Richard Cluver Predicts

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

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Since I returned from Europe at the end of July I have watched the technical charts of the world's markets grow increasingly pessimistic while the economic news both locally and abroad has become steadily more gloomy.

And then last week we had the horror of the Lonmin mine massacre with ominous signs throughout this week that protest action contagion is beginning to spread throughout the Merensky Reef region which contains most of the world's known reserves of platinum group metals (PGMs) or platinum group elements (PGEs) - platinum, palladium, rhodium, ruthenium, iridium and osmium.

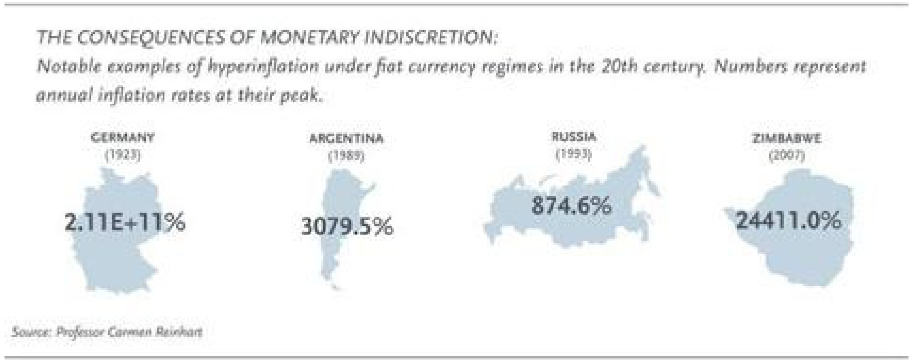
Furthermore, news from abroad has worsened steadily throughout this week. US employment figures are down, China's economy is slowing more than was recently expected, the European monetary crisis has worsened significantly and America's major political parties continue to squabble as the world's wealthiest and economically most influential nation heads ever closer to a "fiscal cliff" when, by previous agreements, taxes must rise and stimulus packages come to an end.

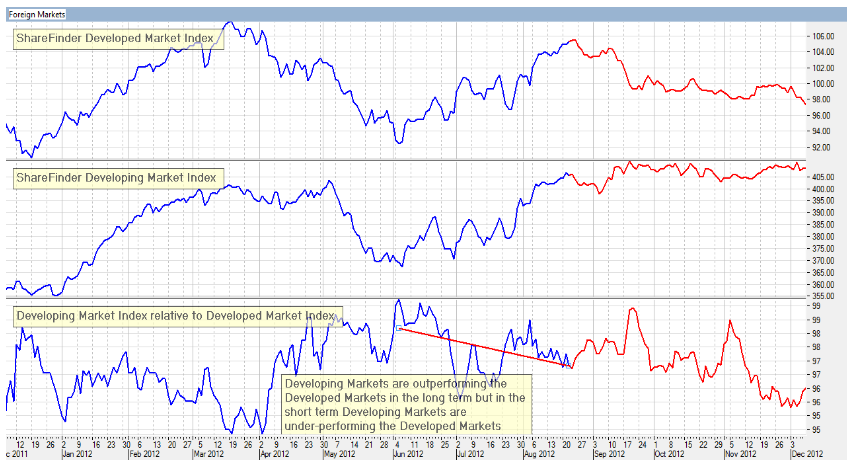
The so-called cliff is the result of a deal between Congressional Democrats and Republicans reached in July 2011which set up a bipartisan joint congressional committee to come up with a proposed round of $1.2 trillion to $1.5 trillion in cuts in federal spending over 10 years. This was to be the long term solution to bring down projected government deficits. In the short term, the deal included a first round of domestic and defense spending cuts of $917 billion over 10 years, and raised the statutory federal debt limit up to $2.4 trillion in two stages, enough to allow the government to keep borrowing into 2013. This prevented the unthinkable, a federal government default on its debt, which could have brought on a financial disaster worse than the one in 2008. But the long run deal never came to be. In November 2011 the co-chairs of the bipartisan special joint committee said in a statement that after months of deliberations they found it impossible to come to a bipartisan agreement to present to the Congress.

The cuts will come fast, $27 billion each in 2013 for defense and non-defense spending, plus $12 billion in cuts to Medicare. Taxes will rise as the payroll tax break and the Bush income tax cuts expire in January. This sudden fiscal contraction is the fiscal cliff. With a severe economic recession staring the US in the face, the US Federal Reserve has tried to assuage mounting panic by reassuring that it stands ready to mount more "quantative easing": an obfuscation which simply interpreted means the US will print additional money in order to try to head off the crisis.

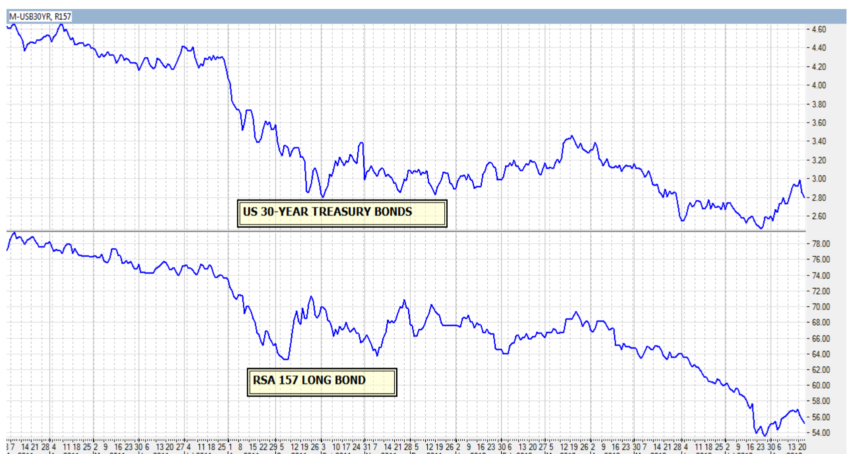
In Goethe's 1831 drama *Faust*, the devil persuades a bankrupt emperor to print and spend vast quantities of paper money as a short-term fix for his country's fiscal problems. As a consequence, the empire ultimately unravels and descends into chaos. As economist Scott Minerd observed this week, governments that have relied upon quantitative easing (QE) instead of undertaking necessary structural reforms have arguably entered into the grandest Faustian bargain in financial history.

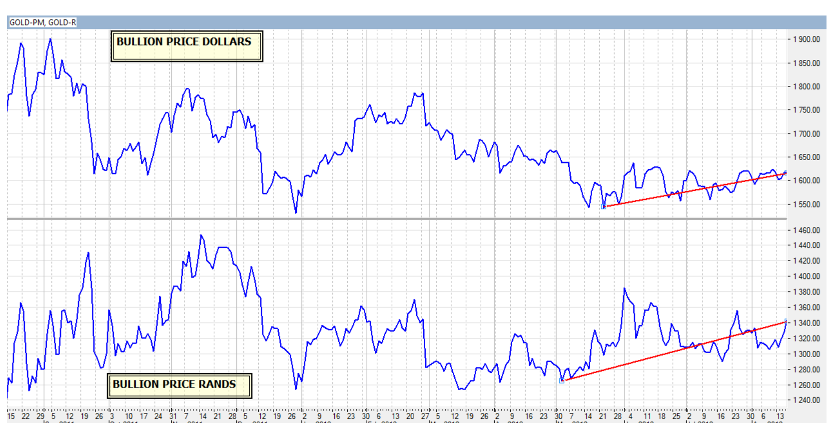
As a result of multi-trillion dollar quantitative easing programs, central banks around the world have compromised their ability to control the money supply, making them vulnerable to runaway inflation. When interest rates rise, the market value of central bank assets could fall below the face value of their liabilities, potentially rendering the banks incapable of protecting the stability and purchasing power of their currencies.





The latter explains why, in the face of of ever-worsening financial news, the world's investment markets have continued rising to new heights. Obviously the over-rising concern has become the fear of global hyper inflation. As a consequence investors have begun withdrawing their money from the Developing World's markets back to the perceived security of Developed World securities. That is why, although Developing World markets continue to reflect quite exceptional growth rates, in relative terms they are significantly underperforming the markets of the Developed World. And while fears of monetary crises normally trigger a flight into long bonds, the upward spike of both US and local bonds yield graphs since the end of July signify strong selling pressure. Furthermore, as my last composite illustrates, the flight into gold bullion since the end of July is causing the gold price to rise at a compound





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annual rate of 22 percent.

Collectively these are signs of a world in, so far, controlled panic. So note, with politicians worldwide dithering about remedies, ordinary investors are waking to the fact that the world economic order has changed quite dramatically from the norm we have understood for the most part of our lives. Ultimately a sustained period of austerity is the most probable outcome in which the safest place for your money will be investments in the shares of ultra-blue chip companies whose managements possess both the innovative skills and the resources of money and manpower to survive.

Meantime, the negative outlook of so many technical indicators should not be ignored. The longer a market correction is delayed the more inevitable it becomes and the steeper the likely fall. Investors should be cautioned at this time to conserve cash and sell the shares of companies that have been poor performers in recent years.

ShareFinder seminars:

I will be conducting FREE workshops in Johannesburg on August 29 and Cape Town on September 5 on each occasion starting at 6pm for a drink with snacks.

I will be taking a short look at the future, providing a preview of new ShareFinder software and together with Saxo Bank, introducing our new on-line trading facility which will allow you to manage your own share buying and selling from your home computer. Venues will be the Macquarie Building, The Place, 1 Sandton Drive, Johannesburg and the Cape Town Club in Cape Town. E-mail richard@rcis.co.za to reserve your place.

The month ahead:

New York's SP500: I correctly predicted gains. Now I sense the possibility of a sharp fall presaging weakness until mid-September.

London's Footsie: I correctly predicted continue rather raggedly gains as the market topped out. Now I sense declines until late September.

JSE Industrial Index: I correctly predicted an erratic sideways trend. Now I see weakness beginning mid-week but possibly only lasting until the end of the month after which a recovery seems probable.

Top40 Index: I wrongly predicted imminent weakness but I continue to predict that by month-end the market will be considerably weaker.

ShareFinder Blue Chip Index: I wrongly predicted the beginning of a month of declines but I continue to see weakness until September 10.

The Rand: I correctly predicted gains which I expect to continue until September 17.

Golds: I correctly predicted a day or two of gains before the market broke down. Now I see a declining trend until September 25.

Bonds: I correctly predicted gains which I expect to continue until September 21.

The Predicts accuracy rate on a running average basis over the past 446 weeks has been 81.06%.

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