

Richard Cluver Predicts

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



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In times of economic trouble, investors understandably move their money into the safest assets in order to avoid the possibility of a severe loss. So, in the aftermath of events since 2008, it is quite understandable that there has been a flight into gold bullion.

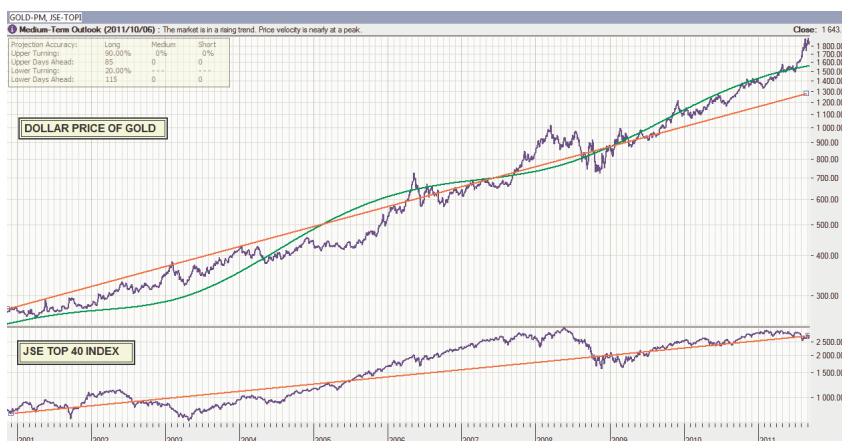
Now it is interesting to note that the gold price has been rising at compound 15.4% annually since the year 2000, significantly outstripping the performance of the JSE Top40 Index which only achieved 12.6% during that time. Of course gold pays neither dividends nor interest. However, the average dividend yield of shares making up the top 40 index during the past decade was 2.7%.

So you would have broken even had you bought gold and held it for that period.

If, however, you have followed my writings over the years, you would presumably have taken to heart my constant injunctions to make the bluest of blue chip shares the foundation stone of your investment portfolio. The basis for my argument is, as I have just re-stated, that in the event of economic hard times investors naturally move their money towards the best quality assets. So it is interesting to note that the ShareFinder Blue Chip Index has risen at 22.8% compound during the same period, easily outstripping both gold bullion and the Top 40 Index. Furthermore, Blue Chips delivered an average dividend yield of 4.1% during that period.

So if you do the sums, gold bullion offered compound 15.4%, the JSE Top40 Index companies 15.3% and Blue Chips 26.9%. So far so good. But what about the future? If you read the financial Press on a regular basis you will indeed have grounds for worry because the pessimists have been gaining steadily growing support in their belief that the world is headed for the double

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dip; another steep recession. So study my second graph carefully and note that Blue Chips have behaved very differently over the past nine months by comparison with the severe bear markets of 2000-01, and 2007-09. In relative terms blue chips have been trending sideways throughout this year.

Obviously they have taken some strain at the height of each recent market scare. But seemingly they have always returned to the same relative trend. In my third graph I have attempted to draw in a series of trend lines to try and make some sense of market moves over the past nine months. The mauve line is the long-term market trend rising at 22.8% compound and so you can see that Blue Chips have only once this past year dipped below the trend. They have, however, in moving sideways moved from being significantly overpriced to a stage when, in terms of their long-term trend, they might be said to be offering fair value.

But what does one make out of the green trend lines? Note that each market high has been higher than the last one and each major low has been lower than the previous one. So we can, by joining the dots find the basis of either a pennant or a broadening formation: clear signs that the market is confused. However the ever-reliable Fourier projection suggests that the market will continue sideways and modestly down for the foreseeable future. So what should investors do? As I have said so often lately, weed out the underperformers and hold cash in reserve, but don't hesitate to buy when Blue Chip bargains occur.

The month ahead:

New York's SP500: I predicted that the market would continue downwards for some time finding bottom around October 11. It now looks as if the turnaround might have started a little earlier with four or five up-days now likely before weakness sets in once more.

London's Footsie: I forecast weakness until October 6 but the turnaround came on the 4th. Now a recovering trend is trying to assert itself but there are likely to be many volatile days.

JSE Industrial Index: I thought weakness would persist until the 11th but the market appears to have begun a hesitant recovery on the 5th with a choppy recovery continuing until the end of October.

Top40 Index: I correctly forecast the beginning of a recovery which now looks like continuing, with many short-term reversals, for the rest of this month.

ShareFinder Blue Chip Index: I correctly forecast continuing weakness with the market projected to bottom around October 12 and I continue to hold that view.

The Rand: I correctly predicted continued weakness and I continue to hold that view foreseeing a sideways trend until early November.

Gold: I correctly forecast that the downturn would continue but hoped to see the market bottoming this week. Now I foresee further weakness until the end of the month.

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 405 weeks has been 80.62%.

Richard Cluver