Richard Cluver Predicts

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

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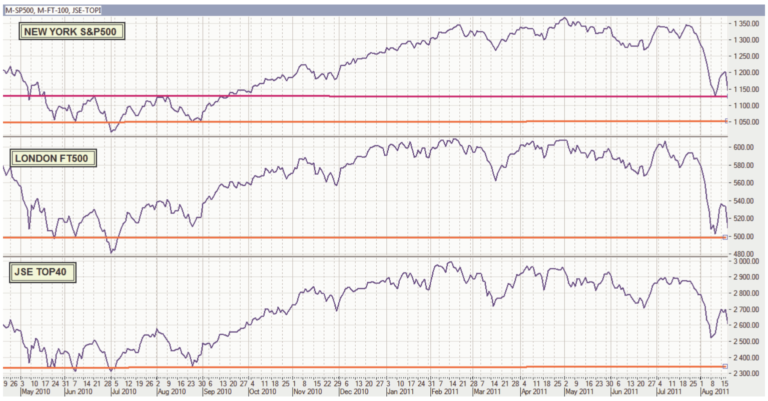
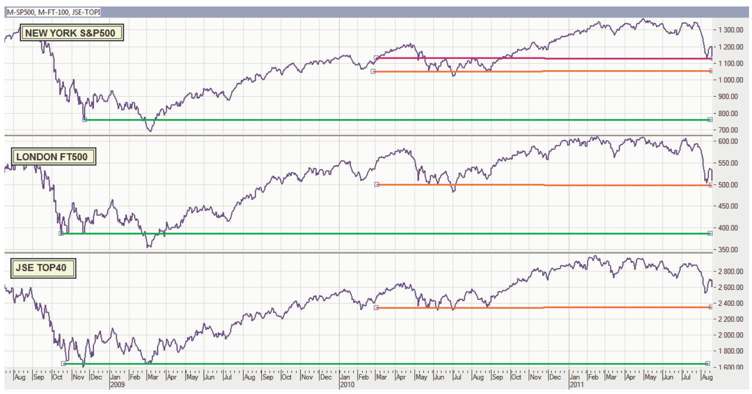
The JSE had its worst fall in more than 15 months yesterday day, tracking equities elsewhere which slid on renewed worries about the global economic recovery.
Cause of the plunge was a report from investment bank Morgan Stanley warning that global growth was slowing and that the United States and Europe were on the edge of a precipice that could precipitate a new recession…..just two years after the end of the last one.

In the wake of the report, the Dow Jones Industrial Average fell 419.63 points (3.68%) to 10 990.58 in closing trade following an earlier rout on Europe's bourses. The broader S&P 500 sank 53.23 points (4.46%) to 1 140.65, while the tech-heavy Nasdaq Composite was hit harder by selling, tumbling 131.05 (5.22%) to 2 380.43.

The JSE Top-40 blue-chip index ended 3.37% lower at 26 030.31, its heaviest daily decline since May 2010 while the JSE All Share Index fell 3% to 29 288.86. However gilts rose with the yield on 4-year bonds hitting a new all-time low of 6.67% as a result of strong overseas buying because local bonds still offer better returns than those of the Developed World. Despite this buying, the rand extended its losses against the dollar trading at R7.20/$ at the close, after earlier hitting a session low of R7.2505/$. Wednesday's close was R7.0927/$.

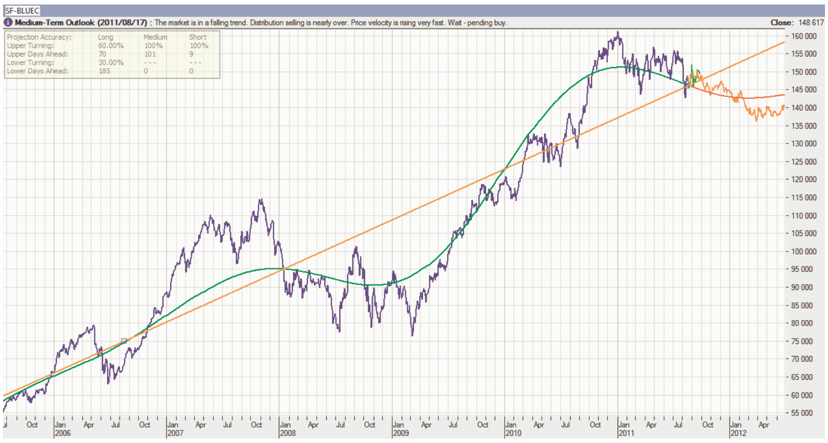




Reported in bare statistics like that; which is how in essence South Africa's financial press covered the events this morning, it is enough to scare the wits out of most investors. So at times like these, I always turn to my graphs to get a feel of what things really look like. So consider my composite on the right and you will immediately understand why British investors in particular are so worried. The red line on the FT500 Index links the bottom turning points of the 2010 bear phase.

Now let's step back another year to the bottom of the last real bear phase which market the beginning of the Great Recession. The green support lines delineate just how far these markets still have to fall before they begin telegraphing that all the financial reconstruction work that has been done since 2008 has been to no avail. For that point to have been reached, New York will have to lose a further 36% of its total value, London will have to lose 24% and the JSE 37%. That's a very long way to go and, as my two graph composites make clear, the markets are poised today to attempt to make a double bottom support level at the lows achieved on August 10; at 1148 in New York and 498 in London. Today could therefore be critical. A sharp downward plunge from here would send panic signals to the world.

Now I have been warning readers for the greater part of this year that 2011 was likely to be a year of market weakness and the ShareFinder long-term projection overleaf should thus be no surprise to you. It offers both the good and the bad news: The bad news is that ShareFinder's analysis systems suggest that this phase of weakness is not likely to be over until the first quarter of next year. The GOOD news, however, is that so far as South African blue chips are concerned, the further declines are unlikely to be anything as bad as the prophets of doom are suggesting.



And, for the record, the thing that is likely to pull our market out of recession ahead of the rest is the resources sector which I have projected in my second composite on this page. As the graph suggests this sector could bottom in December before beginning a recovery which should significantly improve the local economic mood.

And looking for a share that might be worth watching if this trend proves correct, I have graphed the projection for Sasol which has been taking considerable strain lately and appears likely to bounce back strongly from mid-November.

The months ahead:

New York's SP500: I predicted a continuation of the recovery trend but warned readers not to expect a smooth ride. Now I see the recovery delayed until the month end..

London's Footsie: I correctly predicted further declines in the short-term with the beginning of a recovery next month. I continue to forecast a recovery but it will be delayed until around mid-September.

JSE Industrial Index: I correctly forecast further weakness with late gains beginning. And I expect that recovery to begin in mid-September.

Top40 Index: I correctly forecast initial weakness followed by a recovery. And I foresee the recovery will begin in mid-September.

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ShareFinder Blue Chip Index: I correctly forecast an up-trend with a few hiccups along the way. I continue to hold that view with weakness in the week ahead.

The Rand: I correctly predicted a short-term recovery which I now expect to continue until mid-September.

Golds: I correctly forecast continuing gains. Now, however, I believe golds have completed their run and a sharp downturn could be in the offing.

Gilts: I correctly predicted a resumption of the strengthening trend. And I expect it to continue until mid-September.

The Predicts accuracy rate on a running average basis over the past 398 weeks has been 80.37%.

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