

# Richard Cluver Predicts

In our 22<sup>nd</sup> year of service to the investing public of South Africa



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**Nothing, I have found in a long career as a financial journalist, focuses the mind as acutely as sitting down at a keyboard to argue out the pros and cons of the marketplace. And I have to confess that this week as I penned the editorial for the latest issue of *The Investor*, I reached my gloomiest point in as long as I can remember.**

The world, I concluded, was hovering on the brink of a total financial melt-down and for the first time in my life I could see no way out for individual investors but to sell their shares and buy Kruger Rands as the only remaining safe-haven in a foreseen world engulfed in monetary chaos. It seemed inevitable that Greece, which has been totally unable to sufficiently rein in government spending, would default on her foreign debts at the end of this month and that that this would trigger intolerable interest rate hikes for other highly indebted "Club Med" countries like Italy, Portugal and Spain sending them in their turn into similar defaults in a widening crisis that could shortly bring down Britain, France and Belgium as well.

Then yesterday, grasping at straws, markets rebounded on news that European leaders had been conferring together and were confident that a way forward could be found. Former Portugese Prime Minister José Manuel Durão Barroso who is now President of the European Commission, announced that he would soon present proposals for eurozone states to issue joint bonds - although such a step is likely to be fiercely resisted by Germany. Simultaneously, French President Nicolas Sarkozy and German Chancellor Angela Merkel voiced confidence that Greece would remain in the eurozone, after speaking to Greek Prime Minister George Papandreou via teleconference.

Bottom line, of course, is that the only solutions world leaders can present will in the end analysis involve printing further mountains of money which down the line will boost the prices of "real" assets like precious metals, works of art, blue chip shares and.....property. Ironically, much of the world's current financial malaise stems from the fact of a property value bubble that burst back in 2007. Currently some 20% of US property-owners who are still occupying their homes, are in mortgage default and home prices have fallen severely for the first time since the Great Depression of the 1930s as a consequence of oversupply. That is the very heart of the current economic crisis in the US. And stemming from it has arisen a basic mistrust among investors of all the traditional monetary safe havens.

Mistrust has led to a culture of saving to clear away indebtedness among ordinary citizens, and that is why US industry is in the doldrums....because traditionally free-spending Americans are holding onto their money. And since two thirds of US Gross Domestic Product is based upon retail spending, lack of GDP growth leaves them with a nation in recession. Repeat the same exercise throughout most of the developed world and we can quickly understand why we now have nearly planet-wide GDP stagnation.....And of course the next step down this horrific trail would be a series of Mediterranean defaults. Depression is staring us in the face and so we must all fervently hope that European leaders can in the next few days find both unity and a plan to move forward in confidence.

Ultimately, it is a lack of confidence that is the basis of the world's current woes. Unemployed people really do want to work (most of them) and the rest of the world's people really want to get back to living in a reasonably carefree manner. We all desperately need to believe that the leaders we elected to run our countries actually know what they are doing and that they are doing it for the benefit of everyone rather than just themselves.

So what do ShareFinder's charts suggest how the markets are likely to behave in the next few weeks? A glance at my chart overleaf of projections for South Africa's Top40 shares, suggests

that things are unlikely to grow more optimistic for the foreseeable future. Note that with the lone exception of the medium-term Fourier projection and the Market Volatility indicator, all the signs are pointing downwards.

And as the second composite emphasises, Wall Street, London and Paris similarly project that after a brief bout of optimism lasting for the next week or so, markets will again be headed south at least until mid-December.

Perhaps a few Kruger Rands might not be a bad option right now!



### The month ahead:

**New York's SP500:** I correctly predicted the beginning of a recovery trend which I continue to see lasting until the end of the month. But beyond that things do not look too promising.

**London's Footsie:** I correctly forecast the beginning of a recovery which I expect to run to the end of the month before the next decline begins.

**JSE Industrial Index:** I correctly forecast the beginning of a recovery which I continue to expect will shortly run out of steam...perhaps even mid-week.

**Top40 Index:** I correctly forecast a brief recovery but I expect it to run out of steam very soon.

**ShareFinder Blue Chip Index:** I correctly forecast that the up-trend would run out of steam very soon. Now I sense declines until early October.

**The Rand:** I correctly predicted short-term weakness and now I see short-term gains beginning on Monday.

**Golds:** I correctly forecast a looming downturn which I sense will begin early next week.

**Gilts:** I wrongly predicted a strengthening trend. Now I sense that at best bonds will move sideways for another week or two but will not begin to recover until next month.

**The Predicts accuracy rate on a running average basis over the past 402 weeks has been 80.51%.**

**Richard Cluver**