Richard Cluver Predicts

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

Volume: 23

Issue: 8

24 February 2012

"The Minister said the government is committed to an environment that will encourage business investment. Why then did he put the CGT rate up by one third and the dividend tax rate by 50%? This simply punishes investors." Leonard Brehm, national chairman of Grant Thornton SA.

It's a point well made. It is bad enough that we move on April 1 from a situation where dividends were taxed in the hands of companies at 10% and hence were, so far as investors were concerned, effectively a tax-free investment to as situation in which they will be taxed as part of the investor's income. But now we will have to pay a massive additional 50 percent.

Even worse, in my opinion, is the huge increase in capital gains tax. Already, this tax is a serious constraint upon the efficient management of personal portfolios because investors are so often reluctant to sell an underperforming share because of the capital gains impact of the transaction.

It is little wonder that this country bleeds jobs and lags so badly behind the leading developing nations when our government continues to treat entrepreneurs as a national affliction. Instead of creating an environment in which entrepreneurship might flourish so that we might grow our economy and provide full employment for all of our people, we punish them for their hard work and imagination. Government appears to view them as socially undesirable exploiters and in the process conveys an unmistakable message that they are not wanted here. It is no surprise than that international studies have identified the fact that a distinct lack of entrepreneurs is one of the most significant reasons why South Africa cannot achieve an adequate economic growth rate.

I am reminded of the story of a group of old friends who met regularly for lunch. Since a few had fallen upon hard times the wealthiest among them was in the habit of subsidizing their lunch. Everyone was happy with this arrangement until the restaurant owner decided to reward the group for their regular attendance by offering the friends a ten percent discount in future. Everyone was happy until one of the subsidized group realized that the discount in cash terms the wealthy man would receive on his weekly bill would be greater than the whole amount that the poor man was paying for his lunch. He argued that the wealthy friend had no need of the discount and demanded that the total sum of the discount be equally apportioned among everyone except the wealthy man. All the rest agreed that this seemed fair, particularly the poorer friends who got back more than they had been paying……until the following week when the rich man did not show up for lunch.

The point is well made, that as our entrepreneurs, our diligent savers, our careful planners and all those who have taken the trouble to sufficiently educate themselves in order that over a lifetime of sacrifice and diligence they might create a nest egg adequate enough to ensure a comfortable retirement – as they gradually wake up to the realization that they are no longer welcome at the lunch party and take themselves off to less hostile places on this planet, this country will steadily decline, government revenues will decline and service delivery diminish until such time as those in charge are kicked out by the very people who had come to expect a free lunch…who believed it was their right!

The month ahead:

New York's SP500: I correctly predicted a stronger week with weakness beginning around now. Now I expect a downward trend until March 6.

London's Footsie: I correctly predicted the beginning of weakness on February 21 which I expect to continue into early March.

JSE Industrial Index: I correctly predicted a down-turn beginning last Friday. Now I expect a brief up-tick until the middle of next week followed by declines until around March 12.

Top40 Index: I wrongly forecast a decline which I expected to last until mid-week. However I expect the recovery will run out early in the new week followed by a decline until the middle of March.

ShareFinder Blue Chip Index: I correctly predicted a recovery lasting most of February. Now I sense a decline until the end of next week followed by gains for most of March.

The Rand: I correctly predicted a yo-yo recovery. Now the Rand is bumping its head on the ceiling and I expect weakness until the middle of March.

Golds: I correctly predicted recovery which I believe will end today with weakness lasting until March 6.

Gilts: I correctly predicted a recovery. Now I sense weakness at least until March.

The Predicts accuracy rate on a running average basis over the past 423 weeks has been 80.91%.

Richard Cluver