



Gripped by a Japanese monetary insanity which has the world body of economists muttering in disbelief, global share markets continued to roar upwards this week in reaction to the prospect of trillions of additional central bank dollars pouring into the monetary system.

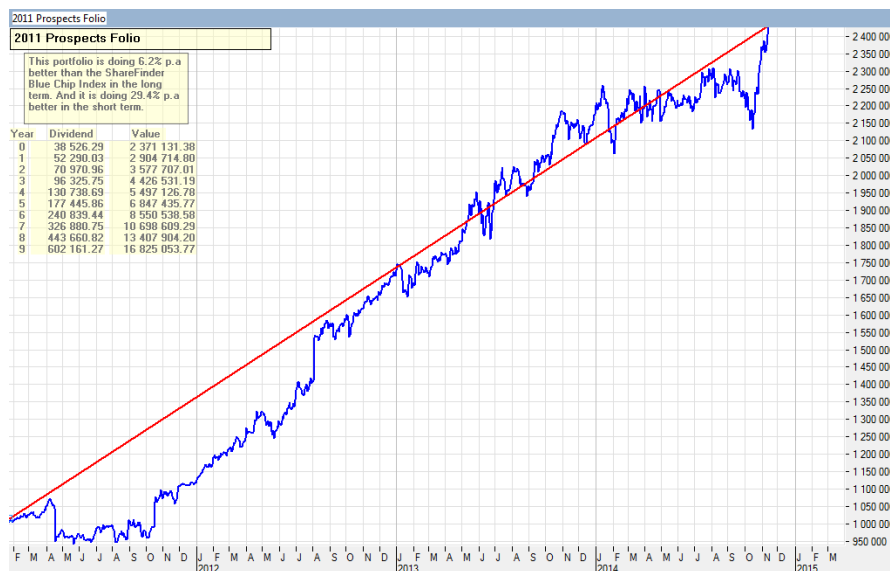
As I pointed out to readers of my Prospects newsletter this week, Japan has been experimenting with its version of Quantative Easing for nearly a decade now without achieving the desired effect of jolting their economy back into growth. Indeed the only noticeable effect has been to debase their currency. As my graph on the right illustrates, the Yen is losing value relative to the US Dollar at an annual rate of 15 percent. The result is inflationary for Japanese consumers but in a sluggish global economy the decline has done nothing to boost foreign trade. Worse, since 53 percent of Japanese households hold their assets in cash and on deposit, so it is clear that the Bank of Japan is intent upon destroying the savings of its elderly citizenry. It is an extraordinarily ill-conceived project that is unlikely to help anyone in the end and has the potential to cause enormous damage to the global monetary system.



But the bottom line is that this is the first salvo of a new currency war which must inevitably see trading competitors similarly forcing down the value of their currency in order to attempt to maintain what trading advantage they still have in an era of global stagnation.

The lesson of Japan should not be lost upon South Africans for our Rand is losing value relative to the US Dollar at an even faster clip – at 15.6 percent compound – and similarly this has done nothing to boost our international trade. Indeed, everything we import costs 15.6 percent more every year and the cost of borrowing money abroad is rising at a similar rate accompanied by the additional cost of borrowing stemming from successive ratings agency downgrades.

So the lesson for today, is that while it is important to hold cash in order to be able to react swiftly in the highly probable event of a share market crash sometime in the not too distant future: a probability that increases daily as the fragility of the global monetary system increases in the face of widespread quantitative easing exercises (otherwise described as monetary wars) one cannot afford to hold it for too long and in too great a quantity. Thus I currently judge the optimum proportion of cash to be ten percent.



There is only one way to really defend yourself against the monetary ravages that face South Africans and that is to invest in Blue Chip shares. As proof I offer you the latest graph of the 2011 Prospects Portfolio which has been rising at 29.4 percent compound annually since inception and delivering an average dividend yield of 1.8 percent making a total return of 31.2 percent.

The next month:

New York's SP500: I correctly predicted the beginning of market weakness and now foresee a decline for the next four weeks at least.

London's Footsie: I correctly predicted further recovery which I continue to see lasting into the first week of December.

JSE Industrial Index: I correctly predicted another week of gains. Now I foresee declines beginning on Monday and lasting into mid-December.

Top40 Index: I correctly predicted a recovery which I now expect to last until Monday followed by declines until mid-December.

The ShareFinder Blue Chip Index: I correctly predicted gains which I see ending on Tuesday for a decline until mid-December.

The Rand: I correctly predicted a volatile recovery which is likely to end on Monday.

Gold: I correctly predicted continuing declines. Now I see a sideways to slightly improving market until the next bout of weakness beginning around November 20.

Bonds: I correctly predicted gains which I foresee ending today for brief weakness until November 21.

The Predicts accuracy rate on a running average basis over the past 524 weeks has been 82.67%. For the past 12 months it has been 89.42%.

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