



# Richard Cluver Predicts

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



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**“Sell in May and go away” is an old stock exchange adage that has its origins in the northern hemisphere where this month heralds the practical beginnings of summer; a time when many stock exchange traders liquidated their positions as they set out for extended holidays.**

Notwithstanding this, and additionally the fact that the adage is more honoured in the breach than in reality, it is surprising how often local commentators remind us of the May adage whenever some market weakness occurs at this time. And of course the market weakness this May has had many sagely nodding their heads in “I told them so” mode.

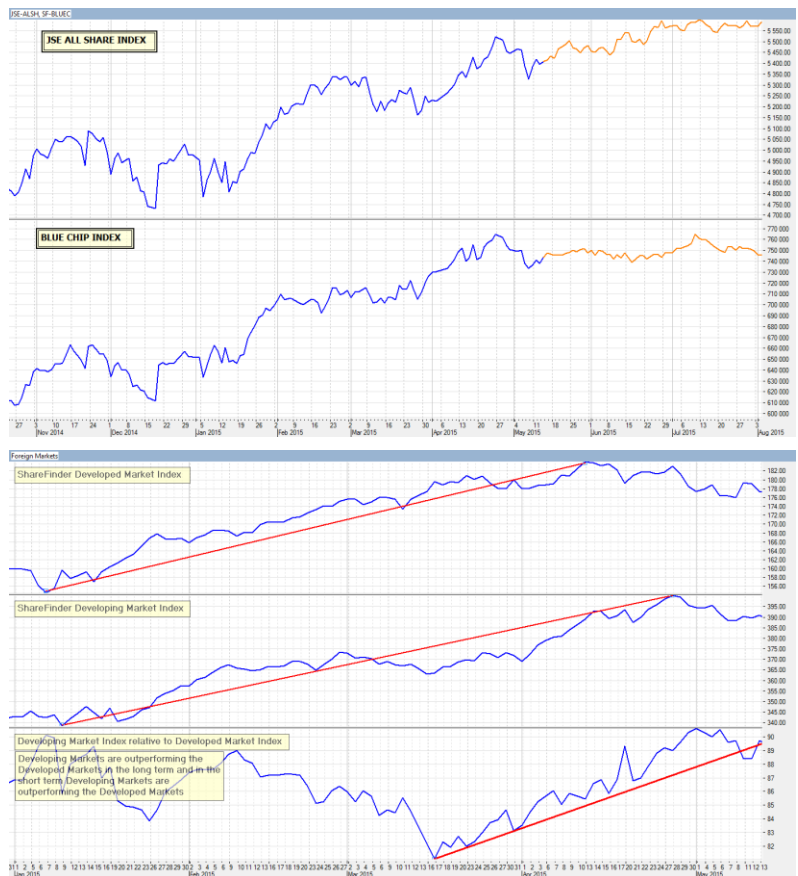
So let us examine the facts. Over the past decade Blue Chips rose in May eight years out of ten and in May 2010 they rose initially before falling at the end of the month. In the previous decade from 1995 to 2004 the market rose in May on four occasions, fell on five and in one 2002 rose initially before falling back.

Between 1985 and 1994 the market rose every May except that of 1989. So there we have it. In the past decade the market fell twice, the one before that five times and the before that once. Over the past 30 years the market fell nine times.

So, going on the past 30 years there is a 30% probability of an overall decline this month and over the past decade that probability falls to 20% with ShareFinder’s current projections suggesting that overall this month the market will gain; the all share index by 2.9% and the Blue Chip Index by 2.5% from its low on May 7 as depicted in my first composite on the right.

Now the fact is that all the world’s leading markets have been declining since mid-April beginning with the Developed Country markets on April 13 followed by Developing Country markets on April 28 but overall, since March 16 the Developing World markets have been outperforming the Developed World as illustrated by my second composite.

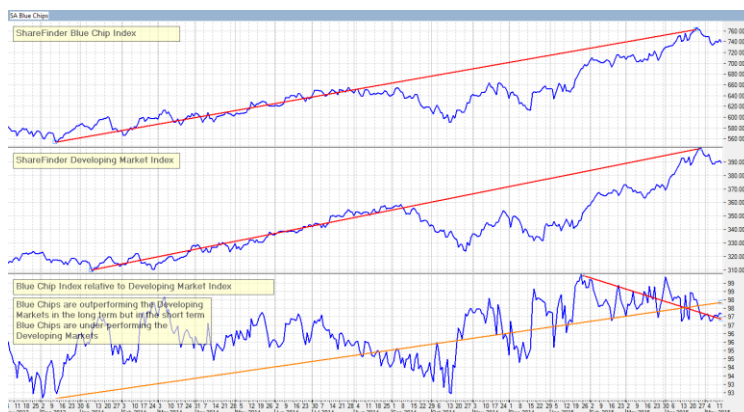
Sadly, however, as I have pointed out several times lately, South Africa is no longer enjoying the benefit of this improving trend. Though the Rand has been gaining quite strongly against the Dollar at an annualised rate of 22%, it has been weakening against the Pound at 33% compound and against the Euro at a dramatic 112% compound.



Furthermore, although in the long term our Blue Chip Index has traditionally outperformed the Developing Market Index, since late January we have been missing the boat so far as foreign investment into our share market is concerned. In relative terms we have been underperforming the Developing World Index by -8.5%.

As I have observed just as frequently lately, the world has obviously lost faith in South Africa as an investment destination and that view is unlikely to change while the Zuma administration continues to fumble the ball at every turn.

This pessimism aside, however, our Blue Chips appear set to nevertheless continue rising at an annual rate of compound 7.5%, narrowly outstripping our probable inflation rate for the year. But they could do so much better if we could only give the outside world something to believe in!



## The next month:

**New York's SP500:** I correctly predicted a volatile sideways trend. But now the outlook is worsening and I see declines into early June.

**London's Footsie:** I correctly predicted a recovery which I now expect to last until May 25.

**JSE Industrial Index:** I correctly expected a brief up-tick followed by declines for the rest of the month and I continue to see a volatile declining trend well into June.

**Top40 Index:** I correctly predicted the beginning of a volatile recovery which I now see lasting for several months at least.

**The ShareFinder Blue Chip Index:** I correctly predicted a brief recovery followed by a brief downturn. Now I sense the next recovery will begin on Monday and last the rest of the month.

**The Rand:** I correctly predicted a brief respite, but now I see weakness until May 25 before the next recovery begins.

**Golds:** I correctly predicted a brief recovery. Now I see a falling trend until June.

**Bonds:** I correctly predicted that weakness would continue but I still expect a recovery to begin on May 20.

**The Predicts accuracy rate on a running average basis over the past 548 weeks has been 83.07%. For the past 12 months it has been 91.03%.**

Richard Cluver