

Richard Cluver Predicts



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

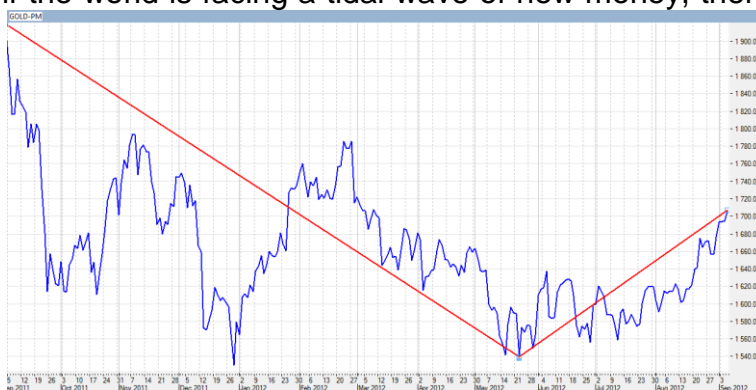
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Well my system indication last week that US Federal Reserve chairman Ben Bernanke might opt for moderation in his Jackson Hole speech proved to be wrong. He came out guns blazing preparing the world for the fact that the US will be printing money at an even greater rate than before.

Then this week European Central Bank President Mario Draghi made it clear that the EEC would be going down the same road. So it should be no surprise that the world's share markets went into overdrive. It is a no-brainer that if the world is facing a tidal wave of new money, then down the line hyperinflation must be the result. The prices of goods and services will soar and those wishing to hang onto the buying power of their life savings will need to invest into inflation hedges. The graph on the right illustrates this effect upon the price of another hedge; gold bullion which has been rising at a compound annual rate of 42.7% since mid-May.

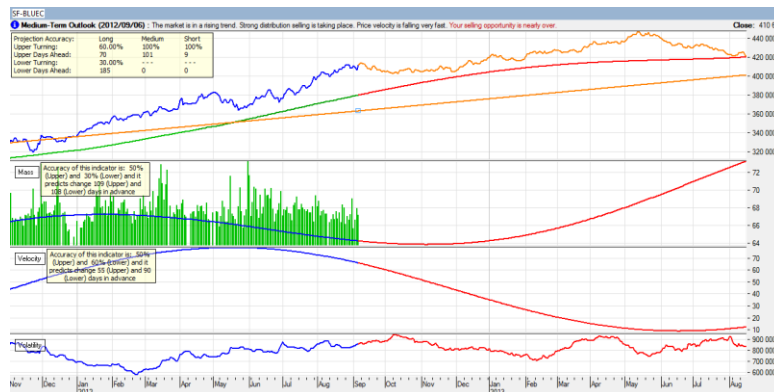


Sadly, as evidence emerged this week that fully half the miners shot at Marikana might have been killed at close-range – raising concerns that this was no ordinary riot-control exercise but something of a far more sinister political nature, foreigners have accelerated their SA share selling. Foreigners bought R7.889bn worth of shares last week and sold R9.751bn. Meanwhile, in the year to date, foreigners have been net sellers of R2.90bn worth of local shares, compared with net buyers of R7.528bn for the corresponding period in 2011. Furthermore, for 2011, foreigners were net sellers of R17.184bn worth of local shares, compared with net purchases of R36.410bn for 2010.



Relative to the developing world as a whole, South Africa is no longer as attractive to foreign investors and in any event, worries about the world's investment stability has seen foreign investors withdrawing their money from the investment markets of the "Developing World" back to the perceived safety of the "First World." So, notwithstanding the fact that yesterday saw quite spectacular rises in the price of investment grade shares locally, the JSE Top 40 index has been on the way down since the middle of August and, judging from the red lines of the technical indicator projections in the composite on the right, further weakness should be expected in the next few months.

In stark contrast to the market as a whole however, those shares that conform to my definition of blue chips, namely shares which have enjoyed constantly rising earnings and dividends for a minimum of a decade, have continued to rise at a compound average annual rate of 25% as illustrated by my graph composite on the right. Though they too appear likely to suffer from a brief slowing until early October, the upward price probability remains strongly evident.



Judging from the projection, October 5 looks like the most propitious date to be buying if you plan to add more blue chips to your basket.

Overseas portfolios

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

Those of you who would like as a consequence to invest into my British portfolio should now make contact with Peter Armitage of Anchor Capital who will be responsible for the placement of funds under my direction. You can e-mail him on parmitage@rcis.co.za or phone him directly on 011783 4793

The month ahead:

New York's SP500: I correctly predicted the possibility of declines until early October. And I see this trend continuing until October 3.

London's Footsie: I correctly predicted declines which I expect to continue until October 3 at least.

JSE Industrial Index: I correctly predicted weakness. Now I sense a recovery until at least September 25.

Top40 Index: I correctly predicted imminent weakness. Now I expect gains until September 25.

ShareFinder Blue Chip Index: I correctly predicted the beginning of modest gains which I currently expect to last until September 25.

The Rand: I correctly predicted the beginning of a recovery which I expect to continue until September 14.

Golds: I correctly predicted the market would try to consolidate. Now I sense declines until September 14.

Bonds: I correctly predicted gains which I said I expected to continue until early October and I continue with that view.

The Predicts accuracy rate on a running average basis over the past 448 weeks has been 81.12%.

Richard Cluver