Richard Cluver Predicts

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

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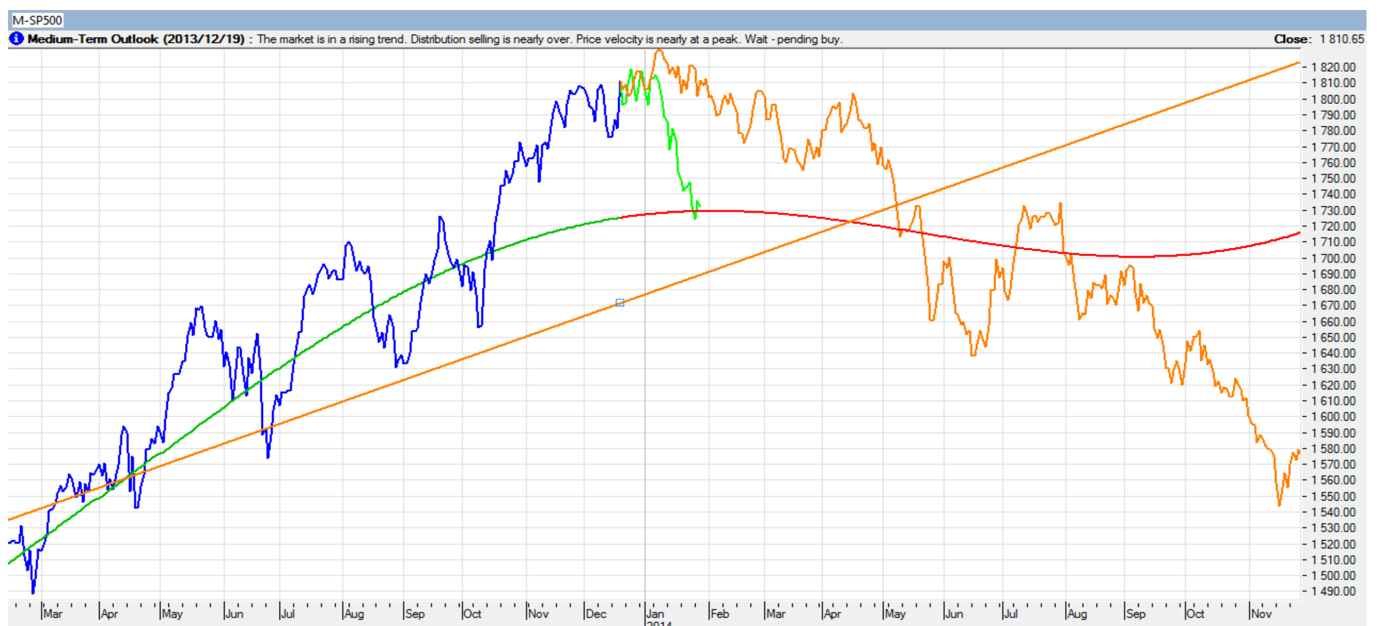
The good news about the Taper – the US Federal Reserve's long-dreaded winding down of its programme of "Quantative Easing" – is that it will not be as dramatic so many investors worldwide have feared.

While few economists realistically imagined that Quantative Easing would be abruptly halted, it was the sheer fact of not knowing what the tapering rate would be that has caused the market to periodically get the jitters. Now we know that $85 billion a month asset purchase programme will be scaled back to $75-billion next month.

Furthermore, since the onset of the "Taper" was also interpreted as the probable signal that official US interest rates would begin to rise, this week's announcement by the Fed has also capped that issue. Until Wednesday, the FOMC had promised not to raise rates until unemployment had fallen below 6.5 per cent. Now it is undertaking to keep rates low until "well past" this threshold.

Markets have accordingly pronounced their delight in their customary way by turning decidedly bullish in the short-term. But readers should not allow this momentary froth to take their eyes off the ball. The fact is that markets worldwide are very expensive and have begun a very necessary downward correction that on average should cost them around 15% of their capital value in the medium term. The effect of this week's new-found optimism upon Wall Street's widest measure of market performance, the Standard and Poors 500 Index can be seen in ShareFinder's projection graph below. The index made a new high for the year last night and ShareFinder projects that it will make an even higher final peak just before Christmas before resuming the declining trend that has been apparent for the past few days. Both the short-term projection which is depicted in light green and the medium-term projection see the future trend as downward.



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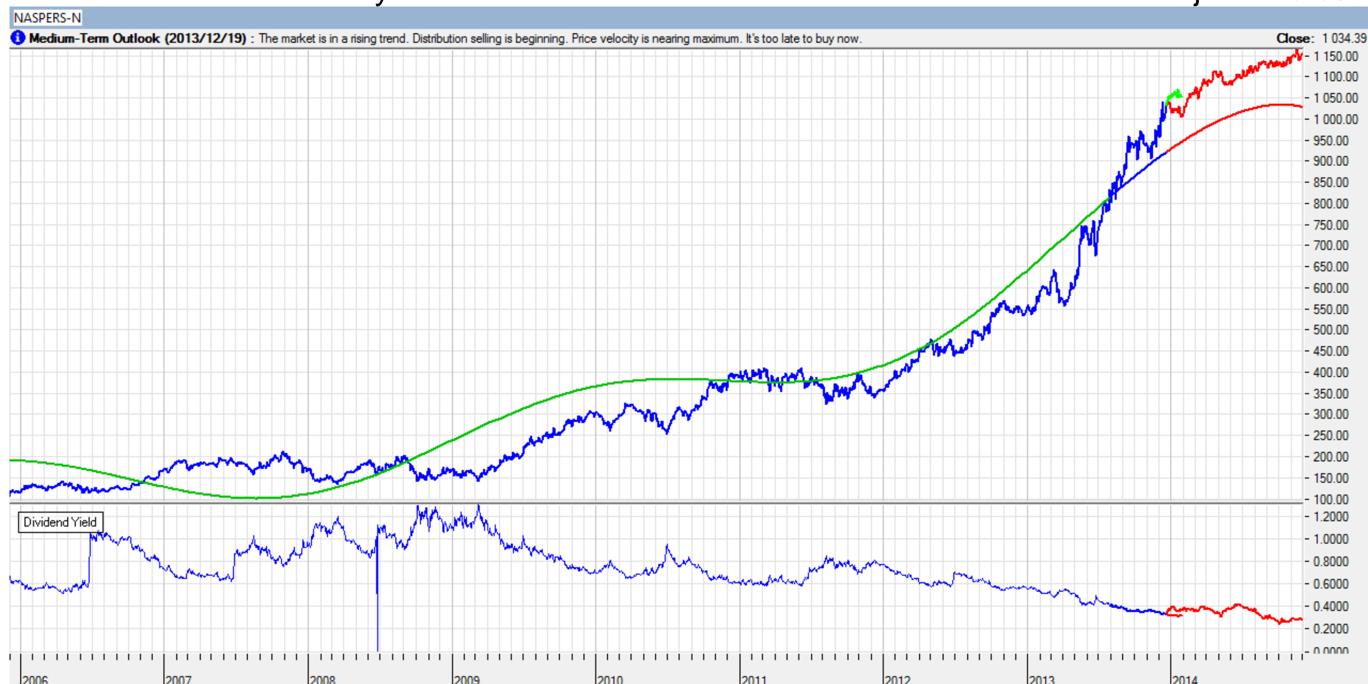
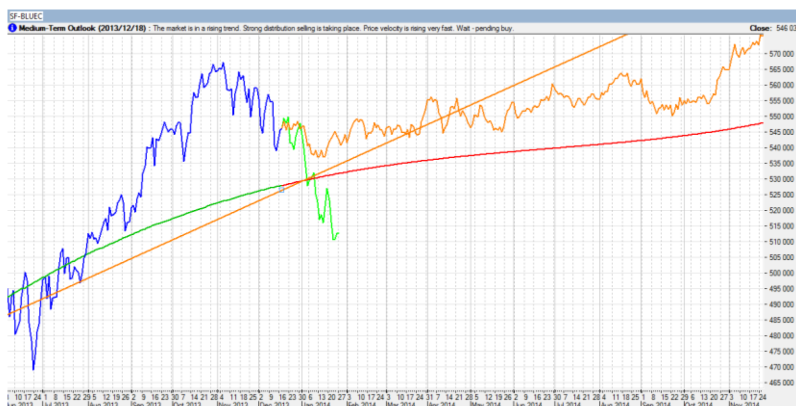
Now here a word about the Fourier projection system. Maths purists understand that Fourier mathematics are exponentially loaded. In simple terms that means that the latest data under analysis has a disproportionally high influence over the slope and trend of graphs drawn from these calculations which is why one sometimes sees a sharp downward projection gradually dissipating into a moderate one and vice versa.

However there can be no escaping the fact that share prices have become exceptionally high. To illustrate the point let us consider one of the current Blue Chip market darlings, Naspers whose price represents a classic example of how, towards the end of a bull market, share prices tend to rise exponentially. In just the past year this share has doubled in price and with that event its dividend yield has sunk to an all time low of just 0.3%.



Disregard the downward spike in mid 2008 which is a simple data error, and you can see that at the height of the 2007 bull market the Naspers dividend yield was 0.627%. So at a current 0.3237% this share is now twice as expensive as it was at its most expensive point in its prior history. I could put up dozens of similar graphs, but if you simply note that the average Blue Chip dividend yield is at 2.9% currently as low as it has been in an extremely long time.

Meanwhile corporate earnings growth rates have been slowing along with the general economic malaise. Over the past five years the compound annual average dividend growth rate of all investment grade shares was 33.01% but in the past 12 months that rate has slowed to 14.28% and dividend growth rates have similarly halved making it quite clear that for the foreseeable future corporate earnings growth rates are unlikely to catch up with the growth rate of share prices. Inevitably then, the very best that investors can hope for in the new year will be a sideways trend of share prices and that is precisely what ShareFinder predicts for the Blue Chips. If you consider my final graph projection on the right you



will see that from a peak value on November 5, Blue Chips are unlikely to equal that level again much before November next year.

The month ahead:

New York's SP500: I correctly predicted a brief recovery which I see lasting until Christmas with sideways volatility until the first week of January before a serious slide begins.

London's Footsie: I correctly predicted a brief recovery until the first week of January and I continue to see that with a decline beginning on January 3.

JSE Industrial Index: I correctly predicted another brief recovery which is now over and I expect it to be a volatile downhill path from here with each subsequent peak a little lower than the last.

Top40 Index: I wrongly predicted declines until the end of the year. Now I expect the index to peak today and head down from there with a brief surge upwards in the first week of January..

ShareFinder Blue Chip Index: I correctly predicted declines which I expect will be the trend until mid-January. Each interim recovery will be brief and lower than the last.

The Rand: I wrongly predicted a brief recovery but I continue to anticipate one lasting until the end of the year before the next bout of weakness begins.

Golds: I wrongly predicted an end to the decline. Nevertheless I continue to expect a recovery until mid-January.

Bonds: I correctly predicted the continuation of a recovery which I now expect to last until mid-January.

The Predicts accuracy rate on a running average basis over the past 485 weeks has been 82.11%. For the past 12 months it has been 90.26%.

May we at RCIS wish you a blessed Christmas and a happy New Year. The next Predicts column will appear on January 3

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