13 January 2012

World markets have got off to an unusually sparkling start that augurs well for the year ahead. In the past decade this is only the third occasion that the market has risen in the new year.

Importantly too, as the graph composite on the right clearly illustrates, while the optimism is a worldwide phenomenon, the bulk of the action is happening in the developing markets which are on average gaining at a compound annual rate of 121%.

Equally importantly, the Rand has been gaining relative to the world's major currencies which suggests a strong investment inflow as illustrated by my second composite.

However, there is still an element of caution as is to be expected in markets dominated by concerns about the possibility of an Euro Zone melt down with the result that the strongest investment flow is towards the blue chip sector as opposed to the riskier rising stars.
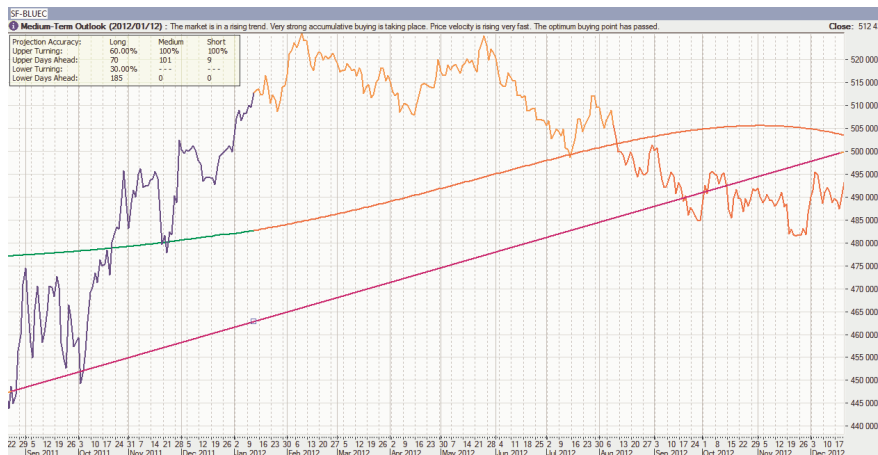
Looking ahead, ShareFinder's technical analysis systems suggest that this positive run will continue until at least the middle of February. And, considering the issues worrying the investment world on a global basis, that is about as far as one should dare to push technical analysis predictive systems.

Nevertheless, I have opted to throw caution to the winds and have pushed the system to offer us a Blue Chip shares projection for the year ahead and note with concern that the outlook is

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very pessimistic. However, the positive aspect of this projection is that it senses that Blue Chips will lose a mere eight percent between February 9 and November 23. And this bear phase is projected to be followed by a strong bull market lasting until April 2013.

I do stress that one should not rely too much upon these projections. Nevertheless they do underscore the importance of carefully tending your portfolio and weeding out any suspect companies. To that end I re-direct readers to the underperformers list circulated with this month's issue of Prospects.

The month ahead:

New York's SP500: I correctly predicted a recovery. Now I sense a brief downward correction before the bulls gain the ascendant once again until the end of January.

London's Footsie: I wrongly predicted a period of weakness until around January 9. However I continue to foresee declines lasting well into February.

JSE Industrial Index: I correctly predicted a recovery lasting most of January. Now I expect the market to peak around January 20 followed by weakness for at least the first two weeks of February.

Top40 Index: I correctly forecast a recovery lasting until early February but with increasing volatility.

ShareFinder Blue Chip Index: I correctly predicted a recovery with some minor ups and downs until at least the first week of February. I continue to hold that view.

The Rand: I correctly predicted a volatile strengthening trend. Now, however, I sense weakness beginning.

Golds: I correctly predicted weakness until January 11 followed by a recovery which I expect to last until January 27.

Gilts: I correctly predicted gains. Now I expect brief weakness lasting until around the 16th followed by around six trading days of gains before fresh weakness sets in.

The Predicts accuracy rate on a running average basis over the past 418 weeks has been 80.69%.

Richard Cluver

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