



Richard Cluver Predicts

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



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New Finance Minister Nhlanelhla Nene's first medium term budget speech this week abruptly terminated a modest recovery of the JSE All Share Index which had begun exactly a week before.

And nobody should be surprised at that for the Minister sought only to confirm a now well-entrenched opinion that the current government is no friend of business nor of pensioners and private investors whose collective savings represent much of South Africa's economic engine. As one reader commented to me "I have never heard a more convincing argument for converting all of my investments into Kruger Rands. At least then I would be safe from a rapacious government and, furthermore, they are very portable"

And while most readers of this column would probably view that comment as excessively pessimistic, the truth is that there is little to be optimistic about the current economic outlook. Our economy has been grossly mismanaged and for several years now it has been one of Africa's worst performers. And now tax-payers are going to be made to pay for it. Admittedly the strictures put in place by Mr Nene's predecessor have been effective in cutting back on some of the grossest of excess government spending and by a bookkeeping exercise of no longer accounting for un-filled government posts, there will be a small official contribution to the effort amounting to

some one-and-a-half billion rands. But the public is going to have to fund something of the order of ten times that sum.

Since, furthermore, Mr Nene emphasized that the additional cash will not be found "at the expense of the poor", one can only conclude that there will be no increase in VAT. So small businesses that have had a torrid time in the past year at the hands of the Receiver of Revenue, can only expect things will get far worse. Doubtless too there will be significant increases in income tax, capital gains tax and dividend taxes, to name only a few of the discomfoting problems afflicting small investors.

Sadly too, Mr Nene made no mention of the widely recognized fact that the only way to lift an economy like South Africa's out of the doldrums is to have a proactive

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

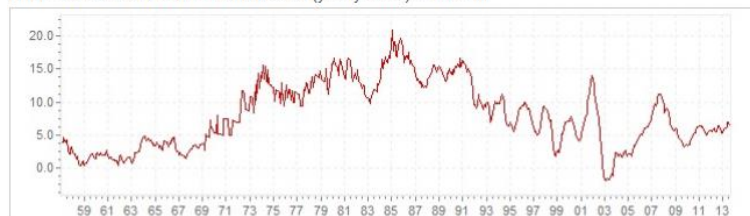


Table – historic inflation South Africa (CPI) – by year



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business-friendly government. The only way to create sustained job-creating economic growth is to give business reason to feel optimistic about the future. But talk to the average business person and it is clear that they are collectively pessimistic. Major corporates are emigrating and few newcomers have been setting up shop in South Africa. And while the topmost graph on the previous page makes it clear that inflation has been rising dramatically in South Africa for almost a decade to a current five-year high of 5.9 percent, that number grossly glosses over the real truth. For, as my second graph vividly illustrates, our Rand has been losing value relative to the price of gold at a dramatic 25.1 percent annually for the whole of the past decade.



The reason for this decline is very easy to understand if one considers the third graph on the previous page. For the past decade we have been selling the family silver. We have been importing far more than we export and our Rand has consequently grown increasingly worthless.

If you are a fortunate pensioner or unit trust investor your invested capital might have nearly countered that Rand erosion. Our JSE Top 40 Index managed to grow at compound 17.3%...about two thirds as well as Kruger Rands.

Sadly the average unit trust did not nearly do as well, growing at 9.04 percent compound over the past decade.

Only one investment equaled the gold/rand ratio; ShareFinder's Blue Chip share index which achieved 25 percent compound over the past decade...and it paid an average dividend of 3 percent throughout.

The next month:

New York's SP500: I correctly predicted the start of an Indian Summer recovery and I see it lasting well into November.

London's Footsie: I correctly predicted further recovery which I now see lasting until late November.

JSE Industrial Index: I correctly predicted a sideways to slightly improved outlook with the overall trend steadily down. Now I see further losses until the middle of next week after which fresh gains are likely.

Top40 Index: I wrongly predicted a steady decline with brief two to three day recoveries in between. Now I see gains until Wednesday followed by weakness until November 7 before the next recovery begins..

The ShareFinder Blue Chip Index: I correctly predicted a brief recovery within a continuing downward trend and I expect these declines to continue well into November.

The Rand: I correctly predicted a recovery continuing until the end of the month. Now I see the gains extending until late in November.

Golds: I correctly predicted fresh declines and I foresee that they will continue throughout November.

Bonds: I wrongly predicted weakness until the end of the month. However I continue to foresee weakness lasting until mid-November before the next bout of recovery begins.

The Predicts accuracy rate on a running average basis over the past 521 weeks has been 82.6%. For the past 12 months it has been 89.42%.

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