**I have a confession to make. In recent years I have steadily departed from the investment rules that I outlined I some of my earlier books…but with sound reasons which I shall now explain.**

One of my early studies indicated that if you really wanted to achieve the highest possible capital growth rate in the share market you should limit your portfolio to no more than seven high-performance companies. It was a correct view for a young investor to hold, but as I grew into middle age and my wealth grew apace I realized that the risks involved in such a small spread probably outweighed many of the advantages…and so I modified my ideal portfolio to number no more than 12 shares.
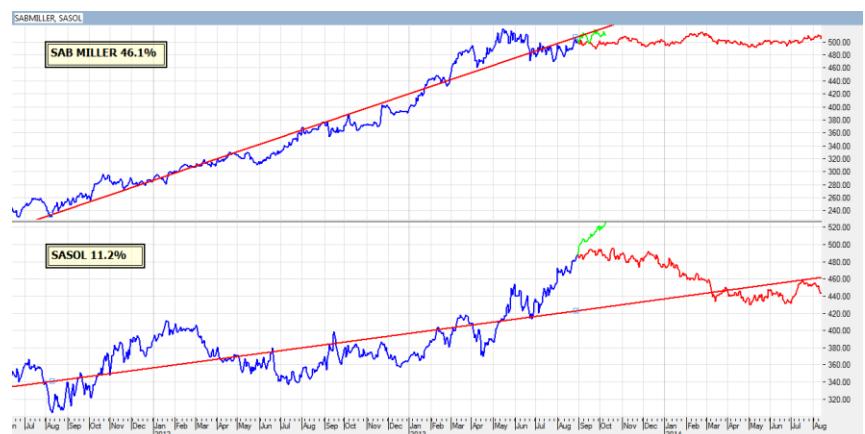
And here I am on the wrong side of 70 with 16 shares in my portfolio and prepared to add one or two more if they move into my price range. The reasoning behind this is two-fold. One is I am not happy to pay the capital gains tax that is involved if I completely dispose of some of the slight underperformers in my portfolio. The other, probably dominating, argument is that as one grows older and wealthier the overwhelming desire is for greater security in return for which one is prepared to accept a somewhat lower growth rate.

The result of this caution is that whereas the 2011 Prospects Portfolio which I constantly monitor in this and in my Prospects column is currently growing at a compound annual average rate of 29.1% ( having come down from 32.1% in the recently slowing market) while my personal portfolio is only achieving 26.3% having come down from a recent average of 26.9%

Part of my reasoning for writing about this is to highlight that one of the shares I have in my sights is SAB Miller which over the past decade has achieved a compound annual average dividend growth rate of 13.87% and earnings growth of 13.79% which have together translated into a compound annual average share price growth rate of 24.92%.

Now the fact is that the SAB Miller share price has outperformed its earnings either because it was formerly undervalued or, more probably, because it is one of those "must have" inclusions in most pension and "widows and orphans" trusts; a cachet that it has earned because of over a century of solid performance, its worldwide spread of investments and, probably, the perception that even in the toughest of times people will still find money to spend on beer. But in the long term, no share can consistently outperform its earnings growth rate without becoming massively

overpriced. So at some stage one would expect SAB to slow down in order to get back into line with the growth rates of its peers.

So, using my own measures of fundamental value, I find that Sasol which must surely rank up there with SAB for its steady long-term earnings growth record and so forth, is today 35% undervalued while SAB is 33% overvalued. Furthermore,

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remembering SAB's dividend growth rate of 13.87% and noting that Sasol's dividends have been growing at compound 19.5% from earnings that have been rising at an incredible 66.2%, if you study my graph composite you will note that over the past three years the price trajectories of the two companies has borne no comparison with their underlying performance.

Now study the graph comparison and note that not only has the Sasol share price way underperformed SAB, ShareFinder's Fourier projection system suggests that in October in keeping with a worldwide share price decline that I have long been forecasting, Sasol will be mauled while SAB is likely to suffer only a modest setback . Perhaps my second graph on the right projecting what is likely to happen to the price of crude oil in the next few months, might explain some of the public attitude to Sasol…but only some – a rush up from a current 116 dollars to 136 dollars a barrel by Christmas before tumbling all the way back to 105 dollars by next July.

In this instance I truly hope that ShareFinder is not forecasting an invasion of Syria?

# The month ahead:

**New York's SP500:** I correctly predicted a decline which I predicted would extend until August 27 after which I expected a recovery to begin. It began as prediced and I expect it to continue throughout September.

**London's Footsie:** I correctly predicted a decline which I saw lasting until September 2. Now I see a recovery beginning on September 3 and lasting most of September.

**JSE Industrial Index:** I correctly predicted a decline which I expected will be over by August 29 followed by a brief recovery until September 4. The recovery has begun and I continue to expect it to be over by the 4th with a decline then lasting until the 17th.

**Top40 Index**: I correctly predicted that the recovery would be over by the 27th and I expect the current decline to continue until September 16.

**ShareFinder Blue Chip Index:** I correctly predicted declines lasting well into September. Now I see a brief uptick beginning today but it is likely to be over by Tuesday followed by a decline until the 11th before a new recovery begins.

**The Rand:** I correctly predicted further weakness which I now expect to last until September 9.

**Golds:** I correctly predicted weakness which I expected to last well into September. Now I foresee a brief recovery starting about September 12 but only lasting until the 19th.

**Bonds:** I correctly predicted declines which I now expect to continue until late September.

*The Predicts accuracy rate on a running average basis over the past 486 weeks has been 81.99%.*

**Richard Cluver**

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