Richard Cluver Predicts

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

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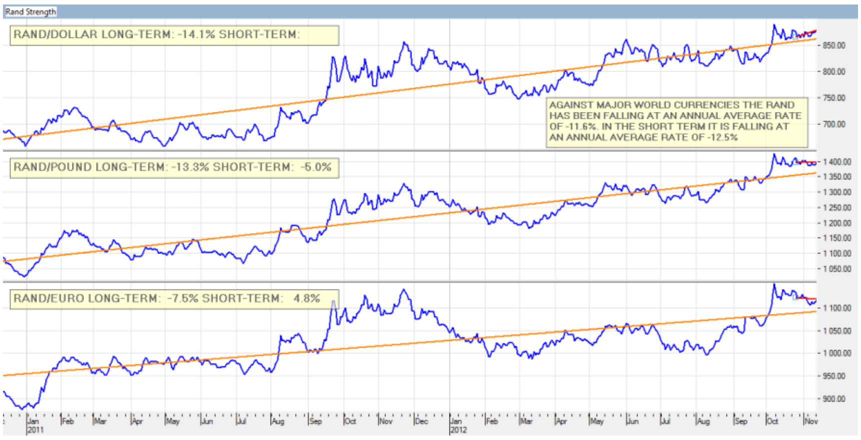
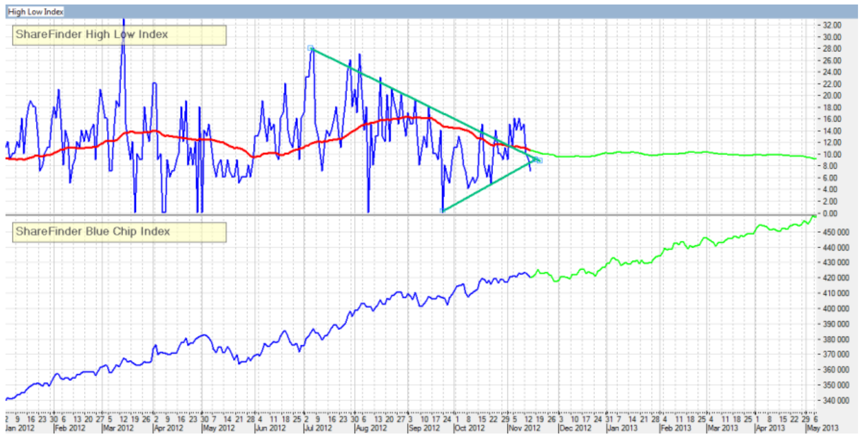
Over the past 12 months Developing World share markets have very marginally outperformed the markets of the Developed World. However the trend has become a shade more positive for the past four months with the former rising 5% faster.



And while there are currently concerns about a weakening trend of the Rand as a consequence of the wave of violent strikes this country is witnessing, the graph composite on the right makes it clear that the worsening trend is very marginal. Over the past two years the average rate of Rand slippage against the world's major currencies has been an annual 11.6 percent and in the past month that number has accelerated to 12.5 percent.



More importantly, South African Blue Chip shares continue to outperform the Developing Markets average by a factor of nine percent and in the short term our market is doing even better at 12 percent. However, consider my second composite, since July the number of investment grade shares that have been making new price highs has been sliding steadily while, simultaneously the number making new lows has also been falling. As a result I have been able to draw in a pennant formation in the upper graph. Inevitably a breakout must occur after such a trend and it happened at the beginning of this month when optimistic buyers drove prices significantly higher. Then this Monday the market took fright and the indicator plunged.

So the trend of the next few days is quite critical. If the trend remains pessimistic for any length of time then the projection on the right of the upper graph will trend further down and we could enter the new year on a declining market. However, as emphasised by the lower of the two graphs, the medium-term outlook is for the market to continue rising at least until May next year.

Much then will depend upon a series of events that could shake the investment world's outlook. In the US some resolution of the Fiscal Cliff issue is vital. In the Middle East fresh saber-rattling which is really about Israel and Iran challenging one another and that always poses problems about world oil supplies – a situation of dwindling long-term importance as the US ramps up shale oil and gas production making the West less dependent upon Middle East oil supplies, but it is potentially very disruptive in the short-term because of the world's fragile economic situation. These two issues are currently setting the tone for the investment world with the ongoing Euro troubles always potentially adding to the disturbing mix.

Against all of that, the global investment community world really did not need the unsettling news about labour strikes in South Africa seeming growing amoeba-like to engulf increasingly larger areas of the country; the likely consequence of a political vacuum as the leadership struggle plays itself out ahead of next month's ANC conference.

Hopefully then, the end could be in sight. Mungaung will happen and in the new year we could thus be a little closer to knowing who will lead the Government in future. The Fiscal Cliff will have been dealt with/or not. Israel will have calmed down/or not and, probably Europe will continue kicking the can down the road with no end in sight.

So I stick to my view that it is prudent at this time to take some money off the table. But be very alert in the early new year. If good things happen there could be a significant increase in market prices. Remember the latter stages of a bull market are when exponential price increases occur!

The month ahead:

New York's SP500: 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 downward trend that I now expect to continue for another week at least.

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 downturn. Now I see a recovery beginning.

ShareFinder Blue Chip Index: I correctly predicted a little weakness. Now I see a sideways to modestly weaker phase.

The Rand: I correctly predicted the start of a fresh phase of weakness which I expect to last until the end of this month after which a sideways trend is likely. But expect continued volatility.

Golds: I correctly predicted a volatile declining trend. Now I think a bottom might have been found and a modest recovery might be beginning.

Bonds: I correctly predicted a new phase of weakness which I now expect to continue until mid-December.

The Predicts accuracy rate on a running average basis over the past 456 weeks has been 81.4%.

Richard Cluver