



Richard Cluver Predicts

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



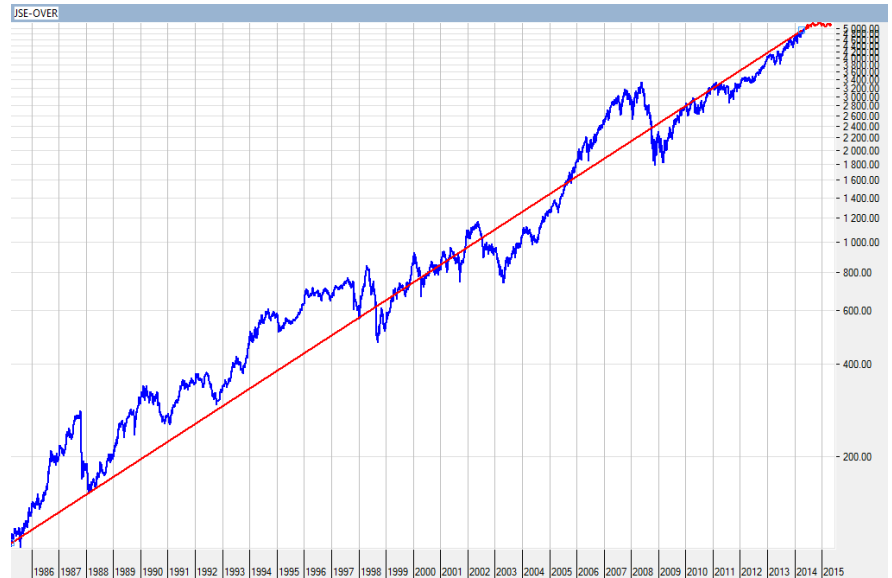
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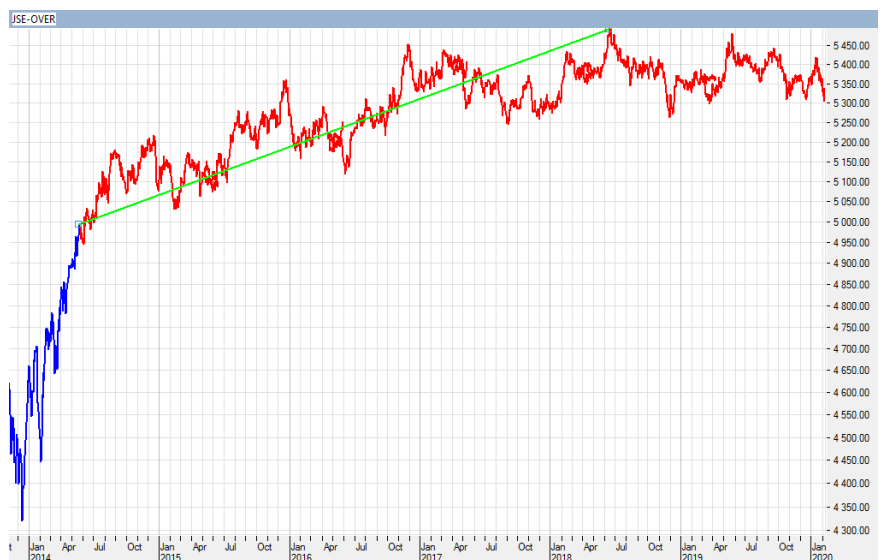
With the average JSE price earnings ratio of 21 having been equalled only twice in our history: in the major bull markets of 1964 and 1998 it is undeniably true that this market is massively overpriced relative to earnings expectations.

It is also true that at no time in our memory has there been so much cash sloshing around the world fuelling the carry trade: i.e. hot money made possible by bank borrowings at artificially low interest rates circling the globe in search of the highest-yielding returns. And of course our economy, which offers exceptionally high returns, is a logical and inevitable destination for such money. After all, when long bonds such as our R186 offer a yield of 8.155% compared with US 10-year treasury bonds which offer 2.55%, it must be accepted that millions of dollars will flow this way.



That said, if you study my first graph which tracks the JSE Overall Index for the past 30 years, it is quite obvious that, relative to its long-term mean (the red trend line) the market is simply tracking its long-term growth average of 14.2% annually. Furthermore, our Fourier Transform analysis system which is the most accurate determinant of future market performance and which is at its own most accurate when it has extremely extended databases to analyse, as in this example, argues that this market is likely to keep on climbing until mid-December at least.

Just for fun I accordingly decided to push its projection well into the future with the result which appears on the right. This projection sees our market average continuing to rise, albeit slowing somewhat and experiencing quite significant retractions in January-February 2015 and December to June 2016, to a peak in November 2016 before beginning a long bear market for most of 2017. The 2017 bear market is currently slated to end



in September 2017 and be followed by a bull market lasting until June 2018. That said, however, the Fourier system also projects a marked slow-down of JSE growth from its long-term 14.2% to a far more modest 2.4% annual rate from now until its final peak in 2018. Thereafter there is projected to be a bear market lasting to around April 2022.

I need to stress, however, that Fourier projection becomes increasingly inaccurate the further one attempts to push it into the future. However, the reality that we face is that the South African economy has been stagnating during the Zuma years and unless the new government is prepared to shed its shackles to the old Tripartite Alliance with Cosatu and the Communist Party and move towards its current stated objective of a business-friendly job-creating new deal, that projected growth slow-down appears highly probable.

Indeed, unless there is significant change, I will in future with increasing vigor be urging my readers to significantly diversify their investment portfolios by diverting capital towards overseas markets.

The month ahead:

New York's SP500: I correctly predicted a long decline which I now see lasting until May 26 followed by a recovery until June 11 when the next decline seems probable.

London's Footsie: I correctly predicted the beginning of decline which began on May 15 and is now likely to last until around June 4.

JSE Industrial Index: I correctly predicted a rise continuing until late in May. Now I see a decline lasting until mid-June.

Top40 Index: I correctly predicted the imminent end of the recovery which should end today followed by declines lasting well into June.

ShareFinder Blue Chip Index: I correctly predicted the end of the recovery about now and expect the market to be downhill from now until late June.

Rand: I correctly predicted a recovery which I saw ending around May 22 and now I see declines until mid-June.

Golds: I correctly predicted a recovery which I now see lasting to around May 27 followed by declines for most of June.

Bonds: I wrongly predicted gains. Now I see losses for most of June.

The Predicts accuracy rate on a running average basis over the past 506 weeks has been 82.41%. For the past 12 months it has been 89.94%.

Richard Cluver