



Richard Cluver Predicts

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



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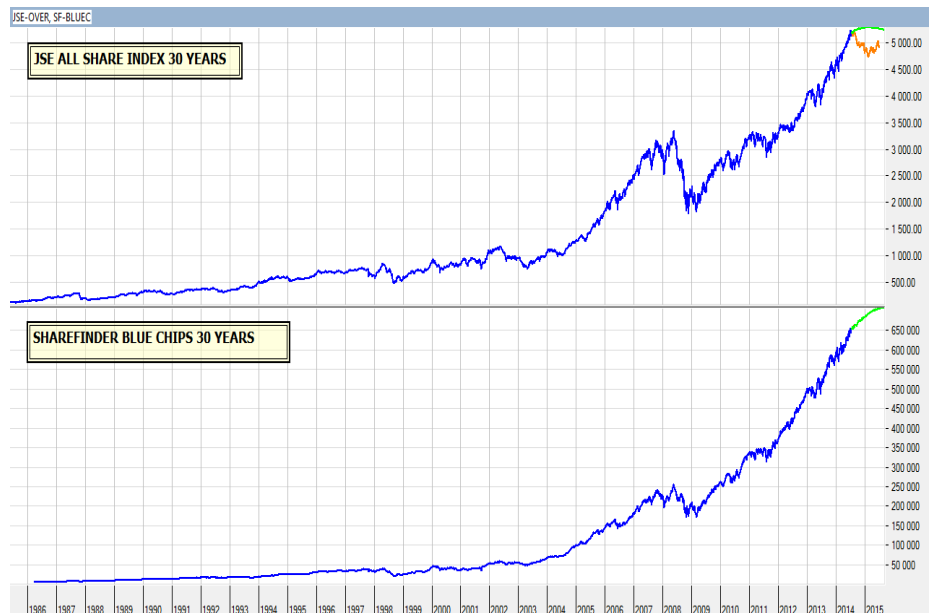
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Everywhere I turn, economists and analysts are talking about the overpriced state of world equity markets as they psyche themselves up for an “inevitable” retraction.

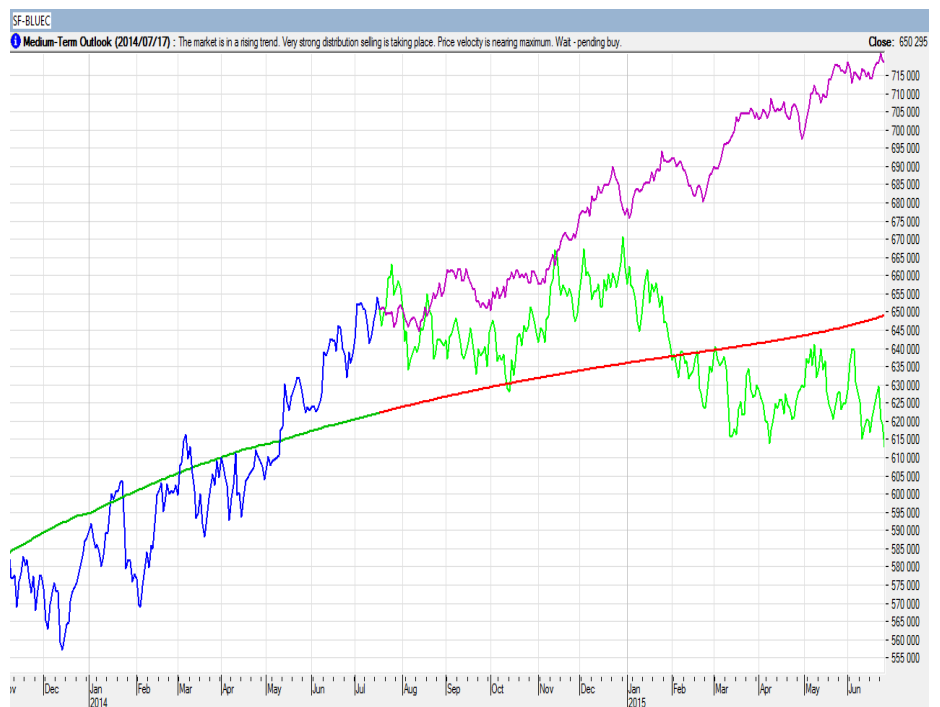
The big problem, however, is that if they take money off the table and markets keep on rising, they and their clients will be heavy losers because the final stages of a bull market is when the biggest capital profits are made.

So let us put things into perspective, let us consider a long-term graph of the JSE Overall Index on the right. Note also at the extreme right of the graph my Fourier Projections which replicate the inherent sine waves within the data to predict what is likely to happen to the index in the next few months. The red trace represents an analysis of the data of the past few months and the green ALL the data represented here. Note that in both instances a retraction is forecast.



The second graph in the composite traces the performance of just the ShareFinder Blue Chip Index and here, note that the 2008-09 bear market retraction was far less pronounced. Indeed, where the Overall Index fell 46%, the Blue Chip Index fell only 27%. So the first lesson to derive from this comparison is that you are safest in the blue chips.

So in my second composite I have concentrated on a close up view of the Blue Chip projections which provide some differing



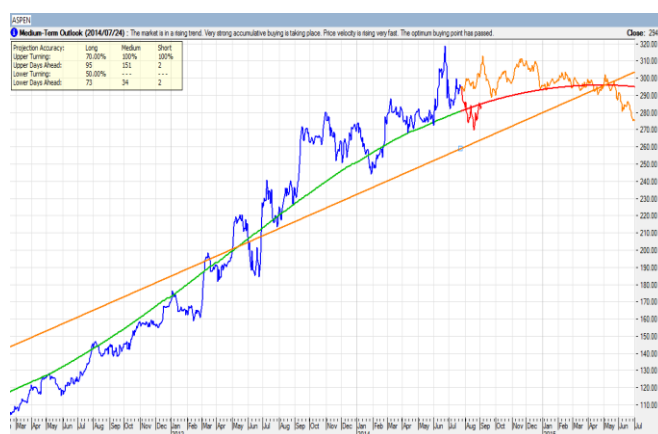
conclusions. The red projection represents the synthesis of the 14 most dominant sine waves whereas the mauve projection projects a synthesis of 2 000 sine waves which enables one to see the likely retractions in an overall continued upward trend. Conversely, the green projection produces a synthesis of all the sine waves inherent in the behavior of the index over just the past three months.

If one is seeking guidance on just the likely trend of the market for the next week or so, then the green trace is the most reliable implying a decline until August 6, a view which is echoed by the mauve line. But the most important message to derive from both the red and mauve projections is the observation that long-term investors in Blue Chips might comfortably sit tight because the market is likely to keep on climbing in the long term and could be a further 11% higher a year from now.

So what of the concerns about the ultra high price earnings ratios we are witnessing, as high in most cases as they have been ahead of most of the major bear markets of the past 100 years. Well clearly they are a clarion call for caution and I have continued to stress that one should work towards increasing the cash content of one's portfolio so in the event of a major market correction one would have the ammunition to take advantage of the opportunities thus opened up. And to achieve that cash, I have advocated a constant weeding out of underperformers from your portfolio.

Though it is impossible to identify in advance what precise event might spook the market and trigger an avalanche of price declines, we can take heart from the fact that the shooting down of the Air Malasia flight did not provoke it, nor did the Israeli invasion of Palestine. Yet a phone conference with some of the board of Aspen triggered a 3% decline of the share late last week. That event has been much discussed in the financial press though there was no discussion about the 11% decline of the share in June nor the fact that the shares have become increasingly volatile since the beginning of last year.

And if you consider this increasing volatility in Aspen, you would be wise to look at the volatility of Naspers in my second graph on this page. Clearly the market is getting nervous and some of the high flyers might soon be severely punished!



The next month:

New York's SP500: I correctly predicted further gains until the end of this month. But I foresee weakness in early August.

London's Footsie: I correctly predicted a sideways to weakening trend lasting well into the first week of August.

JSE Industrial Index: I wrongly predicted further gains. Now I see declines lasting well into August.

Top40 Index: I correctly predicted a gain followed by a decline and now I see a sideways trend into the first week of August.

ShareFinder Blue Chip Index: I correctly predicted the index would become range-bound in a series of up and down movements and now I see a decline lasting into the first week of August.

Rand: I correctly predicted a continuing recovery which I now see lasting well into August.

Golds: I correctly predicted a volatile sideways trend. Now I see gains to the end of the month followed by a fall until mid-August.

Bonds: I correctly predicted losses which I see lasting until mid-August.

The Predicts accuracy rate on a running average basis over the past 510 weeks has been 82.47%. For the past 12 months it has been 90.26%.

Richard Cluver