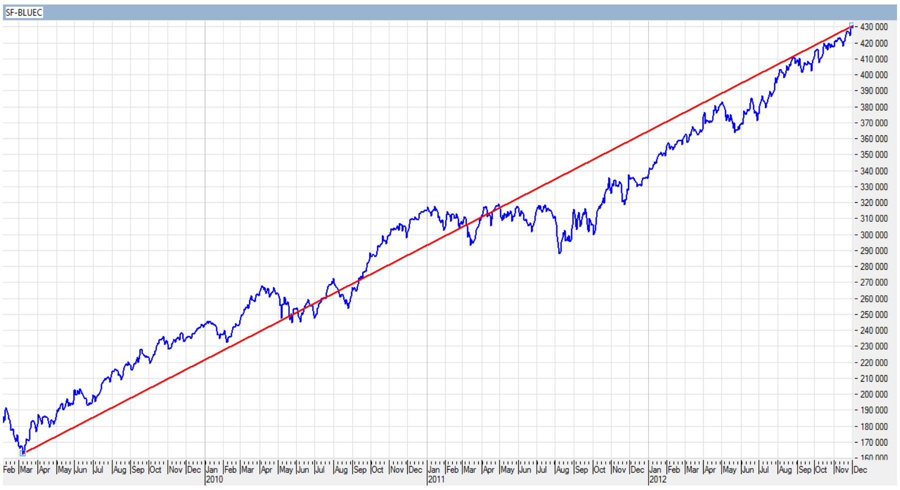
Richard Cluver Predicts
In our 23rd year of service to the investing public of South Africa

Volume: 23
Issue: 35

07 December 2012

One of our great failings as South Africans is that we love to feast on bad news. Reasoning that if things were really as bad as most people believe, this country would be a basket case, I have accordingly developed a habit of searching out the good news.

After all, if things were so bad, how come our stock exchange continues to soar at an annual rate of 30% as illustrated by my Blue Chips Index graph on the right



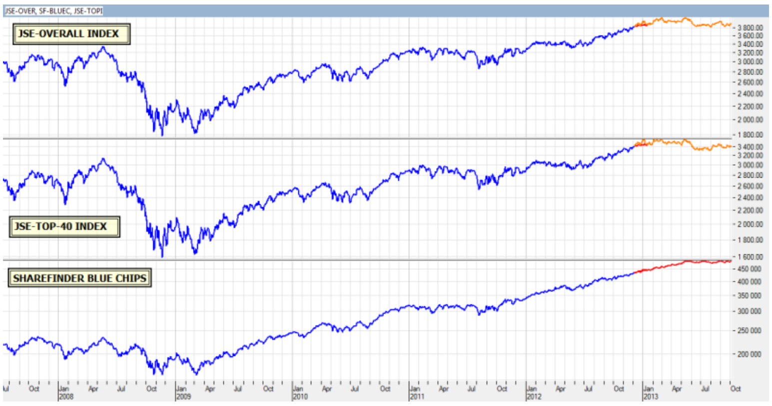
Thus I had just finished reading a riveting piece from mybroadband.co.za suggesting that the extent of the Zumaville scandal could be five times greater than the current R220-million

http://www.news24.com/MyNews24/The-road-to-Nkandla-20121129, when Adcorp's latest employment statistics hit my desk. In a nutshell, Adcorp says that in September and October when nearly everyone seemed to be on strike, the country added 41,971 new jobs taking the current unemployment rate to just 11.3 percent. That is only a tad worse than the 9.9% unemployment reached in the US in November 2009 and Britain's 8.4% in October last year, and significantly better than countries like Greece, Spain and Italy currently.

Importantly, the strongest employment growth was observed in construction (4.7%), financial services (4.3%) and wholesale and retail trade with 3.4%. While the latter figures could well have a seasonal influence given that the Christmas shopping season is upon us, the gains in construction and financial services speak of the Government's massive infrastructure programme beginning to gain traction.

Meanwhile, stock exchanges worldwide today are taking their cue from reports out of Washington that the fiscal cliff negotiations between Republicans and Democrats are edging towards a necessary compromise.: one of the few issues standing in the way of the beginnings of a worldwide economic recovery trend. From China has come further optimism about a new economic growth spurt while here at home too, most of the uncertainty over the ANC's succession planning also seems to be out of the way. A second term of office for Jacob Zuma might not be what the majority of South Africans would really wish for, but at least we understand what that means and how to live with it.

Overall, uncertainty is the big issue that markets have difficulty contending with, and so as these issues give way to others, it is understandable that share prices have been soaring. The projections on the right highlight how all major sectors of our share market continue to soar.



The Blue Chip Index is now an amazing 88 percent higher than its May 2008 peak and shows no sign of slowing in its headlong rise prompting concerns among some investors that the level is now dangerously high. So it is important to recognise that index values of their own are not constraints to growth. The real determinant is investment return and so my second graph on this page should offer solace to those with worries. Note that as the market was last surging towards a bull market peak average Blue Chip dividend yields fell to 2.55 percent compared with the most recent low of 3.03 percent suggesting that, even in the absence of any future dividend increases, the market is not fully-priced judging by previous highs. Furthermore, do also recognize that dividend yields are relative things. In 2007 the yield on RSA long bonds reached a low of 7.55 percent and the Reserve Bank's Repo Rate stood at 9 percent compared with a present 5 percent.
The implication of these figures is that Blue Chips could well rise another 30 percent before concerns about market levels had any justification in fact.

The month ahead:

New York's SP500: I correctly predicted that New York would run out of steam and I expect it to continue down until around December 19 before the next recovery begins.

London's Footsie: I correctly predicted gains which I expect to continue until around December 12 before trending down once more.

JSE Industrial Index: I correctly predicted gains which I see continuing until until Christmas.

Top40 Index: I correctly predicted a recovery, but going forward I see a sideways to weakening trend.

ShareFinder Blue Chip Index: I correctly predicted gains which I expect to continue for the foreseeable future.

The Rand: I correctly predicted gains. Now I see a weaker phase until the end of the year.

Golds: I correctly predicted brief weakness. Now I expect an upward trend that should last until Christmas.

Bonds: I correctly predicted weakness which I expect will last until December 11 before a recovery sets in.

The Predicts accuracy rate on a running average basis over the past 459 weeks has been 81.4%.

Richard Cluver

Published by Richard Cluver Investment Services
http://www.rcis.co.za
richard@rcis.co.za