

# Richard Cluver Predicts

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



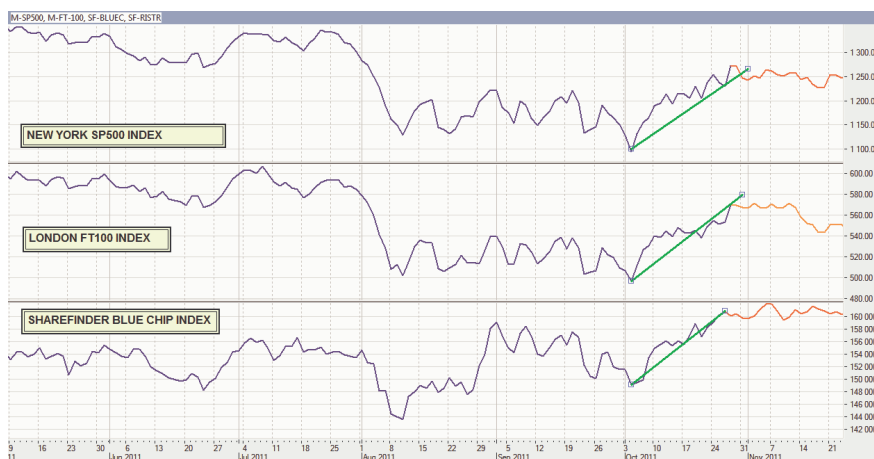
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I have to confess to some anxious moments this past week as the Greek crisis momentarily re-awoke when Prime Minister George Papandreou shocked everyone by announcing that without the approval of the people who elected him, he would not be able to sign the final bail-out agreement.

So it was interesting to turn back (on the right) to last week's ShareFinder projections to note that Fourier Transforms which replicate recurring market cycles, had anticipated several days of turbulence. However, as seasoned market watchers have for some time argued, Europe has no option but to force austerity upon its over-borrowed member countries and they in turn have no option but to live with them. Inevitably too, these bail outs have a massive political cost as Mr

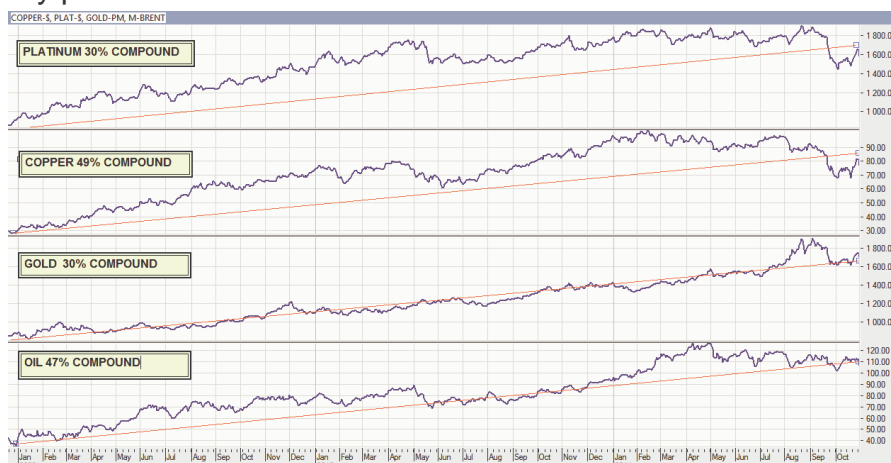


Papandreou is this week end being made acutely aware.

For a brief moment this week, however, we got a glimpse of the alternatives to austerity, for what the Greeks were obviously considering was to renege on their debts. Of course they would have then been obliged to print money to meet their daily running costs; and the consequence of this would have been Zimbabwe style hyperinflation. And ultimately the Greeks would have had to devalue their currency to achieve parity with the Euro. But by then the Greek people would have been happy to accept just about anything as an alternative to their daily misery, just as the Germans were in the closing stages of the Weimar Republic, Zimbabweans when they opted for a US dollar solution, Brazil a few years ago.....And so on!

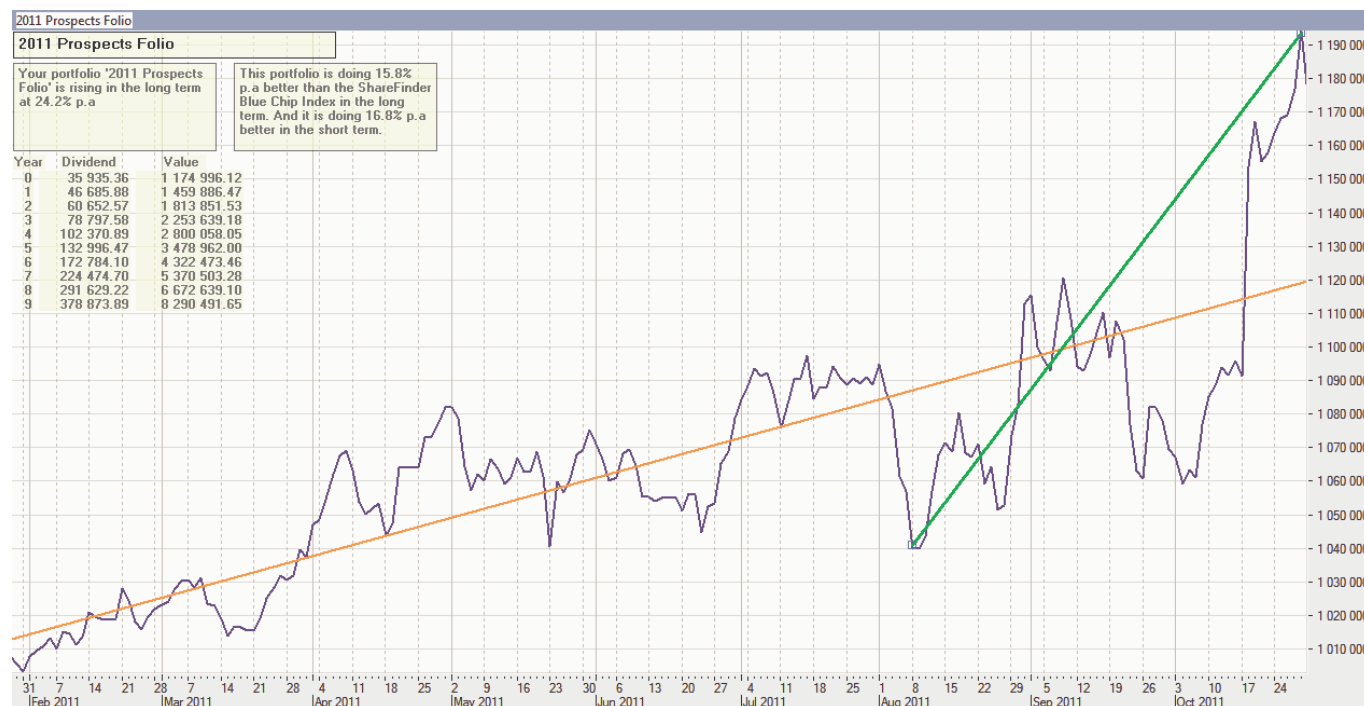
Of course the contagion of a Greek default would have collapsed Italy, Portugal, Spain and Ireland, roiling markets, and in the process pitching the rest of Europe and in turn most of the rest of the world into recession. We in South Africa would have paid a heavy price for a recession-bound world would not want our foreign-exchange-earning exports in quite the same quantities as recently, which would have collapsed the Rand and led to hyperinflation here as well. That is why markets momentarily panicked this week.

Consider now that the Developed World is in a similar pickle as Greece, and it has no Big Brother to turn to for help. It is barely possible to imagine the US reneging on its massive debts. The result would be a worldwide depression of that would make the 1920s like a dress rehearsal. Austerity is not a political option for the Developed World and so



there is only one long term solution to the global debt crisis and that is for governments to inflate their way out of debt. That is what Mr Bernanke's "Quantative Easing" is really all about and, as my graph composite illustrates, the response has been that the price of the principal commodities that the world needs have been rising at a compound annual rate of 40% since the crash of 2008.

What does the smart investor do to protect his money in such circumstances? Well, clearly you do not invest in bonds or money market instruments. Classic inflation hedges are property, precious metals, antiques, works of art and blue chip shares. So it is worth noting that the Prospects Portfolio which I selected last January is outperforming most. Since August it has accelerated its growth rate to a compound annualised rate of 85.4% as it wakes up to the new realities confronting the world.



### The month ahead:

**New York's SP500:** I wrongly predicted gains. Now I see declines continuing until the end of November.

**London's Footsie:** I correctly predicted that the market would top out quite soon. Now I foresee declines until early December.

**JSE Industrial Index:** I correctly predicted weakness and I see it continuing until late November.

**Top40 Index:** I correctly forecast weakness beginning and I expect it to continue until late November.

**ShareFinder Blue Chip Index:** I correctly forecast a retraction which I expect to last till the end of November.

**The Rand:** I correctly predicted a volatile strengthening which I expect to continue for a few more days.

**Golds:** I wrongly forecast weakness until well into November. However I continue to predict declines.

**Gilts:** I wrongly predicted gains. Now I forecast weakness until the end of this month.

***The Predicts accuracy rate on a running average basis over the past 409 weeks has been 80.6%.***

**Richard Cluver**