



# Richard Cluver Predicts

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



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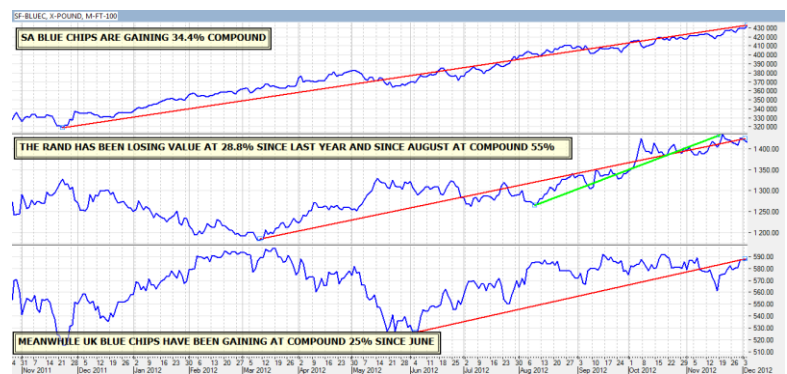
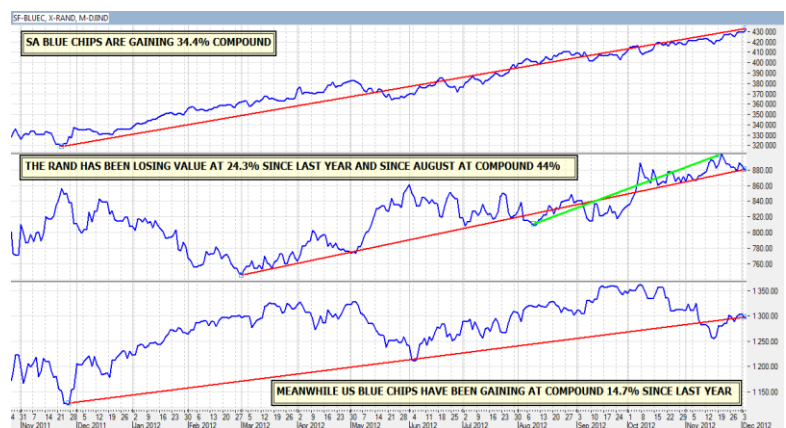
**This column is coming to you a day early to facilitate moving our offices. After a lifetime in Westville, we are moving two suburbs up the highway to Kloof where we will be back in operation after the public holiday on Monday. Our phone number will, however, remain the same 031 262 1722**

I have pondered and decided to resist the temptation to do what so many of the nation's investment analysts are doing at this time; making foolhardy predictions about where the world is headed in the next 12 months. After all that is what I do all year long!

However, I use the word "foolhardy" because while long experience has taught me that one might make reasonable assumptions about future investment market trends because it really only requires intelligent analysis of a plethora of readily-available data, predicting the outcome of political gatherings, global weather crises and so forth are exercises best left to witch doctors and soothsayers. Not that they are unimportant to investors. Whoever is in charge of the government of South Africa, effectively from next week, could be of vital consequence for local investors for, as economist Chris Hart so eloquently put it during an SABC interview this week, "serious overseas investors have largely given up on South Africa because they say it is being run by Marxist incompetents" And he added: "Unless we have sensible heads putting their hands up now, we're going to see a [downward] spiral for the next few years." Without such direction change the country would face multiple credit downgrades and high inflation.

Well as I have observed in the latest issue of Prospects, against a background of a rapidly weakening Rand (it has been losing value at an annual rate of 44% compound since August) our blue chip shares are doing their best to retain value by similarly rising at 34% compound which implies that from the perspective of a US investor a blue chip South African investment portfolio would be going down at an annual rate of 10% at a time when the Dow Jones Industrial average is gaining at 14.7%. In a nutshell, US investors who have money here must now be waking up to the fact that they are LOSING ground relative to their own market at an annual rate of 25%.

For British investors the situation is actually considerably worse. Here, as my composite makes clear, their Blue Chip investments are FALLING at compound 10% when they could be gaining at 25% were the money invested in their own share market. It is thus a no brainer that sooner rather than later these two categories of overseas investors are going to start pulling their money out of this



country and that, on top of an already collapsing Rand could be a death-knell for our current bull market.

Now remember my analysis last week which showed that on a dividend yield basis our market is not nearly as expensive as it was at the height of the last bull market. As my composite illustrates the average Blue Chip share is now 90% above its 2007 peak but dividend yields are still nearly 18% higher than their 2007 lows, theoretically suggesting that the market could climb considerably further.

HOWEVER, if you move in at closer range to view one of the top price performers of the past four years, Capitec Bank having risen more than eight-fold to a price peak of 218.55 in April this year, the shares and have since LOST 13.5% of their value. In the process their dividend yield has risen from a low of 1.39% in July 2011 to a current peak of 2.31 but few are tempted to buy.

So the big question is this proof that foreign investors are "taking money off the table" or is it just reaction to the fact that Capitec was named in the unsecured loans phenomenon that is being labeled as a trigger that precipitated the Marikana Mine scandal coupled with the highly publicized fact that CEO Riaan Stassen recently sold a large block of his shares in the company? Well let us look at the next best performer of recent years, Shoprit Checkers. Here, notwithstanding the fact that dividend yields have fallen to just 1.34% compared with its 2007 low of 2.3% is so far not deterring shareholders.

So is Shoprit set to follow Capitec? That, I believe might be determined by the events of the coming weekend at Mangaung. That the ANC has this week brushed aside an appeal from a number of the country's top church men for a positive return to government morality, is not encouraging. At this stage only the dismissal of our hopelessly tainted President Jacob Zuma is likely to appease world investor opinion.

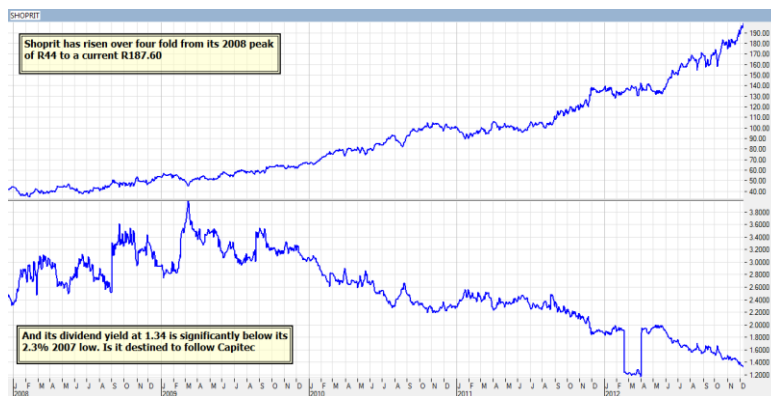
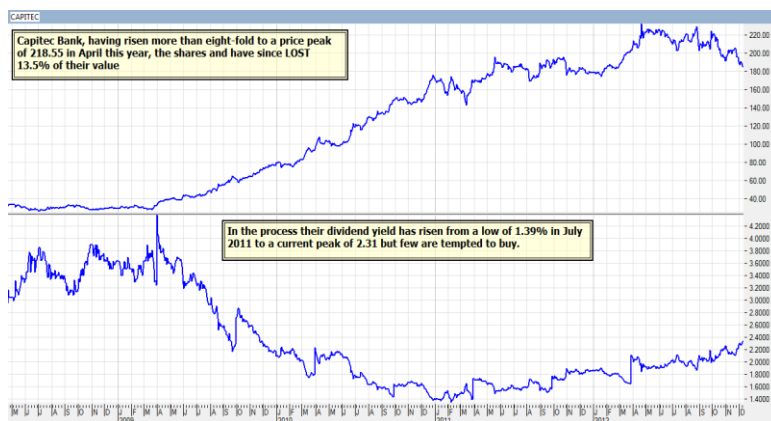
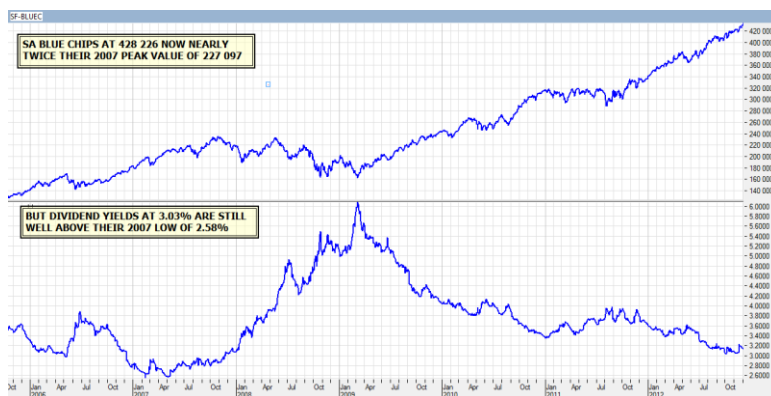
Since that seems an unlikely outcome, I am not optimistic about the outlook for 2013!

**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. Now I expect declines until December 20 before a recovery begins.

**JSE Industrial Index:** I correctly predicted gains which I see continuing until Christmas followed by a sideways to weaker tone.



**Top40 Index:** I correctly predicted a recovery, but going forward I see a weakening trend into the Festive Season.

**ShareFinder Blue Chip Index:** I correctly predicted gains which I expect to continue until December 20 followed by a weakening trend.

**The Rand:** I correctly predicted gains. Now I see a weaker phase beginning around December 18.

**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 the end of the year before a possible recovery sets in.

***The Predicts accuracy rate on a running average basis over the past 460 weeks has been 81.46%.***

**Richard Cluver**