



# Richard Cluver Predicts

In our 28th year of service to the investing public of South Africa



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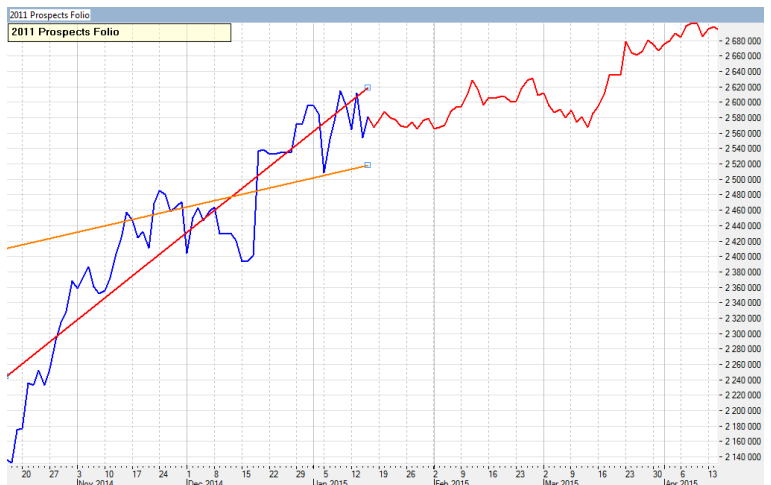
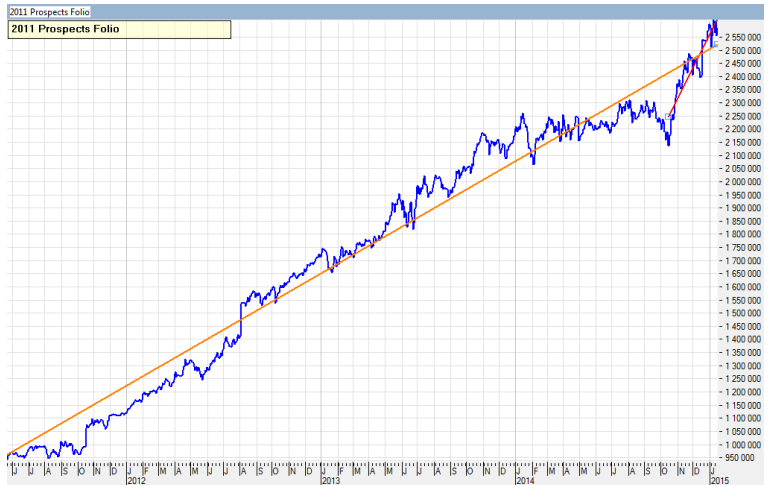
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**Well I did warn you that unpredictable things were going to happen didn't I? Yesterday the Swiss central bank removed its cap on the exchange rate of their Franc and their currency rose 30 percent in value in just one day.**

In my entire career as a financial observer I do not recall anything like that happening before. But then who would have imagined that the price of oil would ever fall, let alone by as much as 60 percent in six months? But then we are, as I wrote last week, in the denouement phase (the final reprise) of one of the greatest financial fraud's of all time: the process that I have also documented so often before that handed the US Government control of the world's monetary system. Not that I have anything particular against the Americans. But such is the greed and frailty of mankind that if you hand the most uncorruptable of people ultimate power to enrich themselves you can bank on it that they will eventually yield to the temptation.

The burning question in all of this, however, is how does the ordinary person cope with situations like these? When things get really out of control we might expect a complete breakdown of law and order, mob rule and chaos in the streets. Current events in Northern Nigeria and Syria are stark examples of what eventually happens when ordinary people fail to stand up for what is right and last week's massacre in Paris is yet another example of how quickly the contagion of chaos can spread into the heart of the so called civilised world. So, as a starting example, ordinary investors should not think that they can protect the value of their investments simply by being ahead of everyone else and moving with the so called "Smart Money". So, for a start, think of giving a little of that money to the organisations that are fighting against corruption and the rule of law in this country.

Time to step down from the pulpit and talk about the stuff that you pay to read; about the defence of your portfolio. So on the right I have displayed the latest position of the Prospects Portfolio which we started in January 2011 with a virtual investment of R1-million and which has grown with dividend re-investment to



R2 610 633 as of last night's market close. That is a record-breaking compound annual average growth rate of 32.6 percent. More to the point, however, over the past three months it has been rising in value at a clearly unsustainable 84.5 percent compound and, as the close-up in my second graph makes it clear, a period of consolidation has begun since January 8 which will see the portfolio lose value very modestly over the next three months before the next growth phase begins.

The performance of this portfolio illustrates two major points: that in this phase of growing international concern about the health of the world economy, there has been a steady flow of investor capital towards the safest of investments. Investors have chased sovereign bonds down to the extent that if you were yesterday seeking to buy a Swiss sovereign bond you would be paying the Swiss Government for the privilege. That is why there has been a steady move towards Junk Bonds which, if you read my Prospects article this week, is in imminent danger of a catastrophic crash as oil frackers start going into liquidation. Expect, consequently, that as investors flee the bond market ahead of a collapse and in the immediate aftermath of it, that blue chip shares will be the beneficiaries. And that is why I am content to be fully invested in blue chips at this stage in the Prospects portfolio. That is why I used the cash in the portfolio in early December to buy MTN Group and EOH shares with the result that the portfolio has only R38 000 in cash right now. But I would be happier were there bit more cash.

My own principal portfolio is a bit more conservatively managed inasmuch as it contains a lot more Blue Chips than the maximum of 10 rule that applies to the Prospects Portfolio because of my refusal to prune it sufficiently such as to attract major capital gains tax penalties. Thus, having liquidated some of my holdings in Mr Price, Sasol and Naspers which had grown so much in value so as to seriously unbalance my portfolio, I used half the money so generated in order to buy MTN Group and Coronation when I perceived that they were bottoming in the past few weeks. I got MTN at R207 and Coronation at R111. Clearly I could have done better because MTN fell to R198 this week and Coronation to R104, but that is the price that one pays when one tries to "bottom feed". Importantly, however, I used only HALF my available cash so that I will be able to average my purchase price if these two counters fall significantly further. Happily too, the portfolio generates far more in dividend income than I need for time to time personal living expenses and so I will be able over the next few months to indulge in further re-balancing buying.

Here a note that as different shares in your portfolio inevitably grow in value at different rates, it is important to periodically re-balance so that you have as near as possible equal amounts of money in all the front runners. Furthermore, if you like me abhor paying any more Capital Gains Tax than you really need to do, then by always topping up; by buying shares that enjoy the highest combination of average dividend and price growth, you will help to ensure that the performance of your portfolio continues to be exceptional. Thus I am able to tell you that my personal portfolio has significantly beaten the growth rate of the Prospects portfolio over the past 12 years....I would be boasting if I told you by how much!

## **The next month:**

**New York's SP500:** I correctly predicted a decline which I expect will continue until Monday before beginning an erratic recovery.

**London's Footsie:** The decline that I predicted continued and the imminent recovery I predicted also remains imminent.

**JSE Industrial Index:** As I predicted, a recovery began and lasted only until mid-week. Now I see a decline until February 12.

**Top40 Index:** I correctly predicted a decline which I now see lasting until the end of the month.

**The ShareFinder Blue Chip Index:** I correctly predicted a recovery ending in the middle of the new week and I continue to see a brief recovery around the 22<sup>nd</sup> ending with a failure to make a double top around January 23 and a fairly steep decline thereafter.

**The Rand:** I correctly predicted that brief weakness would end around the middle of the week and I continue to see a recovery until Monday.

**Gold:** I correctly predicted a recovery. Now I expect the next bout of weakness to begin around February 4.

**Bonds:** I correctly predicted gains which I now see until Monday followed by weakness until February 11.

***The Predicts accuracy rate on a running average basis over the past 531 weeks has been 82.81%. For the past 12 months it has been 91.35%.***

**Richard Cluver**