

Richard Cluver Predicts

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



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Notwithstanding the doom and gloom that has become all-pervading in the world's financial markets, South African Blue Chips continue to deliver startling growth.

Up 12.4% since the beginning of August, they have been steadily tracking their long-term growth trend which, as defined by the red mean line on my graph, has long been rising at compound 22.7% annually at which rate the shares are doubling their value every three years.

They have, furthermore, been growing their dividends at an even more remarkable average rate of 32.54%. That is, assuming an inflation rate of 6%, a real improvement of 26.54 which implies that anyone invested in a cross section of the ShareFinder Blue Chip list will see their real buying power doubling every 33 months.

It is important to read these figures against a background of a world reeling on the brink of depression and to briefly pause to consider whether the world's markets are really telegraphing such concern? So, note my second graph, New York and London are not doing anything like as well as the JSE. But both markets are still rising strongly at compound 15.6% and 11.1% respectively. These are hardly reflections of investors in a panic that they might be about to lose their life savings in a monumental market crash brought about by a melt-down of the European Union. Rather it would appear to be a realistic response to growing investor fears that the way central banks are printing money can only result in massive inflation rates down the line. Indeed, with countless examples of governments down the ages inflating themselves out of debt crises, this is the logical scenario for the foreseeable future for most of the Northern Hemisphere is drowning in a debt burden which it is quite impossible for them to extricate themselves from by any other means. Thus the exercises in austerity measures which are being forced upon countries like Italy and Greece are, in reality, simply window-dressing.

Nevertheless, it would be wrong to assume that markets are not discounting melt-down fears and it is accordingly reasonable to assume that quality shares are relatively underpriced currently and, indeed, at current average dividend yield of 4.1% compared with 2.8% at the peak of the market in 2007, they undoubtedly are.

How does the ordinary investor survive such conditions? Well as I have repeatedly stressed, the only way is to invest in inflation hedges such as shares, property, antiques and the like of which only Blue Chip shares are both easy to liquidate and offer regular value and income increases.



The month ahead:

New York's SP500: I wrongly predicted that things would worsen at least until the end of the month. Nevertheless I continue to sense a volatile downward trending market until Christmas.

London's Footsie: I wrongly predicted things worsening at least until the end of the month. Now I expect a recovering trend.

JSE Industrial Index: I wrongly predicted a declining trend. Now I sense a recovery until Christmas.

Top40 Index: I correctly forecast a recovery and I expect a volatile upward trend to continue.

ShareFinder Blue Chip Index: I wrongly forecast a retraction. Now I expect the market to bump along at the top for the rest of the month before declining in the new year.

The Rand: I wrongly predicted weakness. Now I foresee gains until mid-December.

Golds: I correctly predicted a recovery. Now I foresee a volatile sideways to weakening trend until the end of the year.

Gilts: I wrongly predicted weakness. Now I foresee gains throughout December.

The Predicts accuracy rate on a running average basis over the past 413 weeks has been 80.48%.

Richard Cluver