Richard Cluver Predicts

In our 26th year of service to the investing public of South Africa

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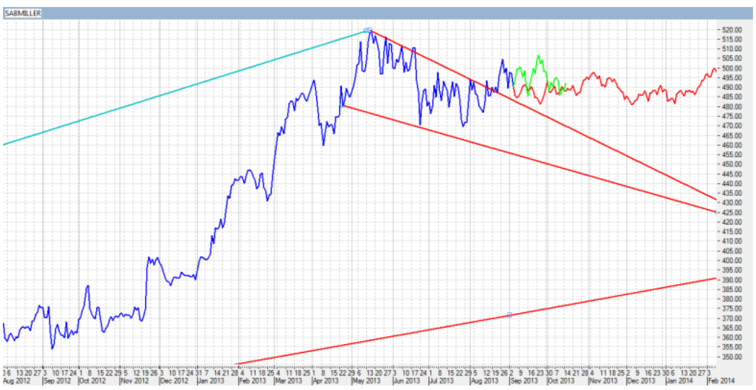
Whenever I write about investment theory, I seem to tread on a few corns. So my argument last Friday that the SAB Miller share price has way outperformed its underlying earnings growth touched a few readers who have significant holdings in the company.
I accordingly decided to take a closer look this week.

Hopefully my graph tells the whole story. The light green line depicts the growth rate of SAB Miller corporate earnings over the past five years at 13.8% compound. Note that until mid 2011 the share price graph used this earnings growth line as a supporting trend while the red trend line depicting the dividend growth rate of 19.5% compound posed an upper limit to the share price trend until February last year when investors got the bit between their teeth and drove the share price up into the stratosphere. Thus, when the price peaked at R524.96 in mid-May, the upper limit of the red dividend line was standing at R360 which suggested that at that point the shares were 46% overpriced.

Since then, as my second graph illustrates, the share price has attempted to return to reality. But it has a very long way to go. The familiar pennant formation which was developing until recently suggested that a correction was under way. But then the price broke upward and, as the red Fourier projection suggests, it seems likely that it will for the foreseeable future move



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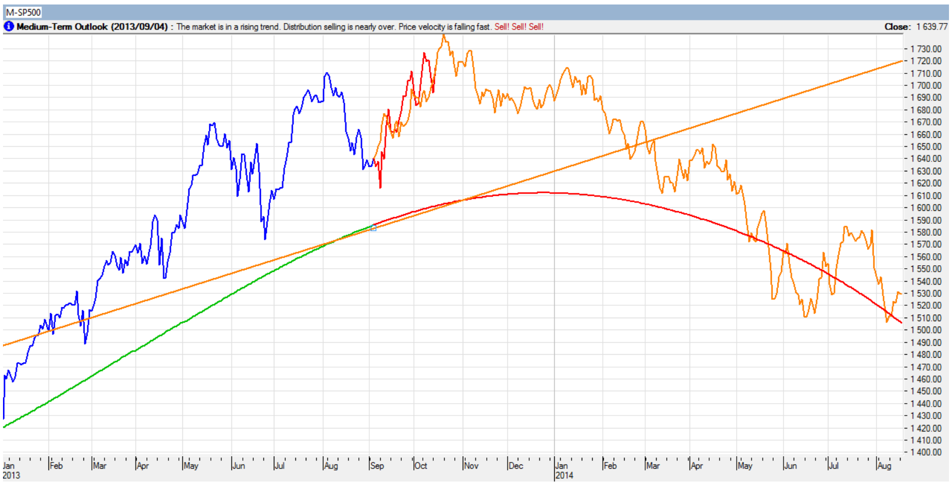
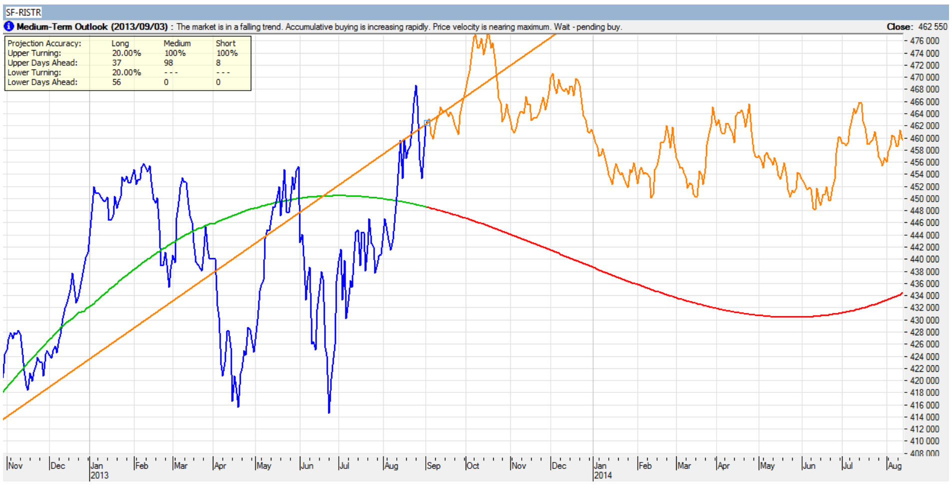
sideways from here at least until the end of the year.

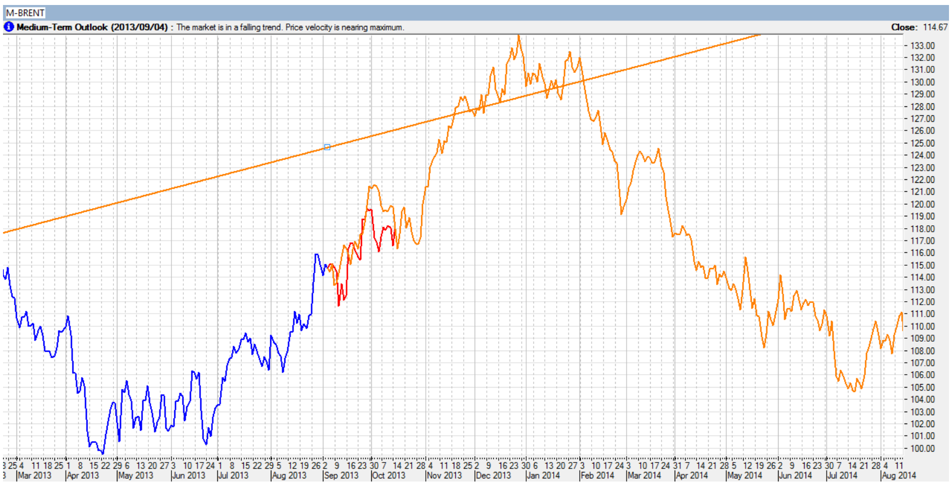




What could change that outlook, however, is the growing probability of a Wall Street correction such as ShareFinder has been projecting for many months as highlighted in my composite on the right. If ShareFinder is correct…and it has been consistent in this projection of a downward surge beginning on Monday, October 21 which it currently sees as likely to last 11 months ending on September 10 next year. Note that ShareFinder currently suggests that this correction will be approximately 15% which places it in the order of a "correction" rather than a market crash. However, as most seasoned South African investors well understand, when Wall Street sneezes the JSE usually gets a mild dose of pneumonia.

Now it seems unlikely that our Blue Chips category of ultra investment grade shares will be unduly troubled by this pending event, but our riskier "Rising Stars" category will be. My second projection on this page tracks what is likely to happen to them. Here we project a possible 6% decline between October 17 and June 11.

Could this be associated with events in Syria? Well, my last graph deals with what has been happening to the price of crude oil as measured by the price of Brent North Sea oil. From a low of $99.47 in April it has already risen 16.5% to a current $115.86 and ShareFinder's Fourier system suggests that on a cumulative cycle basis that a peak price of $133.79 is a probability by Christmas, following which a return to normal by next July seems likely. As every motorist knows to their cost, each successive Middle-Eastern military event has cost them dearly at the petrol pump so the oil projections give us some potential feel of what could be in store.



I will be on holiday in the Caribbean when these events unfold and so I

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stress that for those of you who closely follow my “Prospects Portfolio” recommendations, what we appear to be looking at is simply a local opportunity for some selective buying early in the new year and, for now, a warning to get out of any questionable holdings you might have. My Prospects newsletter will be out next week with some detail about which JSE shares appear likely to take the greatest strain.

The month ahead:

New York’s SP500: I correctly predicted the start of a recovery that should take Wall Street through to October 18 before a substantial correction appears likely.

London’s Footsie: I correctly predicted a recovery. However while I initially saw this lasting most of September, I now expect a decline today and all of next week before a recovery trend begins…until late October.

JSE Industrial Index: I correctly predicted that the recovery would be over by September 4 and I continue to predict that it will continue down until September 17 when a recovery will begin lasting until mid-October..

Top40 Index: I correctly predicted the beginning of the current decline and expect it to to continue until September 30.

ShareFinder Blue Chip Index: I correctly predicted a brief recovery which I believe is now over and I expect a decline lasting until September 16 before a new recovery begins.

The Rand: I was a bit premature in predicted further weakness, but I still anticipate it beginning either today or Monday followed by a recovery beginning on Wednesday.

Golds: I correctly predicted weakness which I expected to last well into September. Now I am advancing my recovery date to today and expect a bumpy uphill ride until early October.

Bonds: I correctly predicted declines. Now I expect a mild recovery until Wednesday followed by an overall weakening trend until October 11 with a brief recovery between September 9 and 16 and another between September 19 and 27.

The Predicts accuracy rate on a running average basis over the past 487 weeks has been 82.02%.

Richard Cluver