Not all variables defined (e.g. $a\_{2}$). Equation 4 $δ$ not defined, $γ$ not defined

**Reply**

 $a\_{2} $ is the intercept and is never defined in journal articles. We refrained from defining it also. We did however define the other undefined variables in order to satisfy reviewer A’s underlying concern.

**Issue 5**

Page 7 – "Data" section. Annoying reference to *data* as a singular noun. Data means number**S** – plural – so "the data used in this study consist of …" and "the data for each of these stocks span a period…"

**Reply**

Reviewer A is off course correct. This was fixed.

**Issue 6**

All tables after Table 1 – starting with Table 2 p9. Too many decimal points for kurtosis, 2 would suffice. This is not a mere pedantic comment – it is difficult to extract relevant information from the data if they are cluttered with irrelevant and unnecessary decimal place accuracy (which is at best spurious in any case). A kurtosis of 5.1929 tells the reader NOTHING more than a reported kurtosis of 5.2.

The same applies to the skewness – and the number of decimal points used is inconsistent in Table 2 anyway (sometimes 3 sometimes 4 decimal places). All but one are unnecessary, and the same applies to beta in Table 3 – a beta of 0.7005 conveys no more (useful) information than a reported beta of 0.70.

**Reply**

Reviewer A is correct. This was fairly messy and it was fixed.

**Reference Issue**

Reference has not been made to the (relevant) article by Beirne et al [Beirne J, Caporale, G. M., Schulze-Ghattas, M. and Spagnolo, N. 2013. Volatility Spillovers and Contagion from Mature to Emerging Stock Markets, *Review of International Economics*, 21(5), 1060-1075]. I believe this article – although 5 years old now – remains a flagship article for volatility spillover effects and I believe it would be good to reference it.

**Reply**

We included this source.