



# Richard Cluver Predicts

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



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**Friends who now live in England recently returned to sell up the house they had left behind, but lately have been wondering whether it was the smart thing to do. After all, they said, Jacob Zuma's leadership has in the past few years virtually destroyed the Rand so in foreign currency terms they will get little out of it from a lifetime investment.**

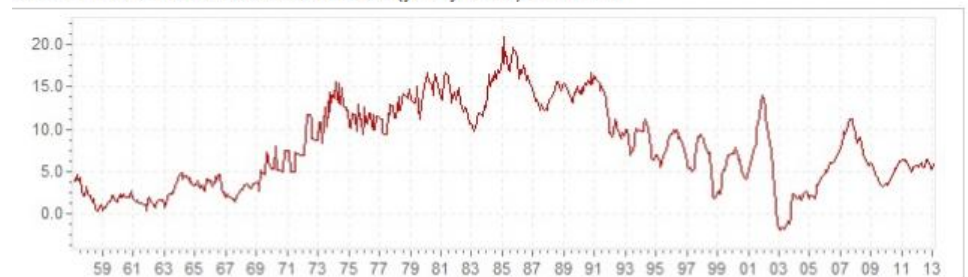
They got a very fair price, they believe. However, taking back the proceeds of the sale of their big family home in one of our choicest of leafy suburbs, will give them barely enough to meet their living costs overseas for two years. Would it not be smarter, they wondered, to leave the money invested here in blue chip shares in the hope that it would grow and the Rand would improve over time.

Well I have to confess that I closely watch the Rand relative to the US Dollar and the Euro, but I have not recently studied the Pound, and so what I saw really shocked me. When the graph below slopes upwards it means the Rand is getting weaker because it takes more Rands to buy Pounds.



Since our esteemed president came to power, the rand has been losing over a fifth of its buying power each year relative to the British Pound. That is a dramatic change from the long-term trend traced out by the red least squares line representing the average over the past 28 years during which the average loss of value was just 6.1% annually.

Chart – historic CPI inflation South Africa (yearly basis) – full term



Now the reason why currencies gain or lose value over time is a function of their inflation rate. So, if you note that our inflation average over the past decade has been 5.29% and Britain's has been 2.7%, you would have expected the Rand to lose 2.6% annually. That it has been losing at more than twice that rate long term and, more to the point, since Britain's average inflation over the past three years has been 2.97% and South Africa's has been 5.8%, the fact that the Rand has currently been losing value at 7.5 times the inflation differential, implies a massive foreign loss of confidence in South Africa as an investment destination.

Furthermore, if ShareFinder's usually reliable projection system is to be believed, then the immediate future does not look too good for the Rand's relationship with the Pound. The Rand's recent recovery is over and we are likely to see the exchange rate rising to R18.38 by September from a current R17.81 before strengthening again to around R17.51 at the end of the year.

There is some good news, however. Money has been streaming out of the US ahead of an anticipated collapse of the New York stock exchange with the result that the Rand has been gaining relative to the Dollar since early February and, ShareFinder thinks it is likely to continue doing so until mid-September when the exchange rate is likely to be around R9.86 to the Dollar compared with R10.54 currently and R11.22 at its weakest point in January this year.

Calculating since January 1990, the mean decline of the Rand relative to the US Dollar has been 4.9% though, during the Zuma years, it similarly accelerated to 19.3% annually. Its best value was R6.65 to the Dollar on June 6 2011 and its worst recently has been R11.39 on January 30 this year.

Relative the Euro, the Rand has lost at 4.2 percent annually long term but During the Zuma years it has been losing at 19.8%. Recently it has recovered from its weakest value of R15.34 to a recent R14.48. It is likely to go to R15.81 by September.

So would I leave the money here if I were they? I will deal more extensively with this problem in the next issue of **The Investor** which is due out on April 30, but were I armed with the new ShareFinder 6 which is due out any day now and which provides analyses of the British, US and Australian markets, I would definitely take the money with me if I were now living abroad!

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## The month ahead:

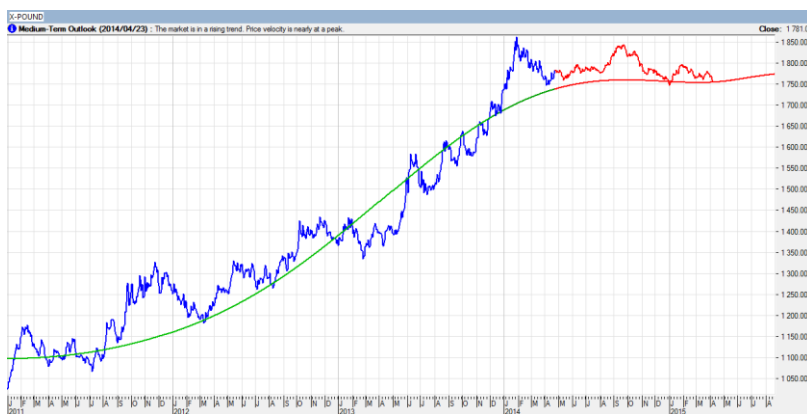
**New York's SP500:** I correctly predicted weakness until late in April before a mild interim recovery which could last until May 15 before the next downward run.

**London's Footsie:** I correctly predicted a recovery which I saw lasting until April 28. Now I am extending the recovery for a few more days before a downward correction which I now see starting next Friday.

**JSE Industrial Index:** I wrongly expected this index to peak last Friday but that downturn has merely been delayed and I now see declines until May 12.

**Top40 Index:** I correctly predicted a recovery which I now see continuing until April 25.

**ShareFinder Blue Chip Index:** I correctly predicted a fresh recovery lasting until May 6 albeit with some bumps along the way and I now extend that to May 14.



**Rand:** I wrongly predicted gains. The weak phase that began on April 10 now appears likely to continue until May 27 at least.

**Gold:** The decline I predicted ended a few days earlier than I expected and now I see a recovery continuing throughout May.

**Bond:** I correctly predicted a recovery. Now I see a brief decline until April 29 followed by quite good gains until May 14.

***The Predicts accuracy rate on a running average basis over the past 502 weeks has been 82.37%. For the past 12 months it has been 89.94%.***

**Richard Cluver**