Richard Cluver Predicts

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

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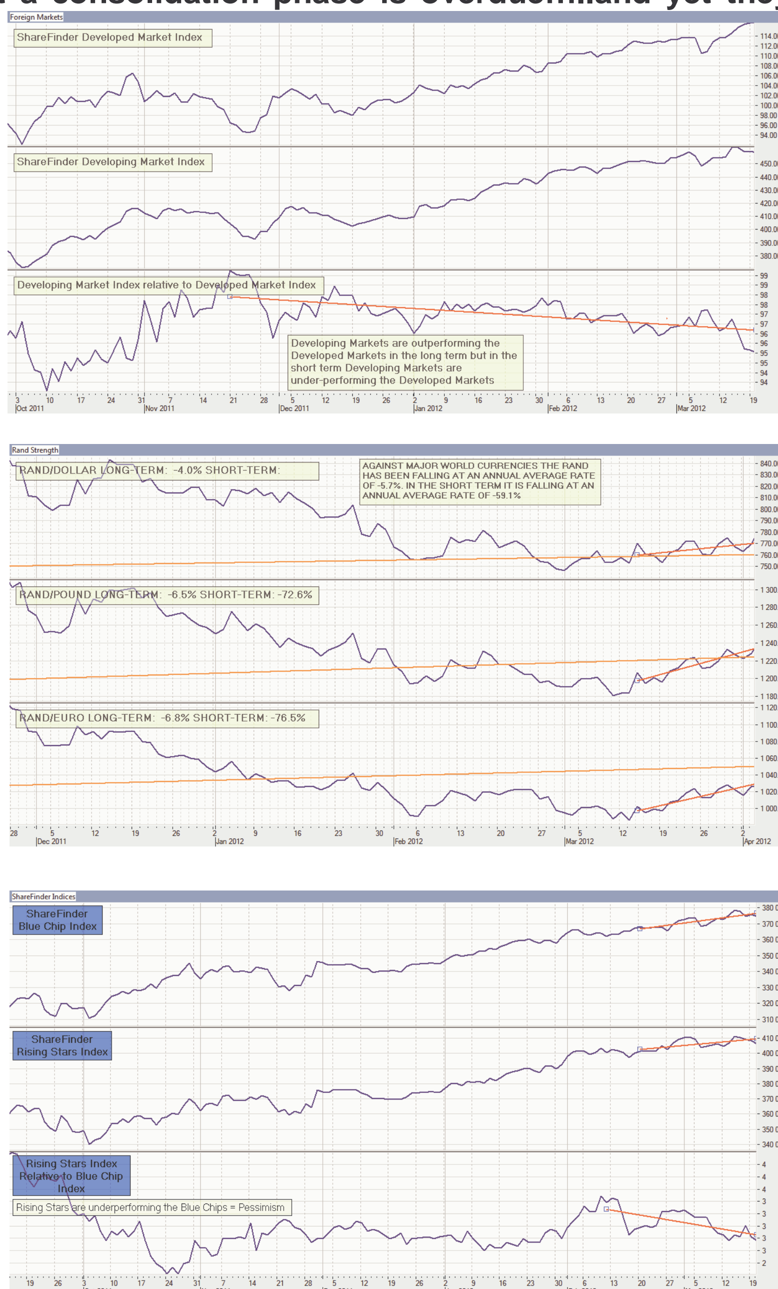
Time and again I have observed markets peaking after a long upward haul and with all my technical indicators warning that a consolidation phase is overdue…..and yet they continue inching upwards.

In part, of course, towards the end of most bull markets, astute investors are engaging in portfolio tidy-ups: they are moving out of the riskiest shares in their portfolios and buying the bluest of blue chips. It is as if everyone is watching and waiting for the eventual trigger to precipitate a fall. Thus, as I have highlighted to readers for some time now, investors have been withdrawing their money from the Developing Markets back into those of the Developed World. But, as my first composite makes clear, this trend is only clear when one examines the two investment sectors in relative terms for both Developed and Developing Markets are still climbing but, as the third graph in the composite makers clear, since December Developing Markets have been underperforming the Developed Markets.



Closer to home, the Rand has been taking some strain as a result of this trend as illustrated by my second composite. And, as my third composite illustrates, locally investors have been moving out of the category of lesser investment grade shares that I name the Rising Stars back into the relative safety of the Blue Chips.

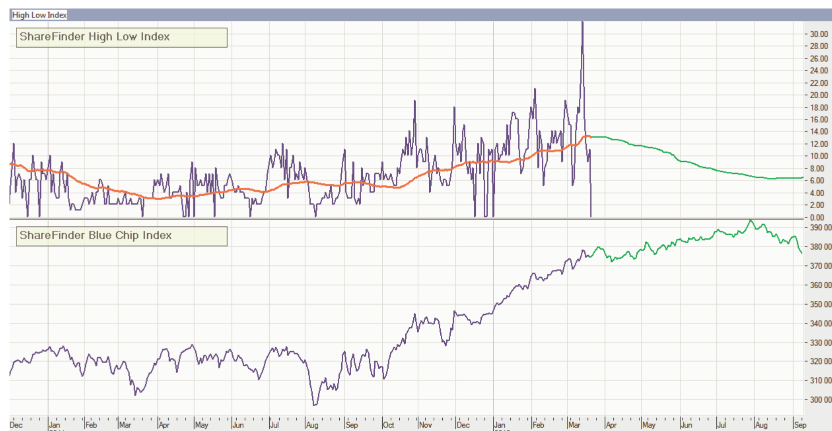
All of the foregoing should have prepared readers for the events of the past week and, more particularly yesterday when the results of a bond auction in Spain, re-ignited fears of earlier this year that the contagion of what has come to be known as the Greek

Disease could well spread to the rest of the “Club Med” countries and eventually trigger a melt-down of the whole Euro Zone.

The Spanish auction was a routine affair to raise operating funds for the Spanish Government. Spain yesterday but it produced severwe shocks when the authorities managed to sell only 2.59 billion euros ($3.4 billion) of bonds, just above the minimum amount they had planned for the auction and well below the 3.5 billion-euro maximum target. The average yield on the bonds due in October 2016 rose significantly to 4.319 percent from 3.376 percent at last month’s sale and secondary-market yields rose to 4.48 percent. As a result Spain’s 10-year borrowing costs are now approaching the levels seen in December, before the European Central Bank said it would make unlimited three-year loans to banks and temporarily relieved the pressure in the bond market.

Now add in the release of the minutes of Tuesday’s US Federal Reserve meeting which seemed to indicate a reluctance on the part of the US monetary authorities to introduce further stimulatory measures, such as quantitative easing, and we have a classic example of a double trigger which brought down a house of cards.

In response to this, the JSE slid 2.3% (3.3% in US dollars), the S&P 500 shed over 1%, while European equity indices like the CAC 40 (-2.7%) and the DAX (-2.8%) were also off sharply. The MSCI World Index fell 1.9% and the MSCI Emerging Market Index fell 1.7%. The rand was off a percent against the US dollar while there were also sharp falls in the commodity market.



Looking ahead, note the massive up and down spike of the ShareFinder High/Low index which highlights a classic confrontation between market bulls and bears with a result that the market this past week made both a massive new high and immediately followed it with a new low.

The immediate question is who is right. Fourier projection of the Blue Chip index suggests that the market will get over this hiccup and move on to new heights only peaking in late July while projection of the High/Low Index senses that it is downhill all the way from now. The next few trading days will tell. However, if you have followed my advice of the past few months you will already have disposed of any weak shares in your portfolio and be ready to cash in on buying opportunities that might open up in the next few months. I have already placed buy orders for shares I am interested in if they reach my target prices any time in the next three months!

The month ahead:

New York’s SP500: I correctly predicted a brief recovery but I am changing my view that overall April will be a down month and now anticipate gains.

London’s Footsie: I correctly predicted weakness which I expect will continue into May with a brief up-phase later this month.

JSE Industrial Index: I correctly predicted a brief up-trend. Now I foresee a sideways trend for the rest of the month.

Top40 Index: I correctly predicted weakness for most of the coming month with a brief recovery during the past week and continue to hold that view. I now sense that the down-phase will last until April 24.

ShareFinder Blue Chip Index: I correctly predicted gains which I expect to continue until the end of the month.

The Rand: I correctly predicted continued weakening until around April 17 before a recovery begins

Golds: I correctly predicted the down-trend would continue and I continue to expect that until at least until May 9.

Bonds: I correctly predicted a brief recovery followed by losses which I expect to continue until April 13.

The Predicts accuracy rate on a running average basis over the past 429 weeks has been 81%.

Richard Cluver