Richard Cluver Predicts

In our 27th year of service to the investing public of South Africa

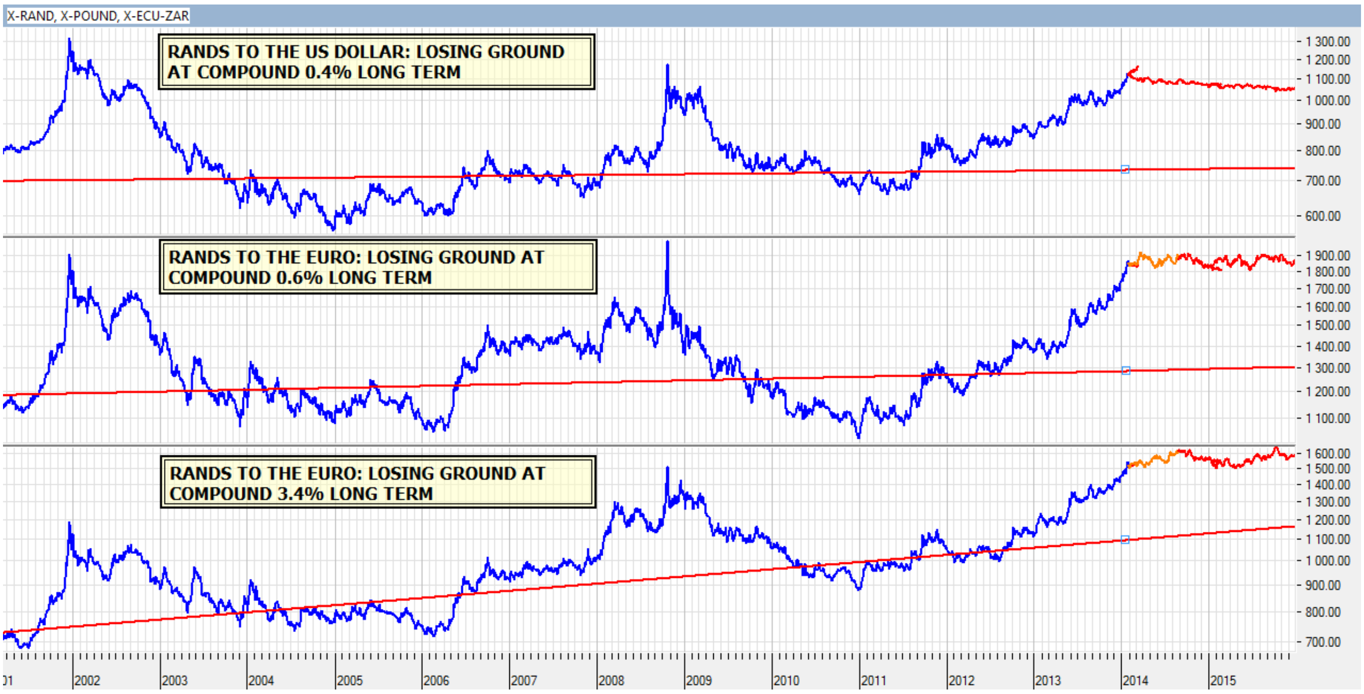
Volume: 27
Issue: 4

03 February 2014

It has been a bad January for South Africans who, on top of having to meet the Christmas bills, have faced soaring fuel bills and, now, an interest hike that will hit everyone who owes money.

It is all, of course, due to the weakening trend of the Rand which is, in turn, a consequence of a retreat by investors away from investments in the “Developing World.” So the only passing comfort at this time is the fact that we are not alone. Australians, Argentineans, Turks, Russians and a host of other nations are similarly seeing their currencies collapsing as foreign investors run for cover.

And of course, when panic starts to take over in the marketplace, we tend to get exaggerated movements which cause a lot of people to feel unnecessarily pessimistic; convinced that South Africa is going to Hell in a bucket and blaming it all on Jacob Zuma and Julius Malema. So, while the two have much to answer for with regard to overseas perceptions of this country, it is comforting to turn to the graphs to get a long-term perspective.

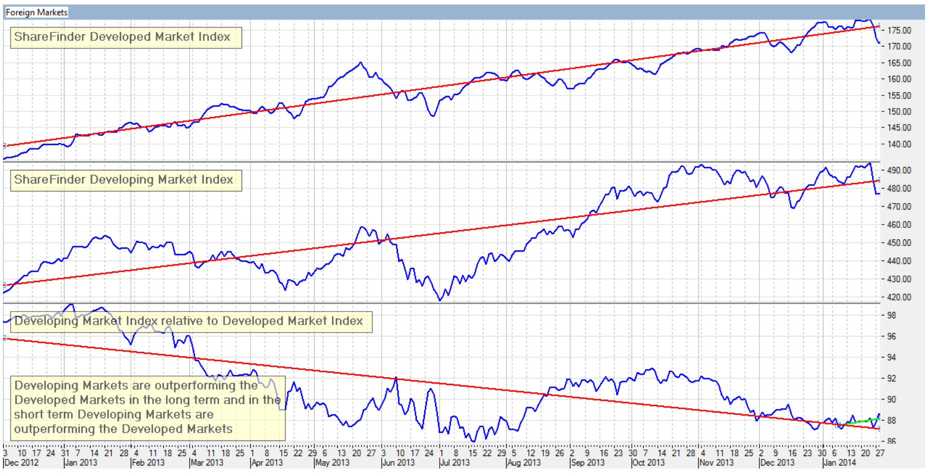


Let’s start with the US Dollar noting that at its present rate the Rand has been losing ground at a compound annual average rate of 22 percent which, if it continues will see our exchange rate climbing from a low of R6.5 to the dollar in January 2011 to a high of R13.5 by January next year. But do note the regular boom and bust cycle of our currency which has taken us to similar peaks twice in the past 12 years. Note also the Fourier cycle projection which suggests that it is likely to be downhill from here in respect of the Dollar.

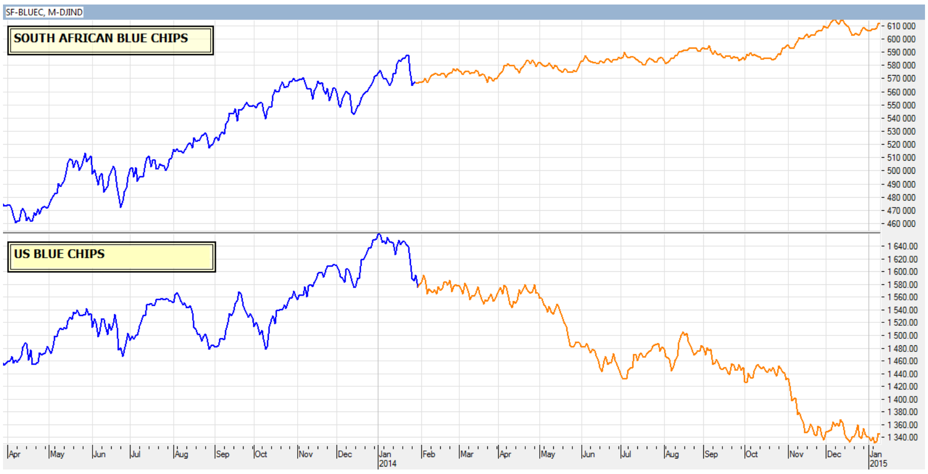
The red trend line through each of my three graphs represents the mean of the period and in terms of that, in the long term the Rand has only been losing 0.4% against the dollar and 0.6%

against the British Pound. Our worst performance over time has, surprisingly, been against the Euro against which the Rand has lost at a compound annual average rate of 3.4%.

Now of course these things do not happen in isolation. As the graph composite on the right illustrates, share markets of the “Developed World” has been growing at 22.6% compound over the past year while “Developing Markets” have been gaining at a lesser 11.7% and both have in the past ten days taken a knock. However, as the extremely modest green trend line at the extreme right of the bottom graph illustrates, Developing Country markets have fared marginally better during the latest crisis.



Furthermore, as my final graph composite suggests….and as I have been advising readers since the middle of last year…..the probability is that investors who have opted to hold their money in ShareFinder-defined Blue Chip South African shares, are likely to fare far better that those who have gone for the US equivalent.



The month ahead:

New York’s SP500: I wrongly predicted a recovery. Nevertheless I continue to expect marginal gains until the third week of February.

London’s Footsie: The delayed decline I had been predicting for a fortnight came through this week and I expect it to continue for another week before the turnaround comes.

JSE Industrial Index: I correctly predicted weakness. Now I expect a recovery lasting most of February.

Top40 Index: I correctly predicted a decline. Now I expect a sideways to modestly recovering week.

ShareFinder Blue Chip Index: I correctly predicted a bottoming out. Now I expect the market to go sideways and possibly even improve slightly.

The Rand: I correctly predicted the end of the brief recovery phase and now I foresee weakness today and Monday followed by a sideways trend. Nevertheless I expect us to end February slightly weaker than present.

Golds: I correctly predicted that this week would see the end of the recovery. Now I see a declining trend throughout February.

Bonds: I correctly predicted weakness which I expect to continue for most of the month with a brief recovery starting around February 14.

The Predicts accuracy rate on a running average basis over the past 489 weeks has been 82.13%. For the past 12 months it has been 89.77%.

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