

# Richard Cluver Predicts



In our 23<sup>rd</sup> year of service to the investing public of South Africa

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**The global economic outlook could change dramatically today after US Federal Reserve chairman Ben Bernanke has addressed the Federal Reserve Bank of Kansas City annual meeting in Jackson Hole in northwest Wyoming.**

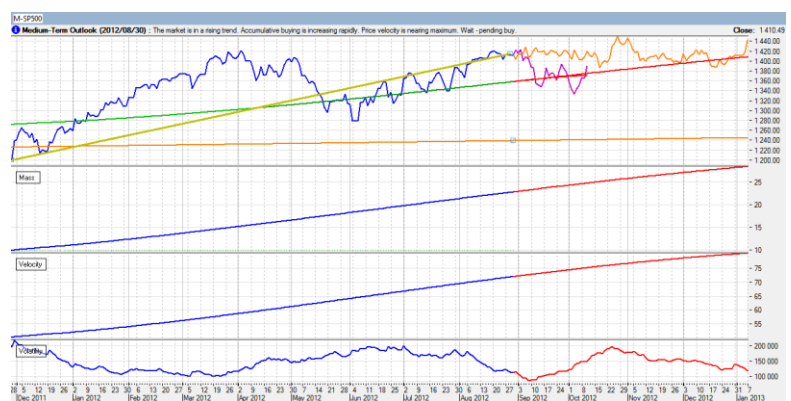
In passing it is worth noting why this conference has become so significant for global finance. For years the bank had tried without success to attract keynote speakers to their annual conference until in 1982 the organisers set their sights on Paul Volcker, then chairman of the Federal Reserve in Washington. They decided to pursue Volcker by dangling the prospect of one of his favorite pastimes: fly-fishing.

They needed to find a sure-fire trout-catching spot somewhere in the Kansas City Fed district, which covers Colorado, Kansas, Nebraska, Oklahoma and Wyoming, as well as northern New Mexico and western Missouri. They considered somewhere in Colorado. But a fly-fishing expert said Colorado's waters were too warm for trout in August. Go farther north, he said. Go to Jackson Hole.

The shift was made. And what's been known since 1982 as the Jackson Hole Economic Symposium took its place in economic lore. The event now draws 140 people every year, including some of the biggest names in economics and finance. They come to enjoy breathtaking views of the Grand Teton mountain range, to hike and fish and to engage in intellectual combat in the halls of the Jackson Lake Lodge. The Fed chairman always shows. The head of the European Central Bank normally does, too. (This year is an exception. The current ECB chief, Mario Draghi, who is fighting Europe's debt crisis, canceled plans to attend).

Why is today's meeting so important. Well, as I highlighted last week, the US is heading rudderless towards what has become termed the "Fiscal Cliff" when taxes are scheduled to rise to tackle's President Obama's \$5-trillion debt and simultaneously drastic cuts begin on state spending. In simple terms, at the end of this year the US will plunge into something close to a depression unless Ben Bernanke takes action and the only action he can take is to elect to print money on a scale that the US has never seen before. If he does, the US might be saved but at the cost of a tidal wave of inflation that will obviously flood the whole world.

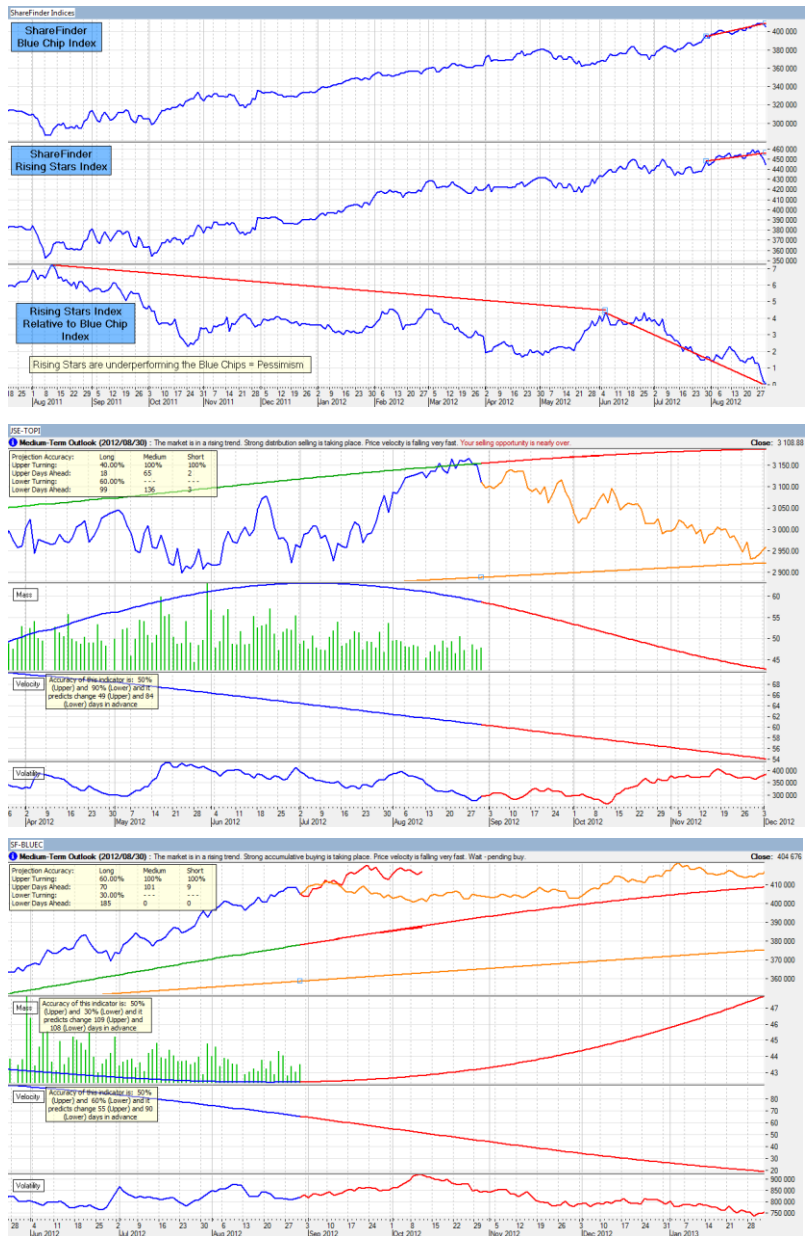
Equity markets always anticipate inflation by rising strongly and that is, of course what has been happening lately with, notwithstanding economic stagnation strangling most of the world, significant gains being made in most markets. The yellow trend line in my composite on the right illustrates how Wall Street's S&P500 index has been rising at compound 25% since the beginning of this year. More importantly, note ShareFinder's mauve short-term projection on the extreme right of the graph, Fourier analysis of market trends suggests that Bernanke will NOT announce further "quantative easing" ( his name for printing money).



Here in South Africa, investors are treating the situation cautiously, moving out of riskier “Rising Star” category shares into the relative safety of Blue Chips as illustrated by my next graph composite. Note my red trend-lines in the lower graph which depicts how the Rising Stars have been behaving relative to the Blue Chips: falling at compound 44% from January until June and since then falling quite dramatically at a compound annual rate of minus 100%.

My last composite depicting the current performance of the JSE Top 40 Index makes it clear, as I have been predicting for some time, that the JSE has for now topped out and, if Fourier projection is to be believed (it is over 80% accurate) the market is now headed down until at least the end of November.

Note here, the Blue Chips will also be affected but only modestly with star performers unlikely to even hesitate in their upward climb because, Jackson Hole or no Jackson Hole, the world is staring at advanced levels of inflation for the foreseeable future. That is the only means the major nations have of eroding their overwhelming debts without resorting to nearly punitive levels of austerity.



**ShareFinder seminars:**

Thank you to everyone who has attended my Durban and Johannesburg seminars these past two weeks. I have really enjoyed meeting you all.

The last of these free workshops will be held at the Cape Town Club in Cape Town on Wednesday, September 5 starting with drinks and snacks at 6pm.. E-mail [richard@rcis.co.za](mailto:richard@rcis.co.za) by Monday mid-day to reserve your place.

**The month ahead:**

**New York’s SP500:** I correctly predicted the start of weakness. Now I sense the possibility of declines until early October.

**London’s Footsie:** I correctly predicted declines which I expect to continue until late September.

**JSE Industrial Index:** I correctly predicted weakness lasting a few more days.

**Top40 Index:** I correctly predicted imminent weakness which I expect to continue until at least September 10.

**ShareFinder Blue Chip Index:** I correctly predicted the beginning of weakness. Now I expect to see modest gains well into September.

**The Rand:** I wrongly predicted gains, but I continue to predict gains starting around September 6 until September 17.

**Gold's:** I correctly predicted a declining trend. Now I see the market trying to consolidate around these levels until starting a recovery around September 24.

**Bonds:** I correctly predicted gains which I expect to continue until early October.

***The Predicts accuracy rate on a running average basis over the past 447 weeks has been 81.08%.***

**Richard Cluver**