Richard Cluver Predicts

In our 22nd year of service to the investing public of South Africa

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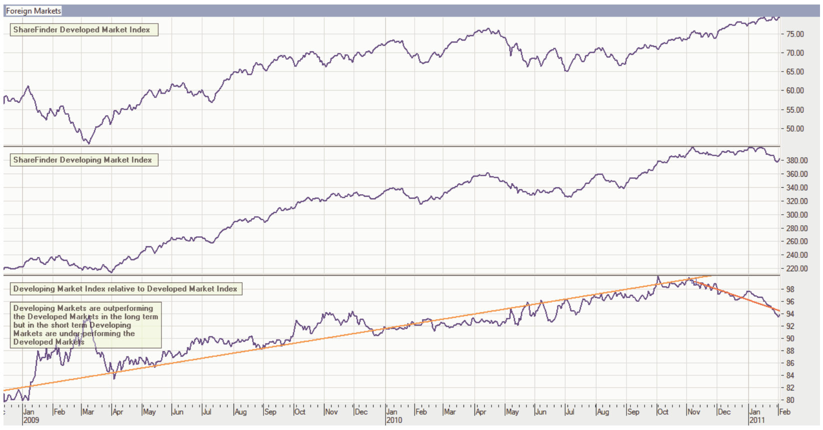
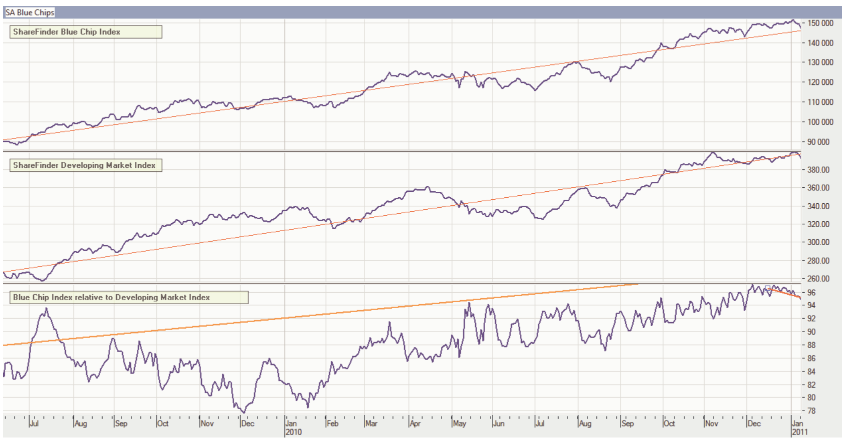
Bearing in mind my warnings for several months that the first half of 2011 was likely to be a period of share market weakness, it should be no surprise to investors that local market weakness is advancing.

In order to get a firm handle on what is happening, it is time to unveil some of the new tools we at RCIS have been working on for the past few months in the shape of two new indicators, the ShareFinder Developed Market Index and the Developing Market Index which are pictured on the right. And here it is worth noting that over the past eight year- that is from the onset of the 2003 to 2008 bull market - the Developing Market Index was rising at three times the rate of the Developed Market Index.



However, since the recovery of the latest bear market began in April 2009, Developing Markets have only been gaining by 14% more that the Developed Markets and, as emphasised by the relative strength graph – the third in the composite above – since the beginning of November Developing Markets have actually been losing ground at a significant rate.

Worse, as my second composite emphasises, while the JSE has been outpacing its Developing Market peers by 23% since March last year, it has gone negative since November. Indeed, JSE Blue Chips had been outdistancing the Developing Markets for the past decade by 14.5% compound. Note, however that since late December JSE Blue Chips have been underperforming Developing Markets. So the turnaround is significant.



In a nutshell, South African shares are taking particular strain right now. In part that is explicable inasmuch as the Rand is one of the world's most freely traded currencies and over the past year it was one of the world's strongest performers. So a correction was overdue. The big question, however, is whether the current weakness is likely to be a short-lived affair or whether a new protracted bear market is under way? At this stage it looks like nothing more than a short-term correction and nothing to worry about, particularly as relatively strong economic growth is currently being hailed by most economists.

My guessing is, as the current December year-end reports start flowing in, there will be sufficient good news to turn this market around.

The week ahead:

New York's SP500: I correctly predicted continuing strength and I continue to expect it for up to another fortnight after which a sideways trend appears likely.

London's Footsie: I correctly predicted gains extending until around February 15 when a week-long correction is likely.

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JSE Industrial Index: I correctly forecast weakness continuing until the third week of February at least. And I continue to foresee weakness now extending into at least the second week of March.

Top40 Index: I correctly forecast steady gains but no longer expect them to continue. Now I expect a bear trend until the first week of March.

ShareFinder Blue Chip Index: I correctly forecast a continuing downward trend. And I continue to see a continuing downward trend until well into March.

The Rand: I correctly predicted a sideways trend. Now I expect the trend to change with the Rand gaining strength for the next month.

Golds: I correctly predicted continuing gains until the third week of February and I expect gold shares to continue rising for most of the new week. However the time is ripe for four or five days of correction before the bull phase resumes into March.

Gilts: I correctly predicted gains. Now I continue to foresee gains until the end of February.

The Predicts accuracy rate on a running average basis over the past 380 weeks has been 79.9%.

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