

Richard Cluver Predicts

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



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I am deliberately writing this column a day early for two important reasons. The first is that tomorrow is my birthday and I have been instructed by my family (who are exceptionally fond of surprises) to pack an overnight bag and be home by noon. So I am guessing I won't be here on Friday morning to write to you.

The second important reason is that I want to write this before I have seen the results of yesterday's election because I believe it will be too easy to be swayed by them. So I pen these thoughts in order to activate the thinking of my readers.

Let me begin by noting that all governments fail to fulfil the expectations of their electorate for the simple reason that most of us expect too much from government. That is why the parties in opposition always begin to look increasingly attractive as time moves on. Furthermore, the ANC has in recent years so far distanced itself from the high ideal of its founders that even rank and file voters have become disenchanted by rampant corruption and the party's abject failure to deliver reasonably expected services. Thus the dice in this week's election have been loaded for some time in favour of the DA.

That said, however, the ruling party has such a towering majority in this country that one would have to be a supreme optimist to imagine that it would be swept away in the current election. However I venture that it will take a more than subtle blow to its self esteem. To put it bluntly, I believe that the DA will give the ANC a good old fashioned "klap" in some places where it really hurts.

Since thinking people – and the majority of investors are thinking people – will welcome signs of the DA taking control of a few more cities and municipalities, it is also probable that by the weekend a significant proportion of investors will be feeling more optimistic about South Africa than they have for quite some time. And in all probability the Share Market will advance quite nicely next week.

There is, however, great danger in all this and it has been staring all of us in the face for some time in the inability, or should I rather say the unwillingness of President Zuma and his colleagues to silence the Julius Malemas of this world who have lately been gaining significant support among the masses. I believe Malema is being used as an ANC stalking horse. So I venture to predict that should the DA give the ANC a blow to its dignity at the polls this week, its leadership might be prompted to lurch further down the road to populism in the hope of in that way winning back the esteem of a growing number of disaffected black voters.

While nationalising a few mines and banks will have disastrous long-term effects upon our economy leading in time to a wide scale loss of jobs and deep misery for the poorest of the poor, it could be sold to the majority of the people as a victory by the party over "the people who stole our land and our money"

To quote Abraham Lincoln: "You can fool all the people some of the time, and some of the people all the time, but you cannot fool all the people all the time." And if, in the aftermath of significant DA gains in this week's polls, President Zuma is accordingly persuaded to attempt to snatch victory out of the jaws of defeat, he might just be able to persuade most of the people that they would be better off if they supported him in nationalising and redistributing a few national assets like, for example, our world class banking industry.

For a little while some people who have already developed quite a taste for Moët & Chandon might find themselves bathing in the stuff.....though only for a short while until local stocks run out. But even in the medium term such a lurch to the left would be disastrous for this country.

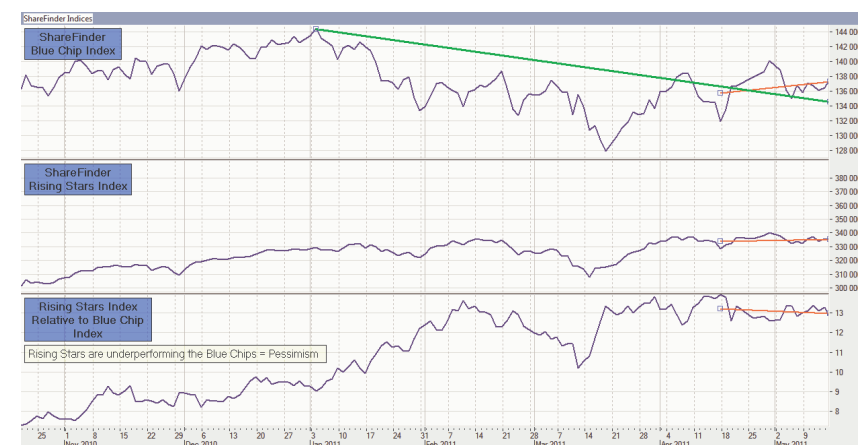
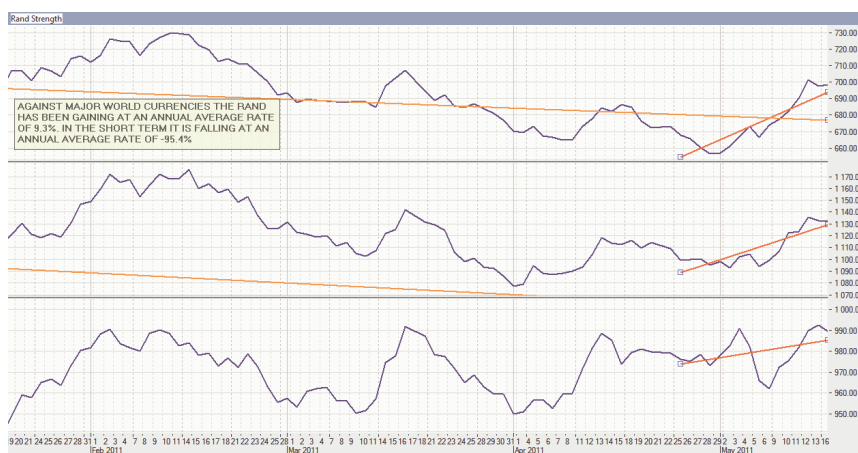
OK so maybe I am being ultra-pessimistic. I hope I am. But if I alert you to the possibility of some unpleasant realities in South Africa....and how swiftly markets can turn, then I will have achieved my objective.

The Rand is weakening quite dramatically currently; at an annual rate of 95% compound as illustrated on the right. And investors are retreating from riskier shares into the security of the Blue Chips; note my second composite. So it is plain that investors both here and abroad are taking a very cautious view not only of the developing world as a whole but of South Africa in particular.

All in all it is a time to be very cautious of this market and in the event of any significant share price gains in the next few days I would urge you to take some money off the table...just in case.

If you have not heeded my recent calls to review your portfolios in order to weed out the weaker players, now is the time to do so.

I really hope that I am being unduly pessimistic, but I would rather be safe than sorry.



The week ahead:

New York's SP500: I correctly predicted continuing weakness and I expect it to continue until at least the first week of June with a brief up-tick in between.

London's Footsie: I correctly predicted declines which I expect to continue until at least the first week of June with a brief up-tick in between. .

JSE Industrial Index: I wrongly forecast a weaker trend and now I expect a weak up-trend which is likely to continue until early June ahead of a sharpish decline.

Top40 Index: I correctly forecast a brief recovery ahead of June weakness. However there has been exceptional volatility recently and I expect it to increase until; the market breaks down,

ShareFinder Blue Chip Index: I correctly forecast a brief recovery until the end of May before a decline begins..

The Rand: I correctly predicted that the Rand would weaken and I expect it to continue doing so until mid June.

Golds: I correctly predicted the beginning of a stronger phase that is likely to last until the end of May.

Gilts: I correctly predicted the beginning of a new phase of weakness that is likely to continue until late next week at least.

The Predicts accuracy rate on a running average basis over the past 392 weeks has been 80.16%.