

Richard Cluver Predicts

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



Volume: 22

Issue: 9

18 March 2011

2011 is proving to be a torrid year for the world and even more so for investors. Just as we were beginning to see some light at the end of the tunnel in respect of the world economic crisis with surging commodity prices beginning to filter through to the man in the street in the form of rising inflation, the Middle East burst into flames sending oil prices spiking steeply upwards.

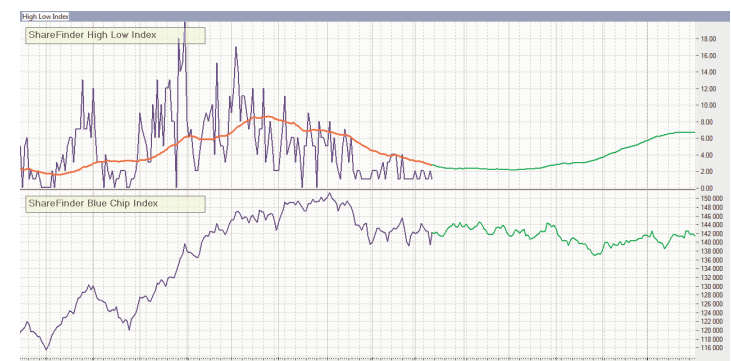
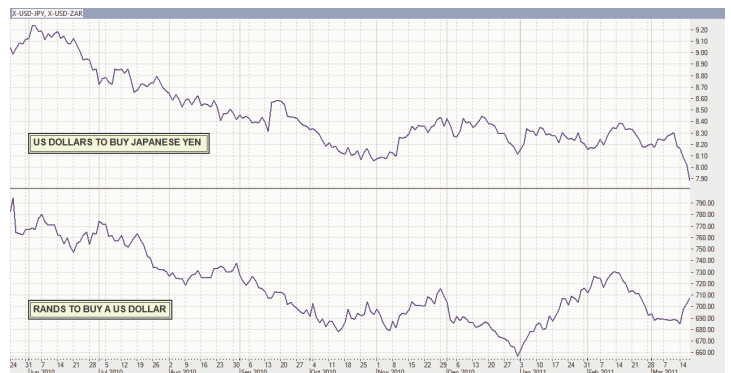
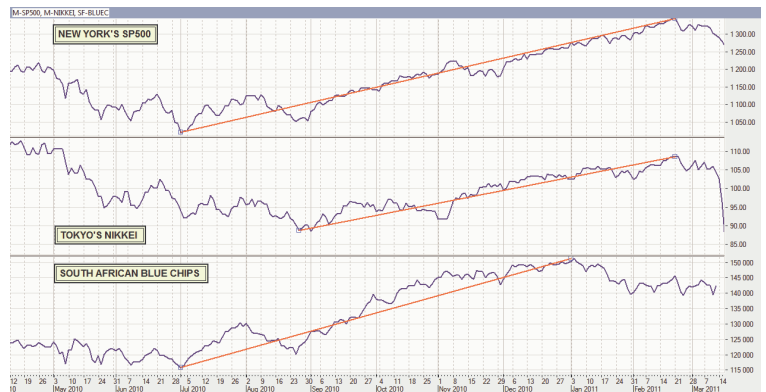
Suddenly the recovery was under serious threat. Then the United Nations agreed to air strikes on forces fighting for Libyan strongman Muammar Gaddafi as he wages an offensive against anti-government rebels. For the world's leading nations, struggling to extricate themselves from two other Middle-Eastern conflicts, one more is a camel's back-breaker.

And then we have the Japanese earth quake, undoubtedly the worst humanitarian crisis since World War 2 and in economic terms a disruption of such potential magnitude that markets are struggling to develop a perspective upon it .

For those with eyes to see it, the three graphs above spell out the story of the world's reaction. Until December, New York's most representative share index had been rising at compound 53.7% since the end of June highlighting the good news that the US was finally on the recovery from its 2008 sub-prime induced crisis. And mineral-rich countries of the developing world, represented here by South Africa were recovering even more strongly; SA at compound 68.4%.

Going back to late December, analysts were suggesting that the developing world markets were becoming expensive and markets like New York and London were consequently becoming attractive. So it was no surprise that when the Middle East crisis erupted, money began to flow towards the security of the Developed World bond markets. All the world's share markets took some strain, and relatively markets like ours bore the major brunt of things.....and then came the earth quake!

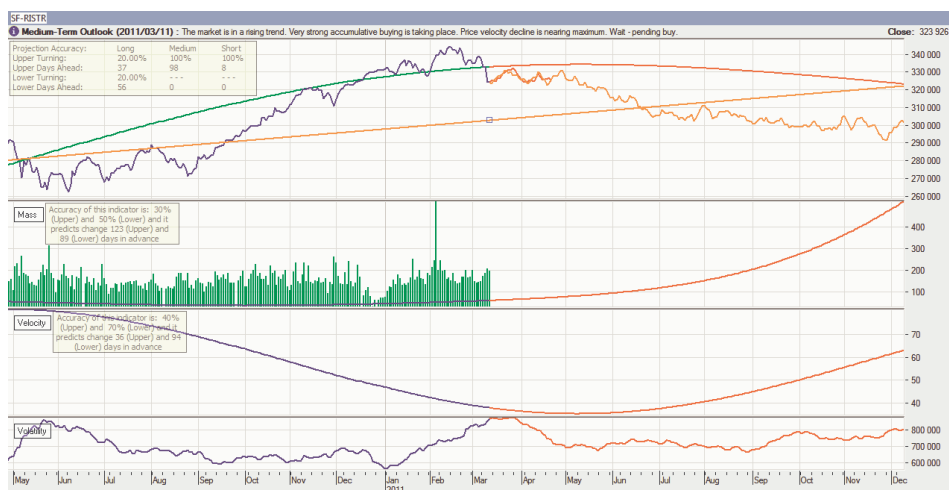
Understandably Tokyo's stock exchange plunged and has continued falling. New York took serious strain as well. And surprise surprise, our market which had been attempting to rebound since the end of January, bounced upwards once more. Simultaneously, the Japanese Yen has plunged in relation to the US Dollar as the G7 rich nations vowed to intervene in forex markets to stem the yen's rise and support Japan's economy. But who would have



expected that the South African Rand would have taken such strain? The second composite on page one illustrates that since Monday the Rand has moved from R6.84 to the Dollar to R7.07

Now the classic advice when markets are making sudden dramatic movements is simply to sit tight with heightened senses, alert to the

moment when a brief reaction becomes a trend. And judging by the green projection lines on the last composite of the previous page, the current outlook for the JSE blue chips remains unchanged. However, lesser quality local shares are now looking decidedly pessimistic as illustrated by the red projection lines in the composite on this page. But do be aware that the remedy the G7 is proposing will have long-term effects, increasing an already dangerous level of world inflation.



The week ahead:

New York's SP500: I correctly predicted that the overall tone for March will probably be downward. And I continue to hold that view. However there will be considerable daily volatility until investors get clarity about future market trends.

London's Footsie: I correctly predicted that the UK market would continue downwards but, following the extent of the latest plunge, a sideways trend should be expected for the rest of the month.

JSE Industrial Index: I correctly forecast that a recovery trend was beginning and I continue to hold that view.

Top40 Index: I correctly forecast a recovery but do not expect it to last too long.

ShareFinder Blue Chip Index: I correctly forecast a recovery to continue for the rest of the month.

The Rand: I correctly predicted a new weaker phase though it came a little earlier than I expected.

Golds: I correctly predicted a downward correction followed by a recovery starting in the second week of March and, I continue to hold that view.

Gilts: I correctly predicted a period of weakness which I expect to now last until the end of the month.

The Predicts accuracy rate on a running average basis over the past 385 weeks has been 80%.

**NOTE THAT RICHARD CLUVER WILL BE AWAY IN THE CAPE FOR THE NEXT TEN DAYS
AND SO "Predicts" WILL NOT APPEAR NEXT FRIDAY.**