



Richard Cluver Predicts

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



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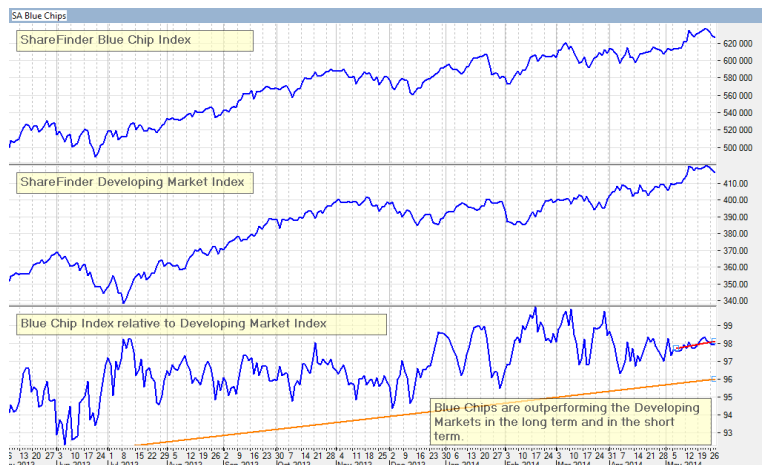
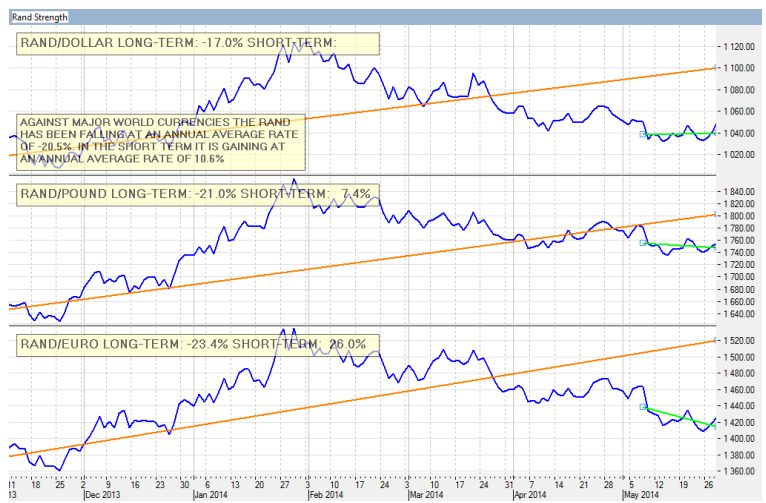
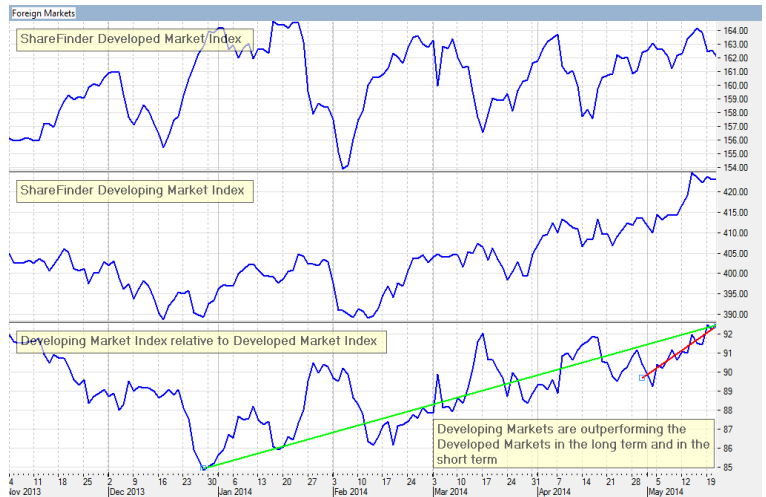
This is my last Friday column before I leave readers to go sailing in the Med...my reward I always tell folk for spending most of the year diligently watching markets on your behalf.

And despite my misgivings about a grossly over-priced global investment situation, it is clear that for the short-term anyway, the outlook is good for South African investors. Excessive optimism about First World markets towards the end of last year drove Wall Street and London to unprecedented heights and so, inevitably, the tide has turned again in recent months with investment inflows headed powerfully towards Developing World markets as is illustrated by my composite on the right.

The relative strength graph in the lower part of the composite shows how since the end of December Developing World share markets have been gaining at a compound annual average rate of 24% and, note the red trend line in the lower relative strength graph, how since the beginning of May that growth rate has accelerated to an obviously unsustainable 70% compound annual rate.

Furthermore, despite Press comment that the international investment community has taken a cautious wait and see attitude towards South Africa since President Zuma has installed his new Cabinet, the evidence is not there in the behavior of the Rand relative to most important currencies as illustrated by my second composite on the right.

None the less, South African Blue Chips continue to outperform the rest of the market in both the long and the short-term which serves to underline the fact that investors remain cautious about our market: note my third composite.

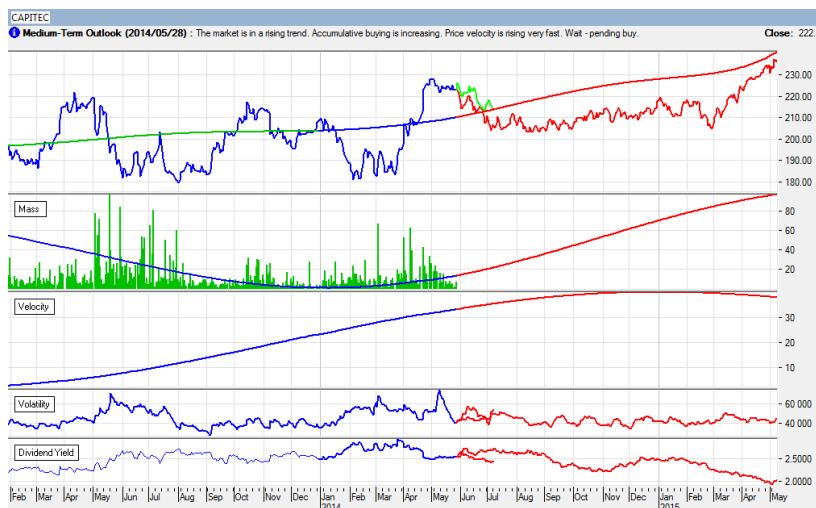
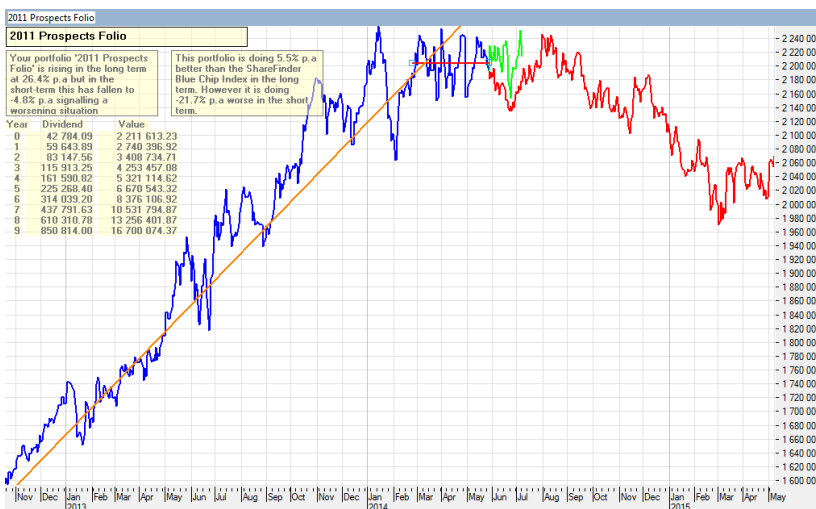
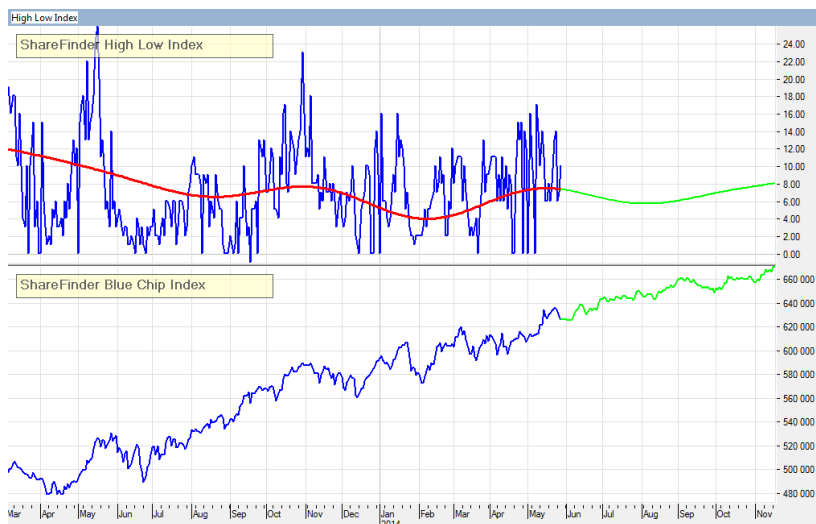


Most important of all, however, ShareFinder's projections for the future suggest that, although the High/Low Index senses a steadily-diminishing trend as both market optimists and pessimists moderate their attitudes towards a consensus and therefore an implied sideways market trend over the next two months, cycle projection senses a steady upward climb of the Blue Chip index for the rest of the year.

That said, ShareFinder's composite analysis of the Prospects 2011 Portfolio (second graph on the right) notes that weakness has already begun and is likely to continue until late June followed by a recovery until the end of July before a slide begins that could last until February 2015. However, projecting its constituent shares suggests that at worst most will offer a sideways trend in the months ahead.

Most problematic from a cyclic projection point of view is Capitec which is the subject of my third composite on the right. Here, the projection suggests a decline until early July followed by a strong growth pattern for the rest of the year which is in keeping with a note this year from the JSE that members of the board have taken out call options on this share and the bank itself has bought nearly R16-million of its own shares, implying that those closest to the action sense a greatly improved performance in the months ahead.

Here I note the latest announcement from the SENS system which records that: "Moody's Investors Service updated their research on CapitecBank Limited, the wholly-owned banking subsidiary of Capitec. Both the international ratings of Baa3/P-3 and the national ratings of [A2.za/P-1.za](http://www.a2.za.net) remain unchanged and the outlook for all ratings remains stable. In their rating rationale, Moody's mention that The bank's simplified, low-cost, single-banking solution has been gaining appeal with South Africa's consumers, while its paperless, straightforward, technology-driven business model enables it to provide a low-cost and efficient service, with rapid application processes and an improved service level.'



Thus, I leave you reasonably confident there are unlikely to be too many bumps in the road ahead other than, of course, my observation that I have been making for many months now, that global markets are significantly overpriced and that the JSE has only twice been this expensive since the buying spree of 1964 which resulted in the most dramatic crash in living memory, other of course than that of 1929. Thus, as I have emphasized often in recent months, DO NOT put money into risky investments and make sure you have a reasonable cash pile set aside in order to be able to take advantage of any significant decline that might occur. Occur it certainly will. The only question is when it will happen and what will trigger it!

The next two months:

New York's SP500: I correctly predicted a recovery which I continue to see lasting until June 11 when the beginning of a third quarter decline seems probable lasting until September..

London's Footsie: I correctly predicted the beginning of decline which began on May 15 and is likely to be over on Monday before a brief recovery takes us to a May 6 peak followed by a decline until the last week of June and then a recovery until mid-July.

JSE Industrial Index: I correctly predicted a rise continuing until late in May followed by decline lasting until mid-June before the next recovery begins. However the outlook from here is likely to result in a volatile sideways trend.

Top40 Index: I correctly predicted the end of the recovery followed by a sideways to slightly downward-trending market lasting well into June. It is likely to be followed by a long but volatile upward trend lasting well into the third quarter.

ShareFinder Blue Chip Index: I correctly predicted the end of the recovery with the market trending down until late June but a brief upward burst is likely to begin late next week. The market is likely to peak in early July and then become range-bound in a series of up and down movements lasting throughout the third quarter.

Rand: I correctly predicted declines which I expect to end next Friday followed by continued strengthening for most of the third quarter.

Gold: I correctly predicted declines for most of June and I do not see a recovery until early July lasting most of the third quarter.

Bonds: I correctly predicted losses for most of June with a long recovery beginning in early July and lasting for most of the third quarter.

The Predicts accuracy rate on a running average basis over the past 508 weeks has been 82.45%. For the past 12 months it has been 90.26%.

My next Predicts should come out on July 18

Richard Cluver