



Richard Cluver Predicts

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



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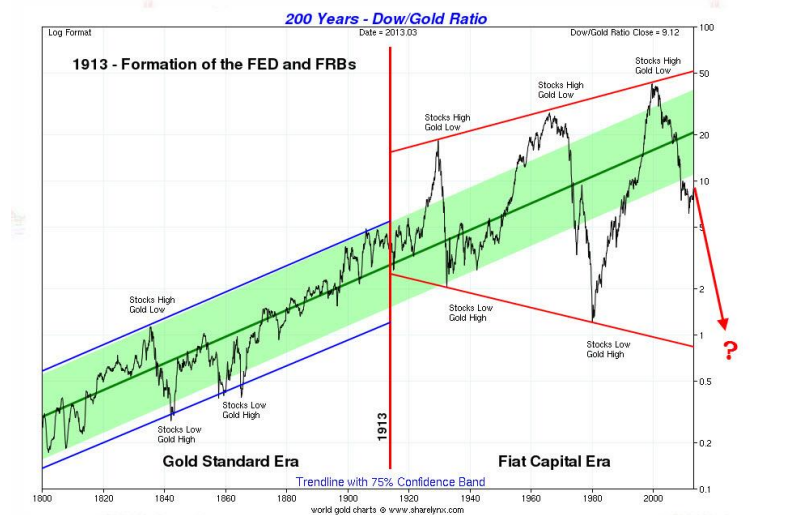
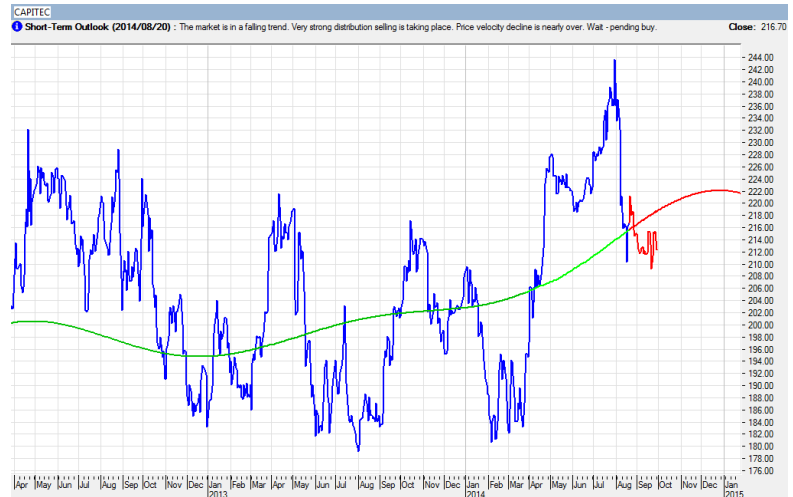
22 August 2014

Prompted by a ratings agency downgrade of all South Africa's banks, the JSE has continued its decline this week.

But at least some, close to the coal face, saw it as a buying opportunity as board members of Capitec stepped in to buy their company shares in quite considerable quantity. But of course, at a low of R211 down from a recent high of R244.49, it was clearly a bargain if you have faith in the durability of Capitec's business model.

The problem, for the small investor in a very shaky market situation both locally and on an international scale, and in the face of a major rating agency downgrade of both South African sovereign debt and our banking sector as a whole, is whether one should be buying shares at all.

Indeed, at the extreme end of economic thinking there is an increasingly compelling case for simply buying gold coin and sitting it out until the final denouement of the current world economic system which argues that if all the currently-issued US dollars had to be backed by gold then the current price of \$1296 would have to go to something of the order of \$14 500. The graph on the right which depicts the ratio of the gold price to the New York stock exchange Dow Jones Index illustrates how market volatility soared once the US went off the gold standard, formed the US Federal Reserve, and began printing money. However, let us assume for now that the world's monetary authorities will be allowed to continue muddling on for now, what will be the outlook for the market for the rest of 2014 and, more particularly the outlook for the banking sector? ShareFinder's analytical tools



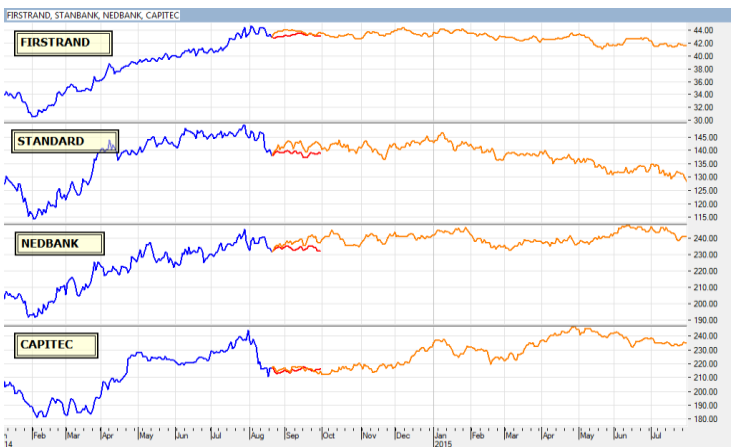
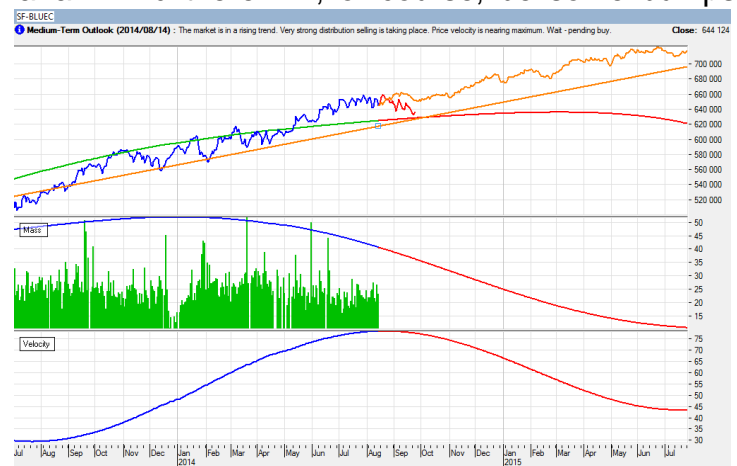
are, happily, all in agreement that the current short-term phase of weakness will be over by the end of September and that the market for investment grade shares will continue upwards well into the new year with, on current projections, the market finally peaking in May/June next year (note the composite on the right) This analysis of course assumes that there will be no major tipping point along the way, something unforeseen like, for example, the current Ebola epidemic breaching its boundaries and leapfrogging into a Great Plague type event....or perhaps the

Ukraine erupting into more than a regional affair. And there will, of course, be some bumps along the way. But overall, these caveats notwithstanding, the market appears likely to remain on course for the next two to three quarters.

So do banking shares offer any potential right now? Well ShareFinders projections suggest that FirstRand will simply move sideways for the next 12 months. Standard, says the projection, will peak in January offering a 6.3% gain from its current level. Nedbank will peak in January at R246.33 offering a 5.5% gain and, best of all, Capitec looks like peaking in April at R245.76 for a 13.4% gain.

Here it is worth noting that, against an average PE of 15.4 for all investment grade shares and an average dividend yield of 2.9%, Standard stands at an undemanding PE of 13 and an attractive dividend yield of 3.4%. The numbers for FirstRand are 13.9 and 3.2%, Nedbank 11.4 and 3.5% while Capitec stands at 12.4 and 2.6% and Investec at 17.2 and 3%

That makes Capitec the most expensive of the South African banks which suggests that the market is aware of the price gain potential that ShareFinder is predicting



The next month:

New York's SP500: I was again premature about the short-term Wall Street outlook which I thought would continue down whereas it recovered. However, I still expect that weakness will now begin again and continue into September.

London's Footsie: I correctly predicted a continuing recovery which I expect it to last until the 25th before the next brief decline happens.

JSE Industrial Index: I correctly predicted a brief and erratic recovery getting stronger in September.

Top40 Index: I correctly predicted a decline which I expect to last until the 27th before a very brief recovery until September 5.

ShareFinder Blue Chip Index: I correctly predicted a brief recovery. Now I expect declines until the 28th before the next quite strong recovery begins.

Rand: I correctly predicted the end of the recovery. Now I see gains until approximately August 27 followed by fresh gains.

Gold: I correctly predicted a softer trend which I expect to be over by early next week followed by gains into September.

Bonds: I correctly saw this as the end of the recovery with the market now having made a double top before the next phase of weakness begins lasting into the second week of September.

The Predicts accuracy rate on a running average basis over the past 514 weeks has been 82.3%. For the past 12 months it has been 90.26%.

Richard Cluver