Richard Cluver Predicts

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

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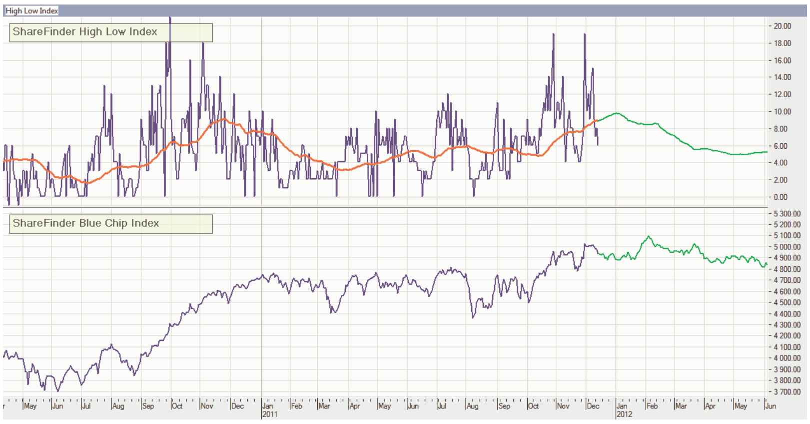
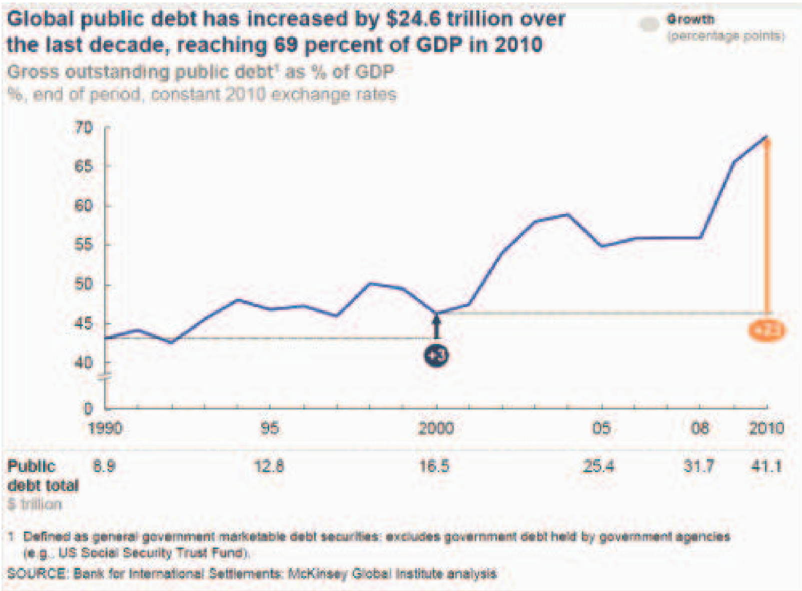
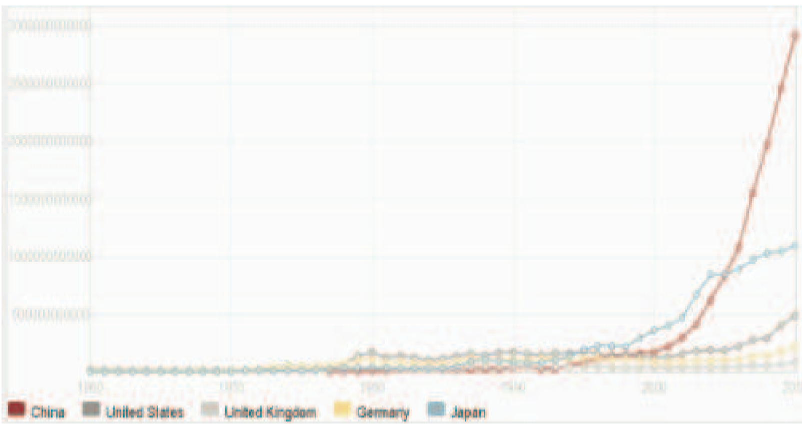
With the Christmas weekend upon us, I doubt that too many readers will be giving serious concern to their portfolios. It is in any case a time of very thin trading with usually exaggerated movements as a result and not to be taken all that seriously.



The good news, however, as portrayed by the graph composite on the right, is that most of the recent downward movement of the market is now probably over and late January should see the beginning of a recovery trend. Those who have thoughts beyond celebrations and Christmas pud might accordingly use this period to profitably add a few overlooked bargains to their portfolios.



More interesting is what the full year ahead might offer. I have accordingly used this opportunity to start by passing on some very telling graphs. We begin by recording the huge increase in global public debt of the past few years, noting that as a percentage of global GDP, public debt has risen by $24.6-trillion to now represent 69%.



In the process, note my third graph composite, the wealth of the world in the form of gold and US$ reserves has shifted significantly towards China and Japan.

Perhaps the most disturbing is my 4th graph which has been produced by the International Labour Organisation tracking the percentage of world populations who, largely as a consequence of the global recession and job insecurity are dissatisfied with their governments. The graphs track the rising levels of social unrest since 2006. Given that our news media here in South Africa have in recent months regularly published reports of

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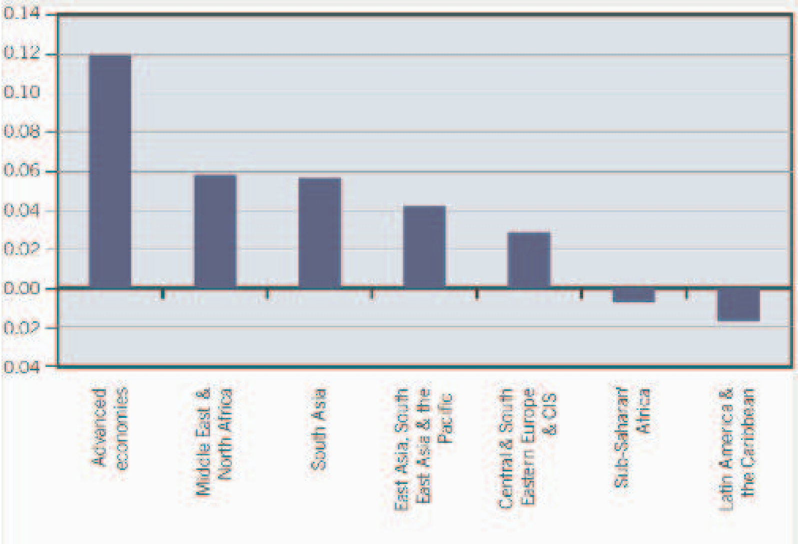
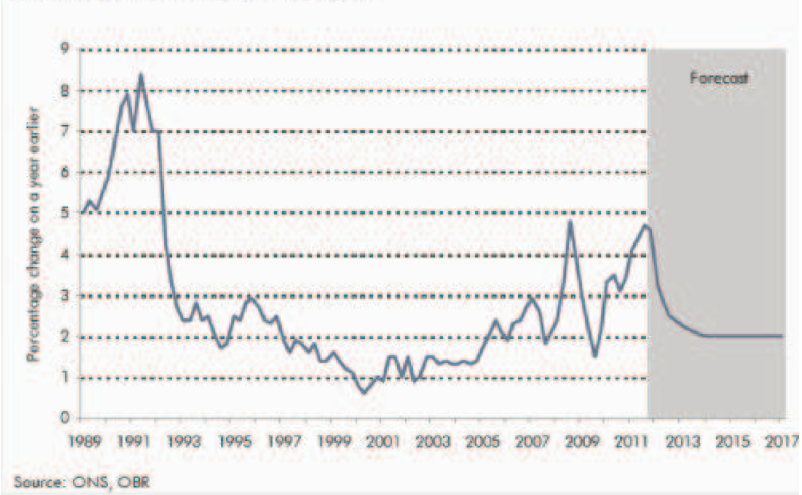
"service delivery protest" action, it is a sobering commentary to note that, relative to the developed world, sub-Saharan Africa has one of the lowest levels of social unrest.



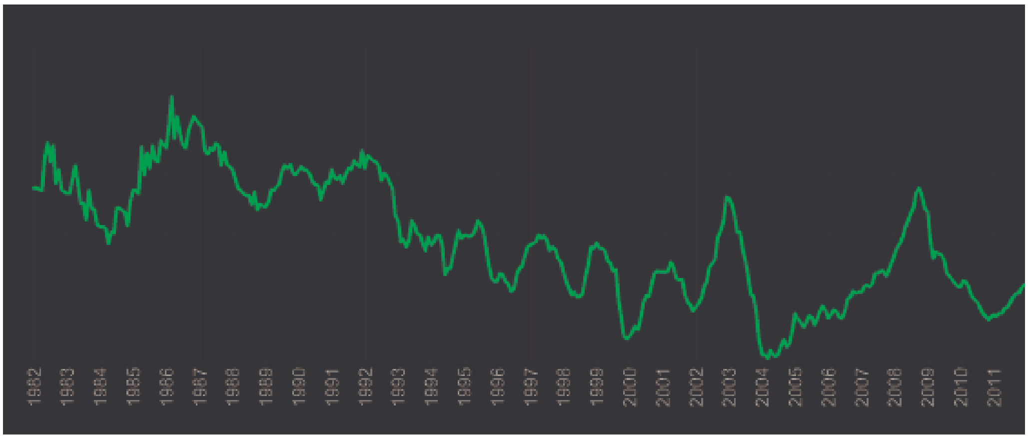
Of far greater consequence to investors everywhere, however, is the next graph which the British Government recently offered its electorate. It illustrates how inflation has been rising and, how they see it falling magically to just 2% over the next two years.

Chart 3.27: CPI inflation forecast

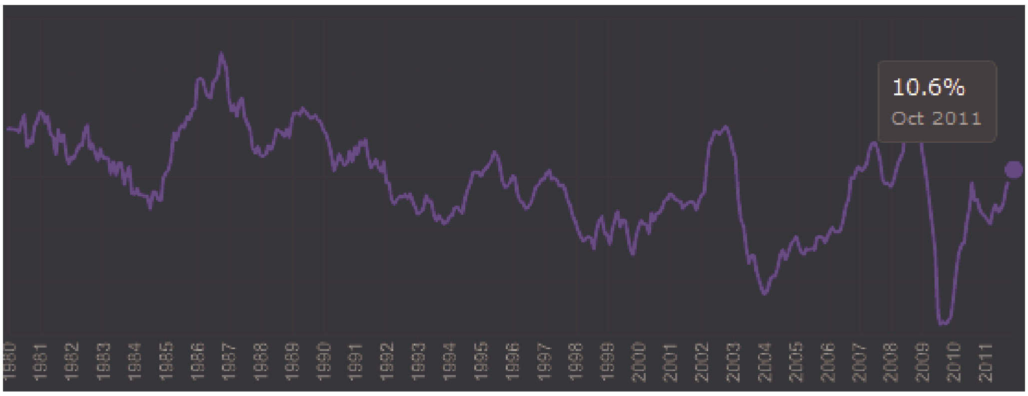


Given the rate that official debt has been rising and the rate that governments have been printing money in an attempt to inflate their way out of it, it is very doubtful that the projection will hold true. Rather, one should expect the rate of increase to accelerate for that is the nature of inflation.

Now, as the green graph on the right illustrates, inflation is just beginning to rise up in South Africa after years of decline from a peak rate of 21 percent back in January 1986 to a low of 0.1 percent in January 2004. This month it reached 6.1%, a level last seen in March 2007.



Far more disturbing is the Producer Price Inflation rate which, blue graph, is simply the inflation rate higher up in the pipeline. Now standing at 10.6% and showing no signs of slowing, it is a stern warning that the life savings of every South African are under threat.



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And, just in case you should think that our inflation up-tick is a consequence of the Eurozone crisis which has weakened our Rand and made imports of strategic requirements like crude oil, please consider how inflation has been surging in the USA from a low of 0.1% in December 2008 in the aftermath of the sub-prime crisis to 3.4% this week. Indeed US inflation has more than tripled since November last year. And, for the reason, you need look no further than the US Federal Reserve's policy of "Quantative Easing" which is a euphemism for printing money.

Our survival instincts in such circumstances dictate that we shall first of all think of our own situation in the face of threats like these, and coping with inflation is a simple task for the canny investor. You simply ensure that your money is invested in inflation hedges: securities that retain their real value as the value of money declines. First and foremost this list is made up of blue chip shares, property, precious metals, arts and antiques. What you absolutely do not want to have your money in is money and near money such as Government bonds. In this light we should view with deep concern Government proposals to force pension funds to invest directly into bonds.
More important, as a people, South Africans should note that the greatest burden of an inflation crisis falls upon the poor and upon those with fixed incomes. Soaring living costs are, as we have already noted, leading to soaring social discontent and, notwithstanding the reportedly low levels in Sub-Saharan Africa, we must expect heightened discontent within our borders.

President Jacob Zuma, reportedly concerned only with the succession struggle in the year ahead, is very likely to discover that the struggle to retain power might actually become the very least of his concerns as poverty pressure soars in the townships.

The month ahead:

New York's SP500: I correctly predicted nine or ten up-days before the Festive malaise sets in. Now a week or two of modest declines appears on the cards.

London's Footsie: I correctly predicted a sideways trend overall with dashes up and down in between while European markets yaw this way and that as the Eurozone crisis limps on. Now I sense a period of weakness until around January 9.

JSE Industrial Index: I correctly predicted a period of weakness. Now I sense an early recovery beginning with the start of the new year.

Top40 Index: I correctly forecast weakness. Now I see further declines initially followed by a bounce along the bottom until around January 19.

ShareFinder Blue Chip Index: I correctly predicted a seasonal slide. Now I sense a recovery beginning immediately after the festive season.

The Rand: I correctly predicted weakness for the rest of the month and I expect gains to begin soon after the festive season.

Golds: I correctly predicted a weakening trend until the end of the year. Now I expect a recovery to begin in the new year.

Gilts: I correctly predicted gains throughout December and I continue to expect them until around January 12 when new weakness seems likely.

The Predicts accuracy rate on a running average basis over the past 415 weeks has been 80.58%.

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