



Richard Cluver Predicts

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



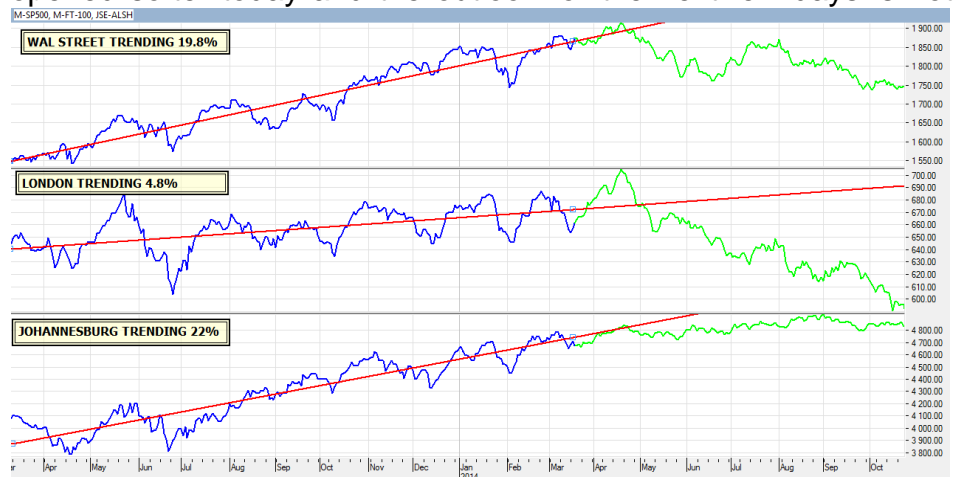
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A comment from new US Federal Reserve Chairman Janet Yellen yesterday that the timeframe for increasing rates once the asset purchase programme was wound down was of “the order of around six months” shook US markets yesterday because this would appear to signify that there could be an interest rate increase early next year.

Earlier she had, as expected, announced a further \$10-billion reduction in the monthly asset repurchase programme which will, of course, lead to further pressure on South Africa and the Developing World as a whole which have borne the brunt of this economic cold turkey. Not surprisingly then the market opened softer today and the outlook for the next few days is not promising. However, if ShareFinder is as usual correct in its projections this will be just another very brief pause in a continued run up to a final market peak which, consider the composite on the right, now appears likely to occur on April 18 in London and New York and on the 21st here in South Africa.



Readers should note how volatile markets have been this last 12 months relative to their long-term trend lines oscillating every seven weeks or so from oversold to overbought no less than seven times: a clear symptom of a tug-o-war between the bullish optimists and the bearish pessimists with nobody very certain in the short-term about real values.

Interestingly, ShareFinder’s calculations for each of these oscillations over the past year have suggested that a full on bear market is probable. And each time the Bulls have come thundering back in to send the market spiraling upwards once again. But for how long can it continue?

Well let us consider what propels markets in the long term leaving aside for a moment funny money times when central banks are printing the stuff without regard to normal forces.

Followers of John Maynard Keynes generally argue that GDP growth plus about two percent to cover inflation should represent money supply growth. So consider the fact that US GDP growth has in recent years averaged 2.2 percent and US inflation now stands at 1.1 percent and so to properly reflect this Wall Street’s broadest measure of share market performance, the S&P500 Index, should trend upwards at a long term average rate of 3.3 percent. Yet if you consider my graph you will note that it has actually been trending six times higher at 19.8 percent. So consider for a moment a long-term graph of Wall Street’s Dow Jones Industrial Index on page 2 noting here that the trend line is climbing at...wait for it...at 3.8 percent. Note also how overpriced the market currently is relative to this trend line:

British inflation currently averages 1.9 percent and their GDP growth rate is 0.3 percent making a total of 2.2 compared with their share market average growth of 4.8 percent. And South Africa currently enjoys GDP growth of 2.5 percent with inflation averaging 5.3 percent making a total of 7.8 compared with the JSE All Share Index growth rate of 22 percent.

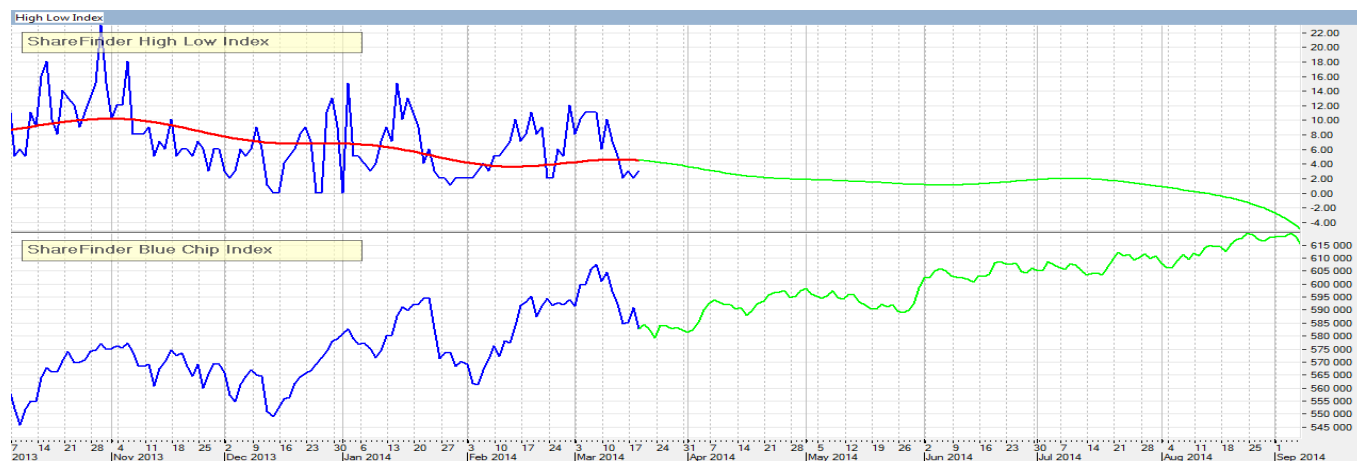
Consider then my long-term graph of London's Financial Times Index with a least squares fit trend line sloping at just 1.5 percent and note again how overpriced the market currently is relative to this mean line:

Clearly these rates are unsustainable and so, once the world is weaned off its cheap money supplies, something has to give. One of these days, one of the regular market

oscillations we have been observing for the past year will not see the Bulls galloping back in to save the day. One day something out there will spook the Bulls and they will stand back to see what happens in the face of some significant political or economic event.

Surprisingly in recent months the shut-down of the US Government for a fortnight did not spook them for too long. Surprisingly the Russian "invasion" of the Crimea did not spook them: both events which could in other times have collapsed markets as did, for example, the bombing of the World Trade Centre in New York in September 2001. But of course at that time the markets were not effectively drugged by a massive drip feed of new money.

So I offer you what ShareFinder thinks will happen to our investment grade shares. The top graph projects the cycle trend of investment grade shares and the lower graph the Blue Chip Index. In conclusion, only our top quality Blue Chips are likely to survive once the Bulls lose their optimism.



The month ahead:

New York's SP500: I wrongly predicted that weakness would continue until the 19th. In fact the market turned on the 17th but now the recovery is probably over and I see declines until the 25th.

London's Footsie: I correctly predicted a down-trend until late in March. Now prices are bouncing along the bottom ahead of a recovery trend likely to begin at the end of the month.

JSE Industrial Index: I wrongly predicted weakness until the end of this month and the situation reversed itself temporarily. Nevertheless I continue to see declines until the 24th before the next recovery trend begins.

Top40 Index: I correctly predicted a recovery and I see it lasting until March 27.

ShareFinder Blue Chip Index: I correctly predicted the beginning of a decline which I expected to last until March 24. Thereafter I sense a recovering trend until April 7.

Rand: I correctly predicted gains and I expect them to continue well into April.

Golds: I correctly predicted a decline which I continue to see lasting well into April.

Bonds: I correctly predicted weakness which I now see lasting until mid-April.

The Predicts accuracy rate on a running average basis over the past 498 weeks has been 82.31%. For the past 12 months it has been 90.1%.

Richard Cluver