



Richard Cluver Predicts

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



Volume: 28

06 February 2015

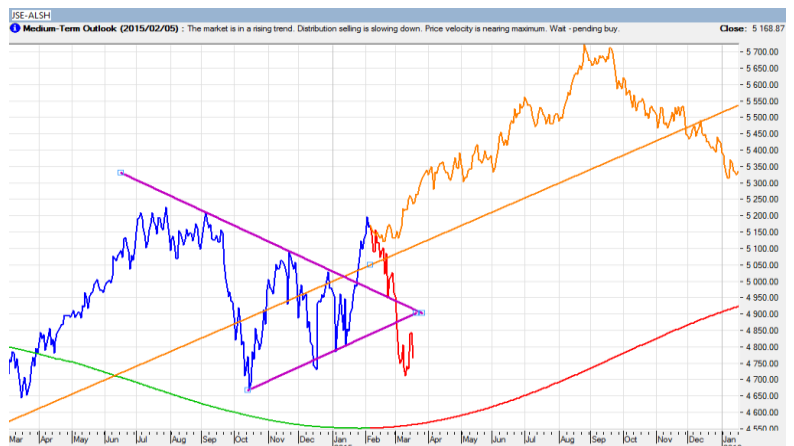
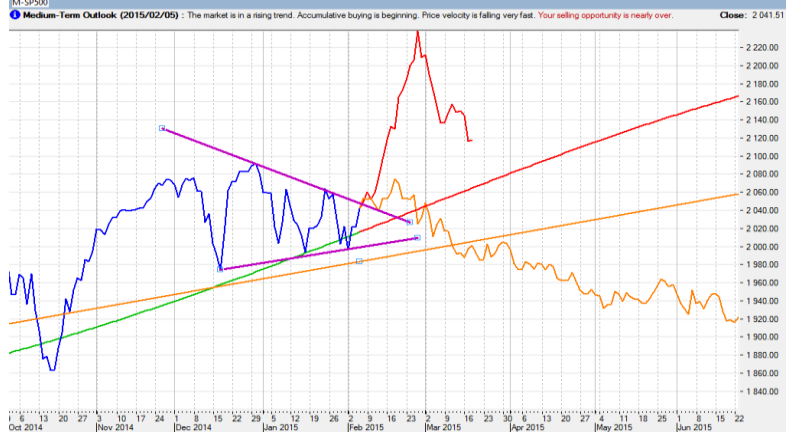
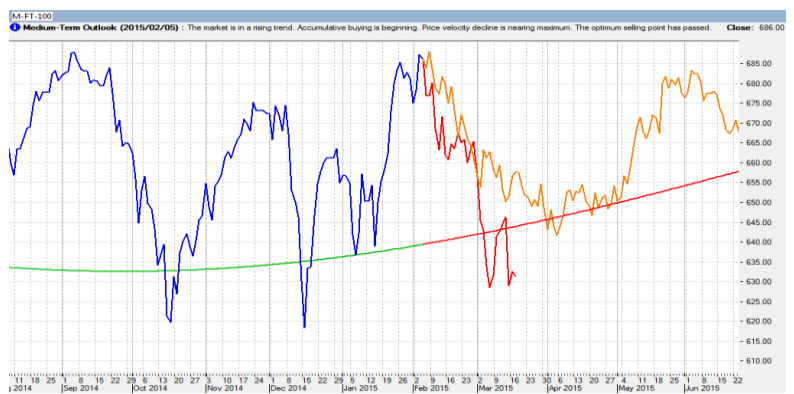
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Once again the world's share markets face the cyclic probability of a fairly serious downward correction which is likely to see most of this and next month marked by price losses. Markets are, in other words, merely waiting for some significant economic or political event to trigger a change of direction made probable by the significant gains of recent weeks.

So let's start with the London market which has seldom in my experience ever experienced such remarkable volatility as is evident in the composite on the right. As the smoothly-curving long-term Fourier line makes clear, the London market is still in the grip of a long-term upward trend but both the short and medium-term projections sense the probability of a retraction starting anytime now and lasting well into March.

New York (my second composite) reflecting the much more buyant economic mood in that country, is on the verge of a brief but dramatic upsurge out of the purple trend-line-defined wedge formation which I have highlighted on the graph. If it manages to break upwards then it could continue rising strongly for the rest of the month before correcting downwards again in sympathy with the orange medium-term Fourier projection. Again this is a market seeking a new direction within a long-term bull market.

Here at home, the JSE All Share Index (third composite) has already broken upwards out of its own wedge formation and is now looking for an excuse to correct backwards which could mean a weak February and early March within a long-term bull market



which should offer some good buying opportunities.

Our Blue Chips have similarly broken upwards out of a four-month-old wedge formation again traced out by my purple trend lines and this week began an inevitable back track which could see them losing most of the gains they have made since mid-January.

Likely to be the best performer within the Prospects 2011 Portfolio during the course of the current year is Famous Brands which ShareFinder projects will continue to experience steady growth over the next 12 months as traced out in the second composite on the right. ShareFinder projects that over the next 12 months this share will gain 41.5 percent and offer a 30 percent dividend growth. If you do not already have this share within your portfolio, I strongly suggest that you add it and even top up with more.

The next month:

New York's SP500: I correctly predicted gains which I still see continuing for the rest of February.

London's Footsie: The gains I predicted continued a little longer than I expected but I see it as down hill from here.

JSE Industrial Index: I correctly predicted a moderate decline to begin on Wednesday and I see a few bumpy days ahead within a rising trend until February 20 after which I expect a declining trend.

Top40+ Index: I correctly predicted a decline which I expected to last until early March. Now I see a brief recovery which should be over by mid-week followed by a decline into early March.

The ShareFinder Blue Chip Index: I correctly predicted the end of the recovery. Now I see a brief gain which I expect to end on Tuesday followed by a declining trend throughout February..

The Rand: I correctly predicted gains which I expect will continue until Wednesday followed by weakness continuing into March.

Golds: I correctly predicted an erratic decline which I expect will last until February 13.

Bonds: I wrongly predicted a sideways to modestly gaining trend for the whole of February. Now I see weakness until February 25.

The Predicts accuracy rate on a running average basis over the past 534 weeks has been 82.86%. For the past 12 months it has been 90.71%.

Richard Cluver



I have attached the following article from Investec's John Wyn-Evans which you should find very interesting:

By John Wyn-Evans*

One of the most extraordinary developments of the past few months has been the relentless shift towards negative interest rates – the “zero bound” has been well and truly breached. The central banks of Europe (ECB), Switzerland, Sweden and Denmark, for example, all now charge commercial banks to deposit cash with them. Switzerland, Sweden and Denmark are desperate to head off flows of “hot” money into their extremely sound financial systems and bond markets. This money would raise the risk of creating destabilising domestic asset bubbles and too much inflation. The ECB is crying out for some inflation, but is also trying to stimulate the economy by persuading banks to lend their deposits rather than just parking them in Frankfurt. The word “unprecedented” tends to get used rather too freely, but in the case of current monetary conditions it would appear entirely appropriate.

This phenomenon of effectively paying someone to look after your cash rather than expecting to get a return on it is also spreading to sovereign bond markets. I have read (although not confirmed) that around \$4 trillion of government bonds around the world currently yield less than zero, guaranteeing that anyone who buys them today and holds them to redemption will lose money (in nominal terms at least). This sum is likely to grow as the ECB and the Bank of Japan press on with their Quantitative Easing programmes, because their planned demand is greater than the predicted new supply. If current trends continue, this will compress the yields (and therefore raise the prices) of other assets right across the risk spectrum. I have previously described this as converting tomorrow's income into today's capital gain, and it's worth reiterating the point. The more you get today (especially from a fixed coupon investment), the less you get tomorrow, and investors must continue to recalibrate (lower!) their future return expectations as this situation evolves.

Just for fun, let's consider the practical considerations of negative interest rates, and also speculate on how low they could go. Faced with the prospect of seeing their deposits shrink by leaving them in the bank, retail customers might be tempted to withdraw their funds and deposit them in a shoe box under the mattress where they would at least retain their face value. Not surprisingly this solution is fraught with danger, with risks ranging from burglary to hungry rodents. Not only that, but it would require one to carry around the cash for daily transactions. That's ok for the odd cup of coffee, but probably not for buying a new sofa or car... or house (unless you're a Russian oligarch with the apocryphal briefcase full of reedies); also not much use for all those on-line purchases either – does Amazon even accept folding notes and coins? It's only when you start to address the practicalities of a 100% cash economy that you begin to realise just how impractical it actually is. And that's before thinking about companies sending armoured cars full of cash round the country to pay for goods and services.

All this means that parties to commercial transactions are willing to pay for the convenience and safety of non-cash settlement – it's why banks and credit card companies can charge fees. The ECB has calculated that the social welfare value of transactions is 2.3%. Theoretically, then, deposit rates could fall to -2.3% before the economy as a whole would be better off withdrawing the cash and making its own arrangements for storage, security and transmission. Negative deposit rates also turn money into a hot potato. Everyone who could afford to would be motivated to pre-pay any expected bills or load up their Oyster card to the maximum, thus passing the deposit problem on to someone else. Now that's a strange world to find oneself in, and just underlines how extraordinary the current situation is. (I am indebted to Barclay's currency strategists for the inspiration for this piece and for some of the information.)

Results this week include several from the Pharmaceutical/Healthcare sectors, an area where we continue to see good growth opportunities, not least as we all become older and creakier. GlaxoSmithKline

(Weds), and Smith & Nephew and AstraZeneca (Thurs) are all due to report. BG and BP (Tues) lead the line up from the Oil & Gas sector, and last week Shell showed just how tough the going is. Vodafone and Compass will also be of interest on Thursday. Economic data this week peaks on Wednesday with the publication of Purchasing Manager surveys in a host of countries. I can see the UK, US, Germany, France, all of Europe, China and Japan on the calendar. These should give us a timely view of current conditions. The most scrutinised release will be Friday's monthly employment data in the US.

*John Wyn-Evans is Head of Investment Strategy at Investec Wealth & Investment UK. The Weekly Digest is an Investec Wealth & Investment UK publication