



Richard Cluver Predicts

In our 26th year of service to the investing public of South Africa



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Richard Cluver will be out of the country for the next fortnight and so the next issue of this column will appear on February 23

I am indebted to Investec for the following observation:

Should we be concerned about the bullish mood in global equity markets? Some commentators may find the S&P 500 back at levels last seen around the time of the subprime crisis to be a cause for concern. However, it helps to look at the underlying picture: S&P 500 companies are expected to report earnings of more than US\$1 trillion this year, compared with US\$700bn back in 2007, while balance sheets are also in better shape now than they were then.

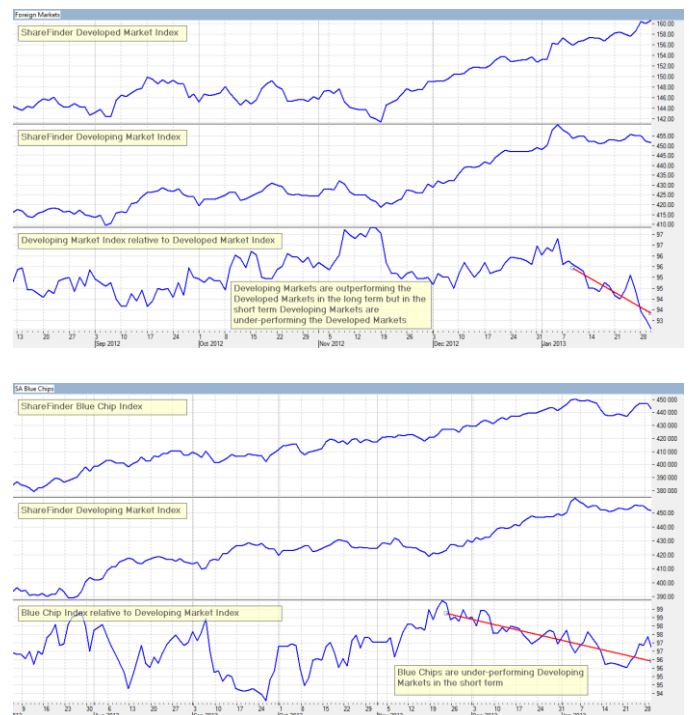
So far 150 companies in the S&P 500 have reported earnings for the December quarter, with 68% of them ahead of consensus, its highest level over the last four quarters, and supports the argument that US equities are not overvalued.

Elsewhere, the Eurozone's debt situation is showing signs of "normalisation", with banks looking to pay back their emergency funding to the European Central Bank at a faster rate than initially expected. On the other side of the world, Chinese growth looks to be picking up.

This backdrop should provide support for SA counters with major offshore operations, though of course the difficulties in the mining and other sectors is weighing on other parts of the economy.

Nevertheless, there is growing speculation out in the marketplace that share prices have climbed excessively high and that 2013 could produce a major market correction. And the very fact that US companies have been producing robust results lately is a major part of the problem. Investors who previously were consigning significant portions of their portfolios to the Developing World in search of higher returns, are now returning their money to Wall Street. Collectively, as my graph composite on the right highlights, the share markets of Developing Countries have been grossly underperforming the markets of the Developed World.

Furthermore, our Blue Chip shares are underperforming even the under-performing markets of the Developing World. As a result billions of Rands have flowed out of South Africa in



recent weeks and our Rand has taken strain. Over the past two years the Rand has been losing value relative to the US Dollar, the Pound and the Euro at 12 percent a year and since the end of 2012 the rate of decline has become a precipitous annual average rate of 113 percent as illustrated on the right.

The outlook is, however, not entirely pessimistic. Normally when investors are pessimistic, they shy away from the more speculative categories of shares towards the perceived safety of the Blue Chips. Since September, however, that has not been the case in this country. Note in my second composite on this page, that the riskier, more speculative category of shares that I label "The Rising Stars" has been rising strongly in relative strength terms relative to the Blue Chips. There is a very rational reason for this. The current average price earnings ratio of the blue chips is a very high 18.1 while the Rising Stars is a far more realistic 13.

For now the outlook for both sectors appears more of less the same. The Blue chips are projected to keep on climbing until May 21 in the projection on the right and the Rising Stars are projected to keep on climbing until May 20 though some short-term weakness is probable in the interim

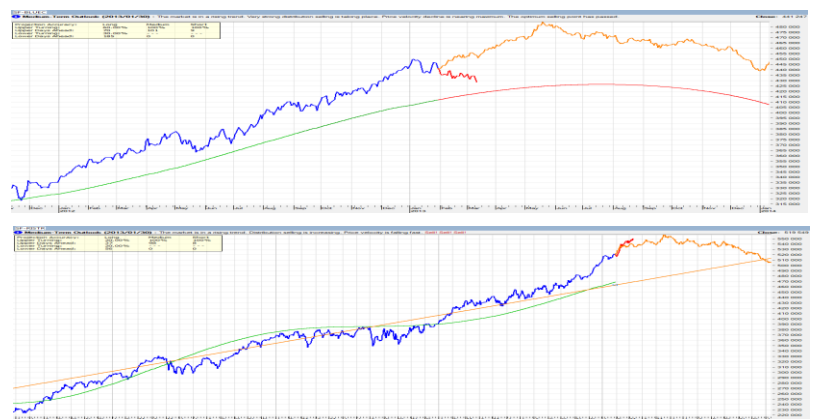
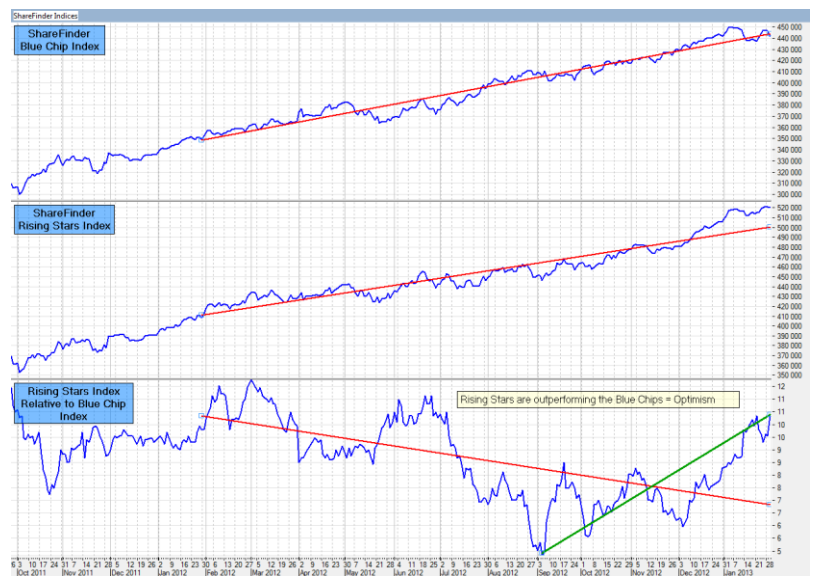
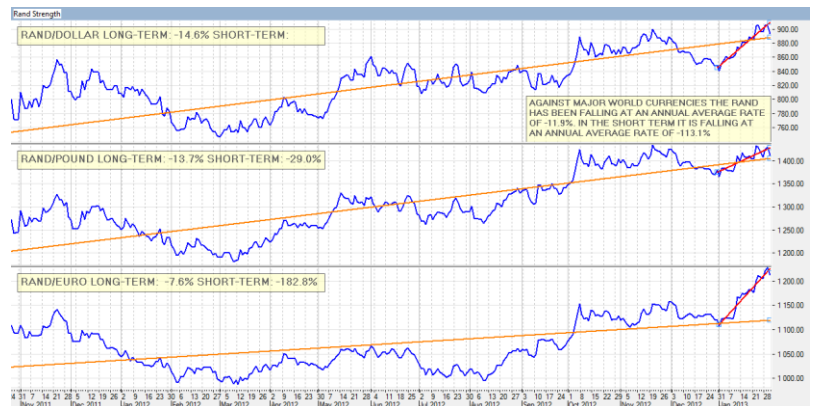
In summation then, unless someone does something stupid to upset the apple cart...and with a government so disconnected from the people it purports to serve, that is always a possibility.....the market looks ripe to continue delivering for the foreseeable future.

The month ahead:

New York's SP500: Once again I was wrong in predicting the start of a bout of weakness. Nevertheless I continue to expect February to be a weaker month.

London's Footsie: Similarly I was wrong about the Footsie but I continue to expect a small retraction.

JSE Industrial Index: I correctly predicted a recovery until mid-February and I now expect it to continue until February 22.



Top40 Index: I correctly predicted a recovery which I expect will continue until the end of February.

ShareFinder Blue Chip Index: I correctly predicted a weakening trend which I expect to continue for the rest of February.

The Rand: The recovery I predicted began a tad earlier than I expected but it is unlikely to last much longer than February 7.

Golds: I wrongly predicted a period of volatile gains. Nevertheless I continue to predict a recovery for most of February.

Bonds: I correctly predicted weakness for the rest of the month and I continue to last until late in February.

The Predicts accuracy rate on a running average basis over the past 465 weeks has been 81.48%.

Richard Cluver