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

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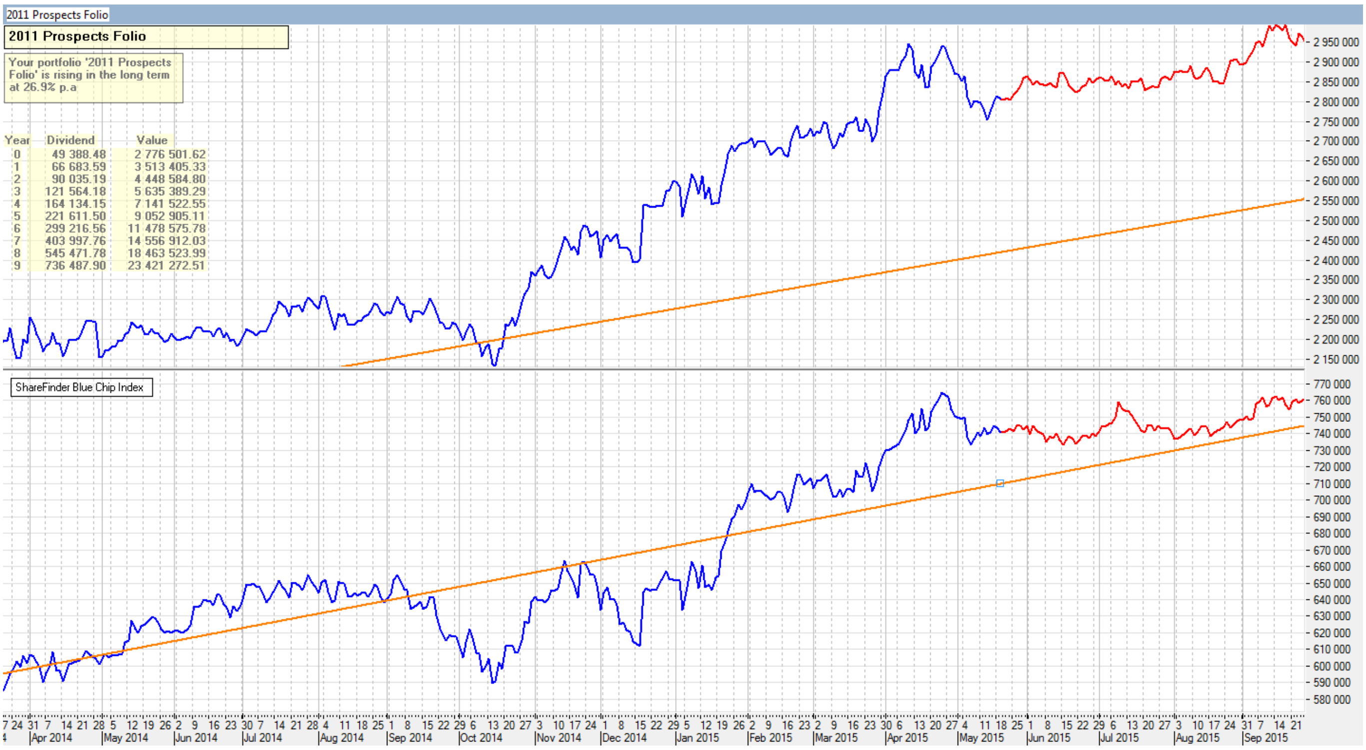
This is the last issue of Richard Cluver Predicts until mid-July. I am as usual at this time of the year heading for the Mediterranean for a break which, I trust, you will believe is well-earned.

I leave the markets in not quite as healthy a state as I would have hoped, but am reasonably confident that no serious traps lie ahead for the immediately foreseeable future. Let's therefore start with ShareFinder's projectons for both the Prospects Portfolio and the Blue Chip Index for the next four months.

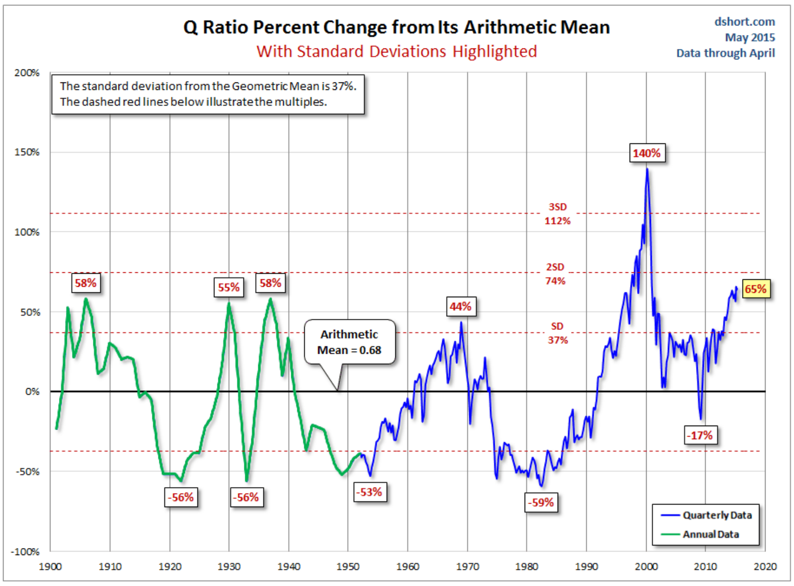


Note that in both examples the projections suggest that the April-May bout of weakness is over for now and, apart from the spectre of another brief downturn for the Blue Chips in general in early July, the upward trend appears likely to be uninterrupted. This view is, furthermore, supported by central bank fundamentals in respect of which analysts are reasonably confident that there are unlikely to be any significant interest rate increases during the next quarter.

One needs to recognise, however, that market watchers are generally of the opinion that shares are expensive and that any interest rate increase that might be adopted by a central bank will inevitably send share prices tumbling for a time. The current bull market is now the second-longest-running market event of the past 60 years.

To that end a somewhat forgotten market ratio developed by the late Yale University economist and Nobel Prize winner James Tobin is currently standing higher than at any time other than the 1929 peak and the turn of the Milennium internet bubble, at around ten percent above what it would cost to replace the underlying assets of all Wall Street listed companies.

I have reproduced the latest Q Ratio graph so that readers can see what this implies. It is displayed relative to its arithmetic mean by which means it can be seen that immedaiately ahead of the 1929 Wall Street crash the ratio stood at 55% while ahead of the “Tech Bubble” it stood at 140% and now it is standing at 65%.



The reality of such measurements is all they tell you is that the market is expensive…which we already know. However, until something serious happens to shake investor confidence, such markets continue rising. And while the central banks of Europe and Japan continue printing money on a massive scale, this will inevitably flow through to equity markets. Thus to bail out now does not make sense. However, investors should be alert to anything that might inspire a panic situation and you should strive to lower the risk rating of your portfolio. Users of the my ShareFinder software have the advantage of the facility to measure the extent of their individual portfolio risk ratings and here I should note that the Prospects Portfolio enjoys a fairly high risk rating at 25.9 compared with the Blue Chip average of just 7.3….an inevitable consequence of its record-beating long-term growth rate and the fact that it is concentrated on just nine shares.

You can lower that reading by increasing the number of shares you hold within your portfolio or you can switch to shares that carry a lower risk rating, but to do so would be to sacrifice superior growth.

The next month:

New York’s SP500: I correctly predicted declines into early June and now I see this continuing until June 18 before the next recovery begins.

London’s Footsie: I correctly predicted a recovery which I expected to last until May 25. But now I see a fresh decline starting and lasting until June 5 before the next recovery begins.

JSE Industrial Index: I correctly expected a volatile declining trend well into June. Now I see the beginning of a recovery from June 6 and lasting into July.
Top40 Index: I correctly predicted the beginning of a volatile recovery. But before that happens another decline is likely until June 8..

The ShareFinder Blue Chip Index: I correctly predicted a brief recovery beginning on Monday and last the rest of the month before a fresh downturn takes us to mid-June and the next fortnight of recovery.

The Rand: I correctly predicted weakness which I now expect will last until June 8 before the next recovery begins.

Golds: I correctly predicted a falling trend which I now expect to last until mid-June before the next recovery begins.
Bonds: I correctly predicted a recovery to begin this week and I see it continuing until late June before the next bout of weakness.

The Predicts accuracy rate on a running average basis over the past 549 weeks has been 83.1%. For the past 12 months it has been 91.35%.

Richard Cluver