

Richard Cluver Predicts

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



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In my last column before I left for my annual sailing holiday in Greece I told readers that in anticipation of a substantial market decline I had weeded out the slowest performers in my portfolio preparatory to begin buying again in late June and July.

For the record I disposed of PicknPay, Reunert and ABSA, all of which I should have disposed of at least a year ago but, like so many of my readers, reluctance to shoulder the resultant capital gains taxes had caused me to hold on for too long.

So in May I bit the bullet and off I went to Greece armed with a new ShareFinder programme which allowed me to see my portfolio analysis, daily recommendations and so forth all on my cell phone. It can be viewed instantly from anywhere on the planet using the cell phone 3G download system. However, because 3G is costly to use when roaming overseas, I hooked into the WiFi systems of restaurants and bars which are free virtually everywhere.

It has been possible to do this for some years but with the advent of the Apple iPhone and its many clones which all boast colour screens as big as a packet of 30 cigarettes, it has now become practical to carry ShareFinder in your pocket and to trade the share market from anywhere in the world.

The new ShareFinder Cloud needs a little tidying up before I release it to our customers, but I am glad to report that one can now go travelling and still keep watch over one's portfolio on an hour to hour basis: a very important innovation when markets are as volatile as they are at present.

The issues facing investors are, of course, the culmination of years of gradual change in the dynamics of international investment markets. Simply stated, we have long been witness to the end times of United States economic hegemony, brought on more rapidly than it might otherwise have been by the expeditionary wars launched by two presidents Bush. The US national debt now stands at 99.5% of that country's gross national product.

To explain that in simple terms, if all the wages of all US workers were used to pay off the national debt, together with all the profits made by every US business, it would take a full year to eliminate that debt. It does not sound like too big a thing to do until you ask yourself how many people you know who could live for an entire year without earning anything at all. Worse, as the US continues to borrow more and more both to meet its ongoing living expenses as a nation together with the interest charges on existing borrowings, the total debt figure is rising exponentially.

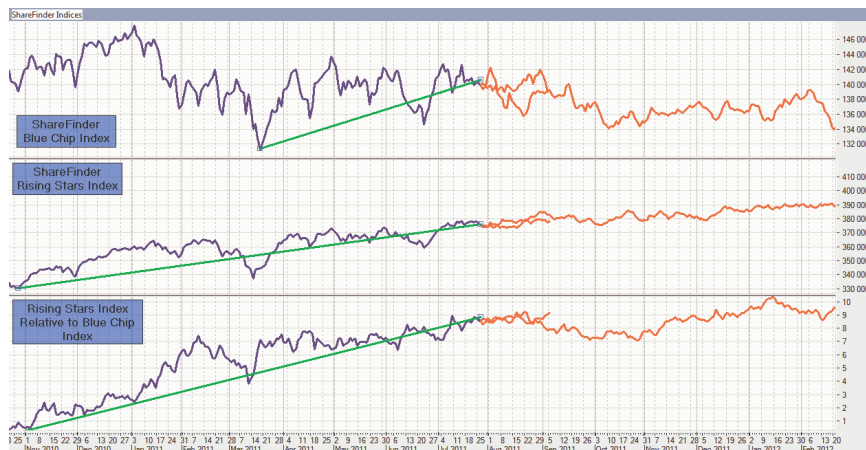
It still does not seem such a problem. But consider the stark reality that D Day will come when the total cost of servicing that debt reached 160% of GDP. When that happens it will take everything the US earns just to meet the interest costs of its loans. That is why Greece is in such chaos right now, because it has reached 160% and, were it not for soft loans from the EEC at unrealistically low interest rates, that country would no longer be able to pay its way at all...and still its debts are rising!

South Africa has a long way to go before our debts engulf us, but we are on the way to the same problem. Already our national debt is 35.7% of GDP and because we have for many years now run a balance of payments deficit, we have, like the US, been funding our life style by selling the family silver. More than half of all the shares of South African companies listed on the JSE are today owned by foreigners who, at the slightest hint that we might be headed in the same direction as Greece, will sell their shares and plunge our share market into a bear market of incalculable proportions.

That is why we desperately need to put corrective measures in place; why we cannot afford to give our workers pay increases greater than the inflation rate, why we cannot afford Jacob Zuma's national health scheme and why we cannot afford a situation where 5-million taxpayers support 13-million on the dole. If we do not change the way we do things, our debt will grow and, without a Big Brother like the EEC to bail us out, we will have to pay increasingly more to service our debts.

It sounds like an impossible thing to contemplate – a bankrupt South Africa – but who in the US ten years ago would have imagined that their government would be facing effective bankruptcy next Tuesday?

Of course another stay of execution will be worked out for the US. It has to be, otherwise we do face economic Armageddon. But to date our market outlook does not sense anything like that. In fact, although Fourier projection senses a weaker phase ahead from now until the end of October, the fact that ShareFinder's main investment



grade share categories have been rising throughout this phase of international jitters implies that for now we continue to be viewed as one of the world's safe havens. Furthermore the fact that the Rising Stars category is outperforming the Blue Chips suggests that investors are currently almost complacent about SA.

Meanwhile, many of you are bound to phone and ask which shares I have been buying so here is the list: Shoprit, Naspers, Clicks, Famous Brands, Capitec and Pinnacle. I got all of them at my target prices and all trades are already well into profit!

The months ahead:

New York's SP500: I correctly predicted a recovery. Now I sense some weakness until mid August before a recovery begins.

London's Footsie: I correctly predicted declines until the second week of June followed by a brief recovery. Now I predict gains until the end of August.

JSE Industrial Index: I correctly forecast a decline until around June 14 followed by a mild recovery. Now I see weakness until mid August before a recovery begins.

Top40 Index: I correctly forecast some June weakness followed by a mild recovery. Now I see a declining trend until the end of August.

ShareFinder Blue Chip Index: I correctly forecast weakness. Now I foresee a declining trend until mid October.

The Rand: I correctly predicted that the Rand would weaken. Now I expect weakness until mid-August followed by gains.

Golds: I correctly predicted a brief recovery but noted that the overall downward trend was likely to continue. Weakness appears likely for the month ahead.

Gilts: I correctly predicted a phase of weakness. Now I sense weakness until at least mid-August followed by a recovery.

The Predicts accuracy rate on a running average basis over the past 395 weeks has been 80.32%.