

Richard Cluver Predicts

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



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One of the great fallacies of investment markets is that the current trend will last forever...or at least for the foreseeable future.

Thus when pessimism reigns, there is a category of investors who go about muttering phrases like "You think this is bad....Just wait until next year!" And of course the contrary view also persists; that bull markets will last forever.

Thus, with a weakening Rand reflecting overseas pessimism and the selling of South African bonds, as well as shares to some extent, many local investors have overnight become prophets of doom. So how does one explain that in the midst of this, markets worldwide had one of their best days in years this past week?

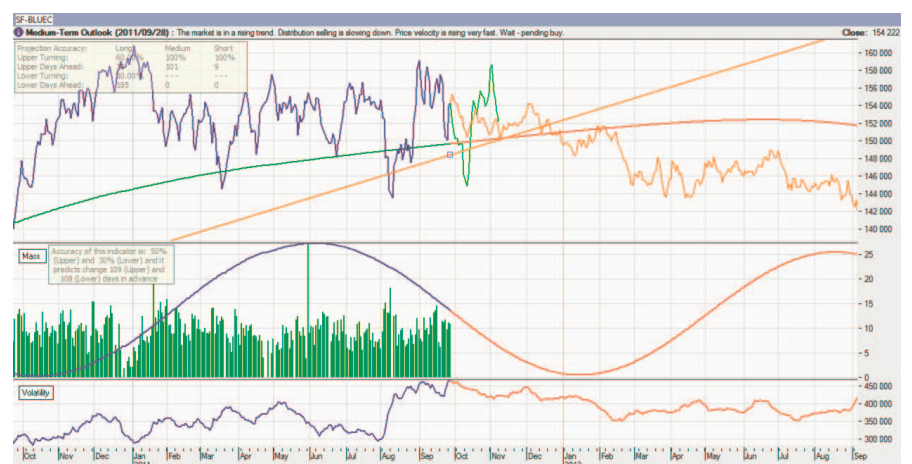
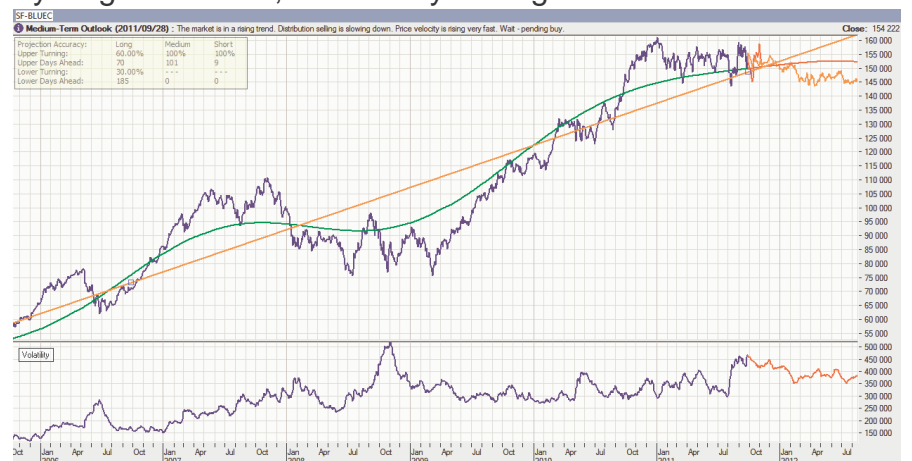
The reality, of course, is that market volatility always happens when uncertainty abounds. When, seemingly inexplicably, prices move up and down in random dashes, what one is witnessing is the eternal tug-o-war between the bulls and the bears; between the optimists and the pessimists. When such activity begins to soar, it is always a sign that a market trend is

nearing a change. To that end I have produced the following chart of the ShareFinder Blue Chip Index and, below it, our Market Volatility indicator. Note that each time volatility peaked it anticipated a market direction change, particularly so in June 2006 and October 2008 in each case marking the end of a bear market.

In this case, however, we could be looking at the end of a bull market. Certainly when one takes a long-term look at this graph we see a market that rose well above its long term trend line (the straight red line), then moved sideways for all of this year with the indicators pointing downwards in the medium-term.

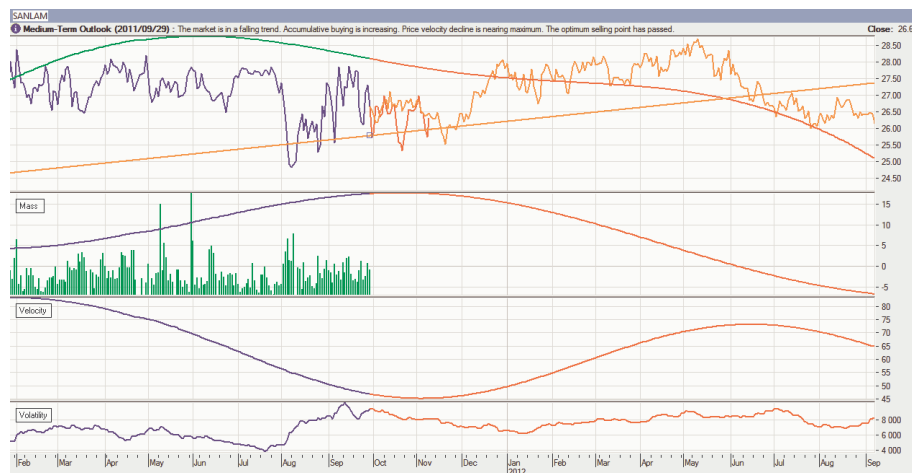
In my second graph composite I have zoomed in to look closer at the indicators and, on the balance of probability they seem to be pointing to a downward slide between now and next September. The decision in the long-term will not, however, be determined in South Africa. The world's monetary authorities are at last beginning to look as if they are all moving in the same

direction which could over the next few months see a greater sense of certainty returning to the world economy. But until we have clearer signs it is obvious that uncertainty and market weakness must prevail much as it is projected in my graph. So, on balance, it remains a time of



watching and waiting, with your investment strategy remaining one of weeding out underperformers and accumulating cash while at the same time remaining alert for blue chip opportunities.

This week's opportunity appears to be Sanlam on a price earnings ratio of just 9.1 and a consistent dividend growth rate of 15.16% compound over the past decade. It could be a very good buy if ShareFinder's short-term projection of R25.50 within the next three weeks actually occurs.



The month ahead:

New York's SP500: As I correctly advised last week, things were not looking too good for Wall Street with recovery only likely to begin around October 11. And I continue to see that date.

London's Footsie: I correctly forecast weakness until October 6 and I continue to hold that view.

JSE Industrial Index: I correctly forecast that a brief recovery might begin early in the new week but that it was unlikely to be very long-lasting with markets only finding bottom around October 11 at the earliest. Now I see the bottom occurring late this week.

Top40 Index: I correctly forecast a declining trend with a few brief up-days during that time. Now I foresee the recovery beginning possibly as early as next week.

ShareFinder Blue Chip Index: I correctly forecast continuing weakness with the market projected to bottom around October 9. Now I am extending that date to October 12.

The Rand: I correctly predicted that recovery seemed quite far away at this point. And I continue to hold that view foreseeing a sideways trend until mid-October at least.

Golds: I correctly forecast that the downturn would continue into October. Now I see the possibility of the market bottoming in the coming week.

Gilts: I correctly predicted that bonds would begin to recover at the end of the month and I now expect this recovery to continue for most of October.

The Predicts accuracy rate on a running average basis over the past 404 weeks has been 80.57%.

Richard Cluver