



Richard Cluver Predicts

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



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AS I predicted last week in this column, Blue Chips have staged a consolidation and are confounding the prophets of doom as they now head for new highs....though you should be prepared for a little weakness in the new week!

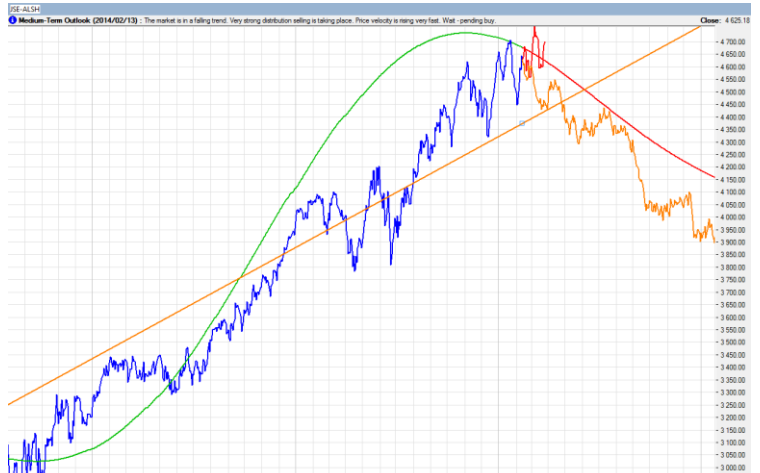
As I have constantly hammered home for months now, this market is all about quality to which the smart money has increasingly graduated. In an uncertain world of shaky economics and regulatory authorities who have shown poor leadership, it is completely understandable that investors have increasingly shied away from risk. That point is resoundingly confirmed by my second graph which, in stark contrast to the first, shows the JSE All Share Index headed steadily downwards for the whole of 2014.

In other times the flight towards quality would have seen a movement toward bonds, the money market and, as a last resort, to gold and precious metals. But these are not normal times and, though the Developed World continues to fear deflation, the Developing World is gripped by strongly-rising inflation against which risk the latter securities offer no protection whatsoever. Furthermore, since the SA Reserve Bank, in keeping with those of other Developing Nations, has already begun raising interest rates in a bid to curb inflationary pressures, bonds are the last place one would want to have one's money for the foreseeable future – particularly since the world is beginning to move upwards in a long cycle from the lowest interest rates in living memory.

Meanwhile, as I reported in the latest Prospects, the flight towards developed

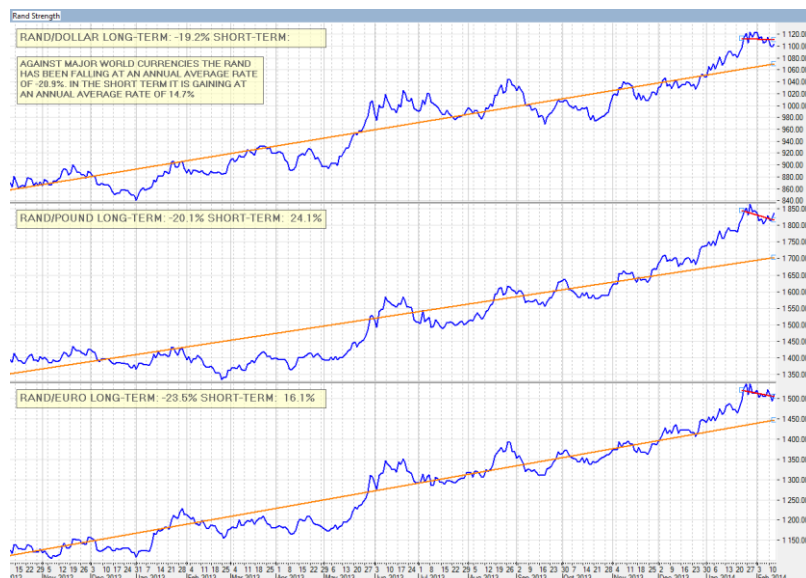


that investors have increasingly shied away from



markets was overdone and the consequent correction continues apace as illustrated by my third graph – at a compound annual rate of 9.9% since late December. But for now the gains might be over.

Furthermore, the overdone Rand depreciation continues to undo as illustrated by the graph composite on the right. Against the US\$, the Pound and the Euro together the Rand is gaining at a compound annual average rate of 14.7% and here again the gains might be over for the time being.



The month ahead:

New York's SP500: I correctly predicted the beginning of marginal gains which I expected to continue erratically until the third week of February before the next downturn began. But perhaps I was a little too optimistic for I now see the downturn beginning today and accelerating next week.

London's Footsie: I correctly predicted a recovery and it should continue until February 20 followed by a brief decline and then further recovery until March 14.

JSE Industrial Index: I correctly predicted a recovery lasting into early March.

Top40 Index: I correctly predicted a continuation of the recovery. However I see it ending in the new week with a down-turn lasting until the end of the month.

ShareFinder Blue Chip Index: I correctly predicted an erratic recovery for the rest of the month. And now for the erratic part as Blue Chips weaken again until approximately February 26 before the next recovery.

The Rand: I correctly predicted the recovery would continue until now before the next bout of weakness. And now that weakness is set to begin lasting until the end of the month.

Golds: I correctly predicted the end of the recovery. Now I see a declining trend throughout February and well into March.

Bonds: I correctly predicted a recovery that would last until now. Now I see weakness beginning Monday and lasting until the end of the month.

The Predicts accuracy rate on a running average basis over the past 491 weeks has been 82.2%. For the past 12 months it has been 89.77%.

Richard Cluver