

# Richard Cluver Predicts



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

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**Exactly a year ago in this column on September 16 2011 I recorded that I had just penned my gloomiest-ever editorial for The Investor Magazine in which I concluded that The world was hovering on the brink of a total financial melt-down and for the first time in my life I could see no way out for individual investors but to sell their shares and buy Kruger Rands as the only remaining safe-haven in a foreseen world engulfed in monetary chaos.**

It seemed inevitable then that Greece (which has still been totally unable to sufficiently rein in government spending) would default on her foreign debts at the end of last September and that this would trigger intolerable interest rate hikes for other highly indebted "Club Med" countries like Italy, Portugal and Spain sending them in their turn into similar defaults in a widening crisis that could shortly bring down Britain, France and Belgium as well.

I added the view that, "the only solutions world leaders can present will in the end analysis involve printing further mountains of money which down the line will boost the prices of "real" assets like precious metals, works of art, blue chip shares and property"

So it is interesting to note a year down the line that precious little has changed except that the majority of my clients with whom I have recent met in Durban, Johannesburg and Cape Town have added our internal political worries to the extent of their private nightmares. Their concerns are, however, somewhat masked by the fact that they are all making massive amounts of money as blue chip shares soar in value month by month. It is an illusion, of course, because the markets are really responding to exactly the issue I referred to last September; to the US Federal Reserve's decision to print money as fast as it can.

This week the Federal Reserve's Open Market Committee said it would keep trying to print money until the economy recovers. In short, the Fed said it will increase its purchases of mortgage-backed securities by \$40 billion **a month** until employment improves. So, indefinitely! Combined with other manoeuvres, the Fed said its asset holdings will increase by about \$85 billion **a month** through to the end of this year. Add to this last week's announcement that the EEC would be buying up "unlimited amounts of bonds issued by euro zone states" and it is a no brainer that massive global inflation lies down the line.

But clearly I was wrong in being so alarmist! The world has not yet undergone financial melt-down. Politicians and bankers have managed to successfully keep on kicking the can down the road, keeping the lid on each new crisis, while the public has come to learn to live with elevated levels of uncertainty. Even the street riots in Greece and Spain have diminished though ancient hatreds continue to simmer just below the surface against the Germans who are for now funding the bail-outs

How does the South African investor cope with this situation? My constant theme whenever a new crisis has entered the world stage over the past year...and there have been a number over the past few months and likely to be many more...has been advice to regularly review the quality of shares in your portfolio and eliminate the underperformers. This way you create cash with which to buy up the very best quality blue chips as and whenever a new crisis opens up a buying opportunity.

The problem is that economists are dealing with a situation that is outside of all modern financial experience. We are into the unknown so far as the world economy is concerned and so investors worldwide have been moving money concertedly away from risk into the bluest of blue

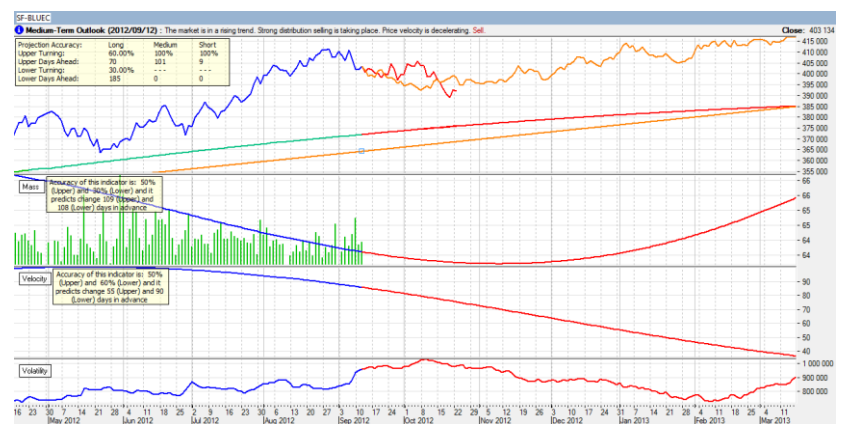
chip

shares.

The throw-away line in my column of last September about buying a few Kruger Rands really addressed the issue of the potential for absolute crisis. For example, mismanagement of our SA economy has taken us to the stage where we are now a net food importer. Thus, as the Rand weakens when people like Julius Malema stir up the masses, the resultant soaring costs of food provide even more fertile ground for short-term rabble-rousers like Malema. I don't think that the current level of local rioting will get totally out of hand, but we do have an incompetent police force and probably an equally incompetent army so something like a civil war is not entirely impossible. In such circumstances items like Kruger Rands become infinitely more important than property title deeds and blue chip shares but only so when society as we know it is in total melt-down and the men with ak47s are the only authority.

So it is probably true that the prudent investor, particularly those living in modern Africa, should always hold a few Kruger Rands for insurance purposes. Far better in the long term however, is to diversify your portfolio such that a portion is held overseas, the extent of which really depends upon how severely you rate the internal threat. It is in response to that view that I have lately been working to assist my readers to create such offshore portfolios. 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](mailto:parmitage@rcis.co.za) or phone him directly on 011783 4793.

Turning to the short-term outlook for blue chips, the market has been weakening since August 28 and looks set to continue on down until October 8 according to the projection on the right. So a little more patience is indicated if you are waiting to buy.



### The month ahead:

**New York's SP500:** New York spiked briefly upwards this week but I continue to predict declines until mid-October.

**London's Footsie:** Like New York, London spiked briefly upwards this week but I continue to predict declines until October 15 at least.

**JSE Industrial Index:** I correctly predicted a recovery which I expect to continue until September 25.

**Top40 Index:** I correctly predicted gains which I expect to continue until October 5.

**ShareFinder Blue Chip Index:** I correctly predicted the beginning of modest gains but I now anticipate a downward trend until September 27.

**The Rand:** I correctly predicted the beginning of a recovery but failed to anticipate this week's brief weakness. Nevertheless I expect a strengthening trend for a few more days into the new week.

**Golds:** I correctly predicted declines. Now I expect a recovery until early October.

**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 449 weeks has been 81.16%.***

**Richard Cluver**