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

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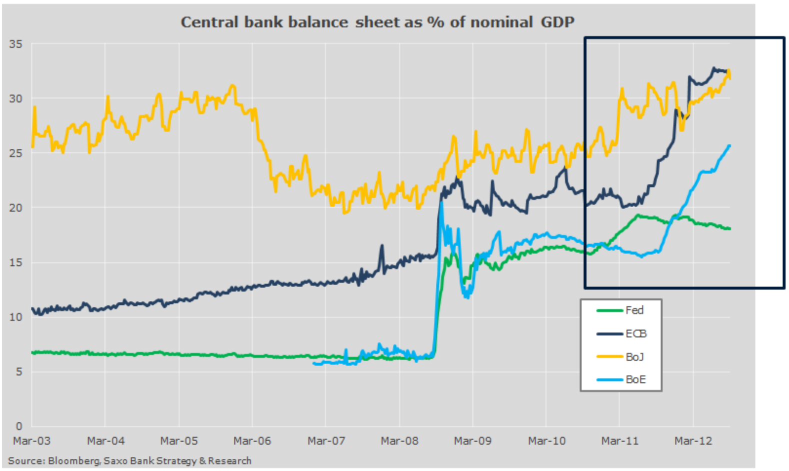
I am just back from a brief trip to the Far East which was mainly a holiday but gave me an excellent opportunity to talk to ordinary folk about their fears, hopes and aspirations. Our journey took us to Hong Kong, then Bangkok and finally to the little-known island of Koh Chang in the South China Sea.

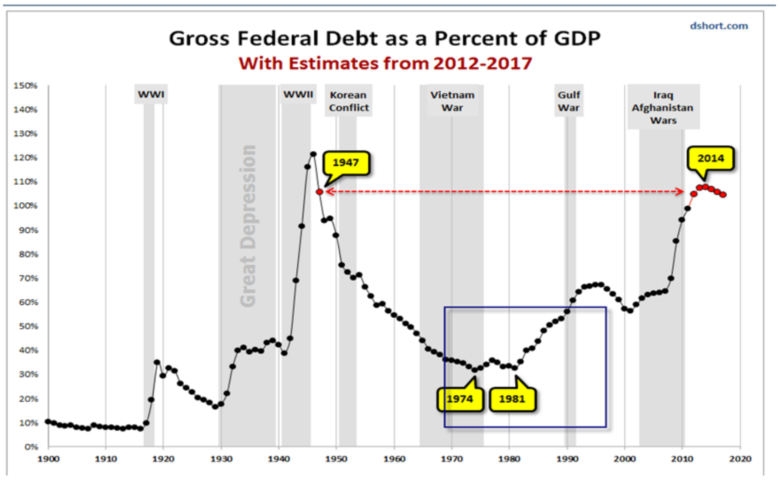
If you have an inclination to go east, then do put Koh Chang on your list. You get there by a "windie windie" aircraft via Trat on the Thai coastline and then a ferry and taxi. We stayed at the truly amazing Amari Emrald Cove resort which must be one of the finest hotels I have ever stayed at and, thanks to Thompsons Travel in SA who put everything in place for us, getting there was a breeze. If it interests you, talk to Llauren De Allende in Thompsons Johannesburg office who really went the extra mile for us on this trip.

One of the joys of the Amari Hotel was that there was free wi-fi everywhere so that I could really keep in touch with the world from my waterside lounger. Plus, unasked, they delivered a sheaf of world class newspapers to my bedroom each day which really helped to put the Far East into perspective.

I knew, for example, that the Chinese people are in general fed up with their Communist Party leadership and long for a true democracy. Protest action is widespread because, if informed newspaper columnists and ordinary folk on the ground are to be believed, the extent of corruption in China is now totally overwhelming and, more to the point, as a result the illegal outflow of cash from China is far greater than the inflow of foreign direct investment. Since at $85-billion, China is the world's second highest recipient of FDI (compared with $194-billion that flows annually into the US) the implications are significant. Add into this volatile pot the fact that inflation is on the rise throughout south-east Asia, in part a direct result of the US Federal Reserve's "Quantative Easing" – what is increasingly looking like a silent monetary war that is likely to have significant long-term consequences for the region….and for South Africa which now lists China as our single most important trading partner.



Everybody's hero: Prez Reagan started the excess….Obama perfected it...



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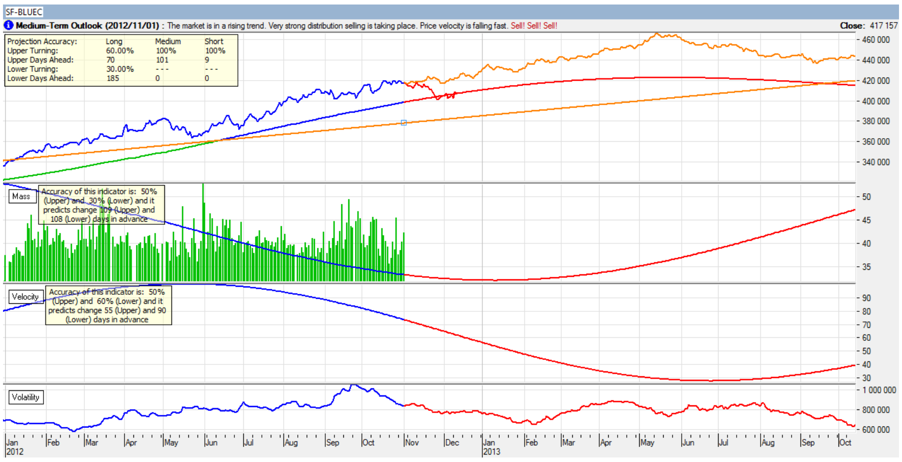
http://www.rcis.co.za
richard@rcis.co.za

I have run similar graphs regularly in recent months but the first one on page 1, courtesy of Bloomberg and Saxo Bank, highlights how dramatically the central bank monetary explosion is happening. Of course the US will say it is merely trying to counteract a soaring unemployment problem but the more obvious reality is that when goverrnments print money they reduce in real terms the amount of money they have to pay back on their borrowings and, as my second graph illustrates, US debt is now at virtually the same level as it was at the end of the Great Depression. With President Obamah back in the White House, it is an even bet that the US will not be able to balance its books in the forseeable future.

Furthermore, the chances of Obamah finding an effective solution to the US Fiscal Cliff are much more remote than would have been the case with a Romney presidency given that Obamah has a parliament that blocks most of his moves. So brace yourselves for a somewhat rocky road for the next month or two.



As a precaution I have this week begun selling so as to free up between ten and 20 percent of my capital. As always I have been doing this by disposing of laggards in my portfolio and, noting ShareFinder's warning in the blue chip analysis on the right that investors should "Sell Sell Sell", technical analysis indicators agree with this precautionary strategy. In the composite, only medium-term Fourier projection disagrees.

The month ahead:

New York's SP500: Other than the fact that it began a little earlier that I predicted thanks to hurricane Sandy, I correctly predicted a downturn which I expect to continue until year end unless, miraculously the US finds a balanced solution to its "Fiscal Cliff" problem.

London's Footsie: I correctly predicted a downwards trend that I now expect to continue well into December.

JSE Industrial Index: I correctly predicted an upward trend until mid-November and I continue to see gains until December 4.

Top40 Index: I correctly predicted a volatile recovery. But I believe that to be over and now expect a downturn until early December.

ShareFinder Blue Chip Index: I correctly predicted a rising trend. Now I expect weakness until the end of November.

The Rand: I correctly predicted a recovery followed by weakness. Now I foresee a volatile period with overall gains until November 23 when I foresee the start of a fresh phase of weakness.

Golds: I correctly predicted gains. Now I foresee a volatile declining trend to the end of the year.

Bonds: I correctly predicted a new phase of weakness which I expect to continue until next Wednesday followed by gains until the end of the month.

The Predicts accuracy rate on a running average basis over the past 455 weeks has been 81.36%.

Richard Cluver