

Richard Cluver Predicts

In our 23rd year of service to the investing public of South Africa



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Most analysts, myself included, view the next few months with some trepidation because of the many unresolved issues surrounding the Euro Zone debt crisis. But not Sanlam's Kokkie Kooyman who argues that markets are currently pricing in all of the possible risk and he consequently predicts a possible 50% market gain in the next few months.

Mr Kooyman is no gun-slinging maverick. He is widely respected as a fund manager and the proof of his prowess is arguably the fact that his Sanlam Global Financials fund has returned 113.54% over the past three years while its benchmark, MSCI World/Financials TR, has risen by just 8.63% over the same period. That rate, it is worth noting, even outstrips the one year growth rate achieved by my own "Prospects Portfolio, though to be fair to us both Mr Kooyman's fund was quite a lot slower over the past year." Over the past 12 months the Prospects portfolio achieved a total return of 25.25% second only to the 26.79% achieved by the best unit trust performer of 2011, Investment Solutions Global Fixed Income Fund.

Returning to Kokkie Kooymans, in his view, emerging markets have been particularly badly treated by the Euro Zone crisis and as a consequence, he says, the equity risk premium which is an indicator of "cheapness" or fear of the equity market, is at its highest since the 1980's (higher now than in 2008). Clearly there is too much fear built into valuations and many currencies.

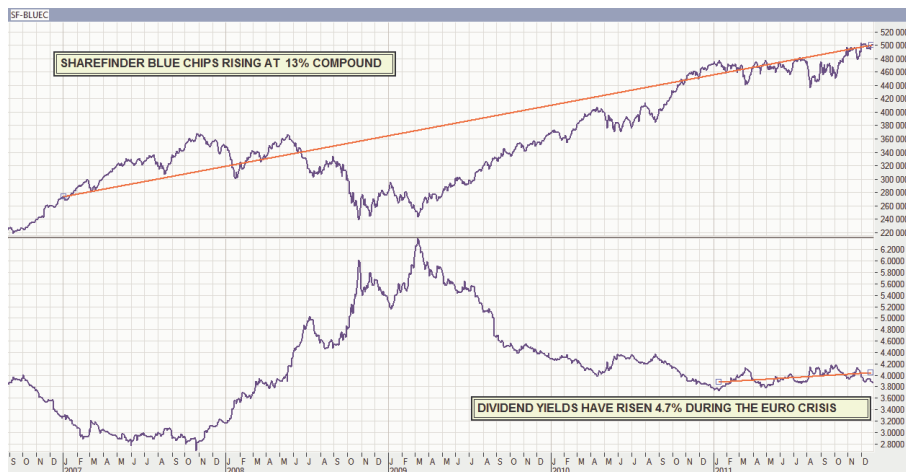
Interviewed by the on-line publication CityWire this week, Mr Kooyman added: "When the elastic does snap back, we might get a repeat of the 2009 rally, i.e. 50% in a few months.'

Well does his argument carry weight? Let us note that over the past five years the average South African Blue Chip share dividend has grown at a rate of 22% a year while share prices on average have grown by only 13% a year which implies in absolute terms that share prices have lagged by 45%. By implication, had the average Blue Chip share price risen in tandem by a like 45%, the current average dividend yield would be 2.67% compared with an actual 3.88% at present.

Such a dividend yield would equal the yield when our market last peaked in October 2007: when both South Africa and the world as a whole were on an adrenaline high fuelled by massive amounts of credit created within the world's banking system by private banks and finance houses creating toxic instruments like diced and sliced sub-prime mortgages which eventually led to the 2008 market crash. Nobody could realistically expect such highs again in the immediately foreseeable future. So Mr Kooymans is being over-optimistic. But how optimistic is he really?

While I buy Mr Kooyman's argument that markets are currently pricing in most of the fears of a series of Euro Zone sovereign debt defaults, we are in fact living in a very different world right now and the mood of the average investor is far from optimistic. So dividend yields equal to the levels of 2007 are clearly not warranted. On the other

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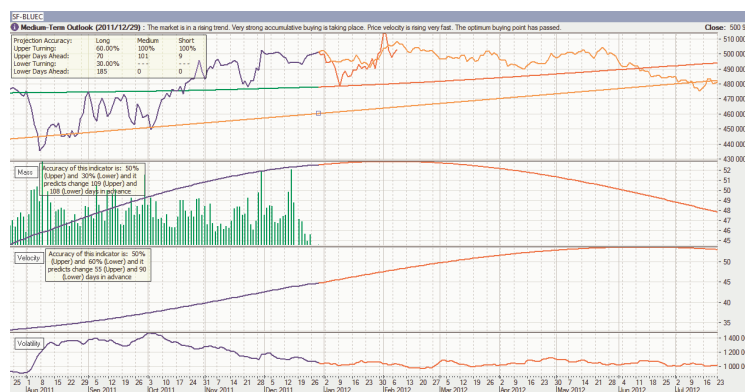


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hand, should by some miracle the Eurozone practically demonstrate during the current year that it is on the road to recovery, a significant improvement in share market pricing would be in order. But to what extent it is difficult to calculate.

Were it not for the European crisis one might calculate that on a straight line mean basis blue chip average prices should have been around 9% higher than they are presently. Furthermore, as a result of the crisis, dividend yields have actually risen by 4.7% over the past 12 months. Thus, if my thinking is correct, were there no Eurozone contagion affecting our share market values, I would conclude that share prices should be 13.7% higher than at present. Add in the usual market euphoria effect when a minor bull rally gains momentum and let us assume a 20% gain currently and a further 22% for the natural growth to be expected over the next 12 months and it might be fair to expect, in such favourable instances, that the market could end 2012 around 42% higher.

So Mr Kooymans might not be too far off beam after all though 50% in a few months time is a bit more than I can swallow! But what do ShareFinder's technical indicators predict for the next few months? The graph composite on the right is clearly positive, suggesting quite a sharp up-tick beginning next Monday and running up until between February 1 and February 8. Thereafter there are no long-term signs of market distress during the first half of 2012.



Of course technical analysis can only deal with known market data and recurrent cyclic events so, for example, no account is taken here of a sudden flare up on an already very tense Middle East which could seriously affect the world's energy supplies and bring in train some major cost-push influences upon an already troublesome inflationary trend.

The month ahead:

New York's SP500: I correctly predicted a week or two of modest declines until around January 11 followed by a recovery lasting until at least the end of January.

London's Footsie: I correctly predicted a period of weakness until around January 9. Now I see a recovery beginning on that date and lasting for most of January.

JSE Industrial Index: I correctly predicted a recovery followed by a short seasonal decline and then a recovery beginning on about January 12 lasting most of January.

Top40 Index: I correctly forecast weakness which should end around Monday followed by a recovery lasting the rest of the month.

ShareFinder Blue Chip Index: I correctly predicted a seasonal slide which I now sense will last until January 10 before a recovery begins with some minor ups and downs until at least the first week of February.

The Rand: I correctly predicted weakness which should end on Monday followed by a volatile strengthening trend until early February.

Golds: I correctly predicted a recovery beginning in the new year. Now I sense weakness until January 11 followed by a recovery until the end of the month.

Gilts: I correctly predicted gains throughout December and I continue to expect them until around January 17 when new weakness seems likely.

The Predicts accuracy rate on a running average basis over the past 417 weeks has been 80.67%.

