



# Richard Cluver Predicts

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



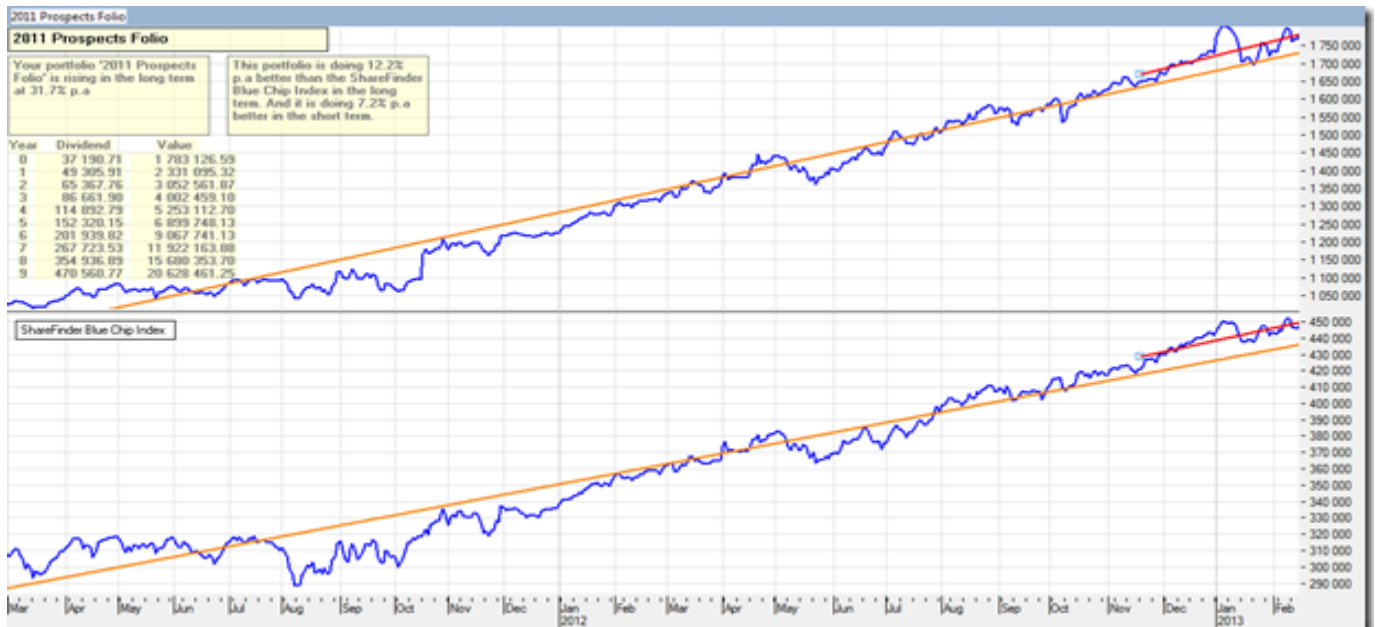
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I hope I will be forgiven for a little boasting about the 44.85 percent aggregate price growth during calendar 2012 achieved by the portfolio which I have constructed month by month since January 2011 for readers of my Prospects investment newsletter which is a companion to this weekly column. Hopefully success is translating into your success as a reader of this column.

It is, furthermore as the graph below well illustrates, continuing to comfortably outperform the market notwithstanding the shock waves of the past week.



That 44.85 percent is nearly four times – or 349 percent - greater than the 12.86 percent achieved during the same period by the average South African unit trust and 26.7 percent better than the best unit trust performer of 2012, Metropolitan Global Property which achieved 35.4 percent. The SIM Global Financial achieved 32.1%, Sefikile Property 32.1 and PSG Konsult International 26.14.

Since only 14 investment grade companies achieved a higher than 44.85 rate of corporate earnings growth – and earnings growth is the prime mover of share prices - I was comfortable in believing that very few South African investors could have beaten my achievement and so, as usual, I challenged readers of my *Investor* magazine to, in confidence, tell us what they achieved and, more importantly, to explain the methodology they used to beat me.

Quite a number of readers did respond detailing a strategy which in each case involved using the ShareFinder programme to manage their buying and selling decisions, but only one reader, Mr H, managed to beat my portfolio. Based simply on the increased value of his portfolio between January 2012 and January 2013, Mr H achieved 46.2 percent and if his dividend income was included he achieved 49.5 percent.

Moreover, I am humbled to say that to achieve this growth rate he employed pretty much the same method as I use...as outlined in my series *The 10-Minute Millionaire* which has been running in *The Investor* and which is now available to the public in the form of a very modestly-priced correspondence course which you can order by going to the RCIS website and signing up.

That result makes Mr H someone very special because in achieving that 49.5 percent he has beaten the world's best hedge fund performer of 2012; Tiger Global which achieved a total return of 45 percent. But

then the fund which is managed by US-based Bill Hwang, only achieved 8.6 percent in 2011 whereas over the past three years to December 31 2012 Mr H has achieved a compound annual average growth rate of 33.5 percent.

Compare his achievement against research by Bloomberg Markets Magazine that the industry average return was 1.3 percent. Moreover, Bloomberg's research found that the average 2012 return by the five best hedge fund performers worldwide was 20.2 percent.

To put those figures into a proper perspective, I should add that had my readers merely bought a cross section of the 39 shares that constitute my Blue Chip Index, they would have achieved an aggregate price growth of 31.6 percent and would have thus beaten every hedge fund manager in the world with the sole exception of Bill Hwang. Furthermore they would have received dividends totaling an additional 3.1 percent making a total return for 2012 of 34.7 percent.

However, there is a down side to Mr Hwang's fund performance. In December he was charged by the US watchdog body, the SEC, of illegal trading which enabled his fund to reap \$16.7-million in illicit profits. His hedge fund has since agreed to pay \$44-million to settle the SEC's civil charges. So it seems very likely that our Mr H might have been one of the world's top performers of 2012.

So what did Mr H do in order to beat my 2012 record? Summarising his experience he wrote;"Some of my choices in the past were not by means of ShareFinder, but from listening to friends or reading in the newspaper (everybody MUST have some ANGLO shares!!) I have learnt my lesson, and these days I only make my choices based on ShareFinder."

Step one is to export the ShareFinder Quality List into an Excel spread sheet where he sorts on 5YrGrowth discarding any shares with less than 15 percent compound annual average growth. Next he calculates annual growths for 15Yr, 5Yr, 1Yr and 6Months and determines a weighted average and sorts these into descending growth order. Finally, after factoring in the five-year dividend growth rates of these top price-growth performers, Mr H makes his selections.

The shares he selected by this method were Coronation, Capitec, EOH, Exxaro, Famous Brands, Mr Price, Naspers, Pinnacle, Shoprit, Spar and Truworths. That is not much different from the Prospects portfolio which consists of AVI, Capitec, Clicks, Coronation, Famous Brands, Massmart, Mr Price, Naspers, Pinnacle and Shoprit.

*Here I should note that it is unnecessary to export ShareFinder's Quality List to a spread sheet. In order to sort any of the columns into either descending or ascending order, you merely need to left-click on the title of each column.*

Additionally, many readers have been asking about the performance of the offshore portfolio which I am managing in association with Anchor Capital. It has only been in operation since October so it is very early days yet. However the graph below indicates that it is already putting in a solid performance:



More to the point, before launching the London Stock Exchange portfolio, in early 2011 I built a theoretical portfolio based upon 100 000 pounds invested equally over 10 blue chip British shares. Just 26 months later that portfolio, without re-investing dividends is now worth 158 132 pounds representing a compound annual average growth rate of 25 percent and it is yielding an aggregate dividend of 2193 pounds a year. The graph below tracks its performance since January 2011.



More remarkably, if you factor in the fact that the value of the Rand to the British pound fell from R10.249 to R13.779 then in Rand terms the value of the portfolio grew from R1 024 920 to R2 036 361 which represents a compound annual average growth rate of **41 percent a year**.

Finally, to complete the hat trick, I have from time to time written about the pension fund which I manage which, in addition to delivering an annual payout considerably in excess of its aggregate dividend income, has nevertheless over the past decade grown at a compound annual average rate of 22.9 percent a year putting it way ahead of all of South Africa's pension fund performances. The graph below tracks its performance over the decade. Note the sharp downward spikes which represented annual cash withdrawals. In addition to a R150 000 cash withdrawal in the past 12 months, my pension fund grew by **43.2 percent**.



That my pension fund significantly underperformed my share portfolio I the long term should not surprise anyone. Governed by the requirements of South Africa's Financial Services Board which requires that the so called Prudential Rules should apply to all local pension funds, they cannot be expected to achieve the same rates of growth that pure equity portfolios achieve. Exerting a brake on this portfolio is the fact that close to half of the capital is spread over two property funds, Growthpoint and Hyprop. The balance of the portfolio consists currently of cash (5.1%) ABSA (10%) Clicks (5.5%) Mr Price (23%) and Sasol (7.9%).

Seeking comparable international figures I found a British study which determined that over the decade ended August 2009 – that is during the period that the London Stock Exchange experienced one of its greatest ever growth surges, the aggregate increase in value of ALL British pension funds was a TOTAL of 21.8 percent. The study found that: “By calculating a weighted average for the whole market we have found that the weighted total return for the £200 billion invested in these areas is 21.793% over the past ten years, which is almost precisely 2% per year.

And British pension funds have been among the world’s best. The most comprehensive of all studies was one conducted by the Organisation for Economic Co-operation and Development (OECD) which found the of 23 countries studied, on aggregate the highest arithmetic mean returns over the ten years ended 2005 were achieved by Uruguay at compound 15.3 percent and the lowest by the Czech Republic with 1.1 percent. The US average during that period was 6.5 percent, Canada 6.2 percent, Britain 9.5 percent, Japan 3.7 percent and Australia 9.1.

I crave your indulgence if I appear to boast. I do so you should know that the share selection methods I have developed over nearly a half-century of research really do work and, furthermore, that anyone with a few minutes a week to spend on managing their own portfolios and my ShareFinder software, can do equally well!

## **The month ahead:**

**New York’s SP500:** The bout of weakness that I predicted has begun and I expect it to continue well into March.

**London’s Footsie:** The small retraction I predicted happened on time and I expect the subsequent recovery to continue into the second week of March.

**JSE Industrial Index:** I correctly predicted a recovery until mid-February. Now I foresee gains into the first week of March.

**Top40 Index:** I correctly predicted a recovery but I wrongly expected it to continue until the end of February. Now I expect weakness for the rest of this month and most of March

**ShareFinder Blue Chip Index:** I correctly predicted a weakening trend well into February. Now I expect gains until the end of the first week of March.

**The Rand:** I correctly predicted a recovery which I expect to continue until around mid-March.

**Golds:** I correctly predicted a recovery for most of February but did not foresee this week’s sudden drop. Now I foresee a modest recovery trend..

**Bonds:** I wrongly predicted weakness for the rest of the month. However I still foresee a modest weakening.

***The Predicts accuracy rate on a running average basis over the past 466 weeks has been 81.5%.***

**Richard Cluver**