



Richard Cluver Predicts

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



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In the January issue of Prospects I warned that a downward market adjustment was probable in the near future and since then that view has now become common cause among local market commentators.

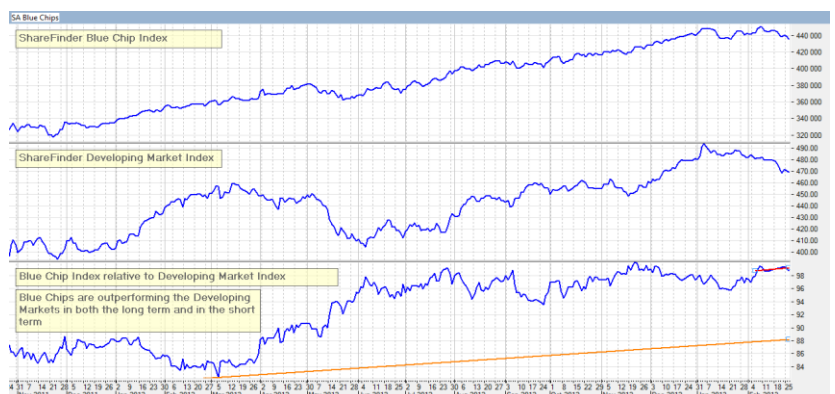
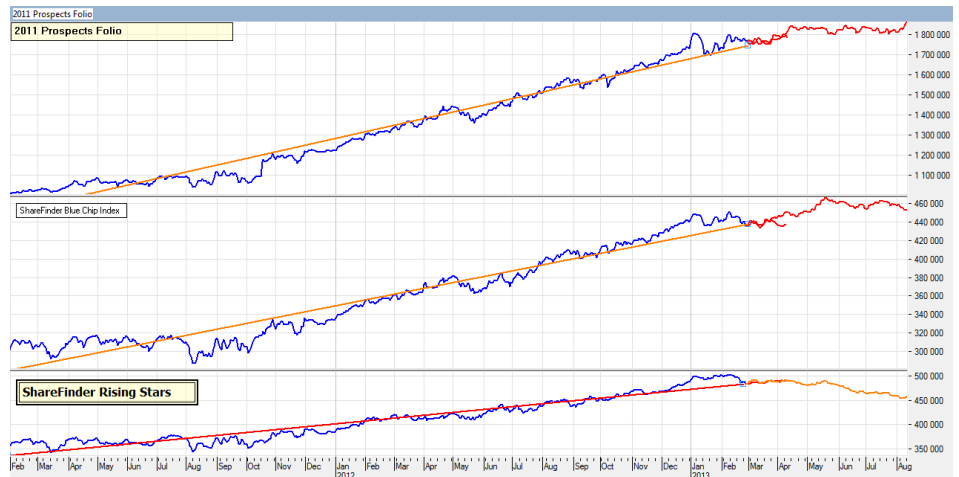
The composite on the right highlights the likelihood, however, that any re-rating that occurs is likely to more severely impact upon shares of a relatively speculative nature than upon the Blue Chips which is why I wrote in Prospects that I do not at this stage envisage selling any of the shares in the current Prospects portfolio.

The extent to which the market has concentrated its focus upon the Blue Chips as opposed to shares of a more speculative character is particularly evident in the composite comparison where it is interesting to note that the Prospects portfolio is currently growing at a compound annual average rate of 36.4 percent, the Blue Chip Index at 24.2 percent and the Rising Stars category at 19.3 percent. But, more to the point, notice that the red lines of the Fourier projections on the right of each graph see the Prospects portfolio going sideways from mid-April, the Blue Chips peaking on May 20 and then beginning to ease modestly downwards and the Rising Stars heading quite pronouncedly downwards from mid-March.

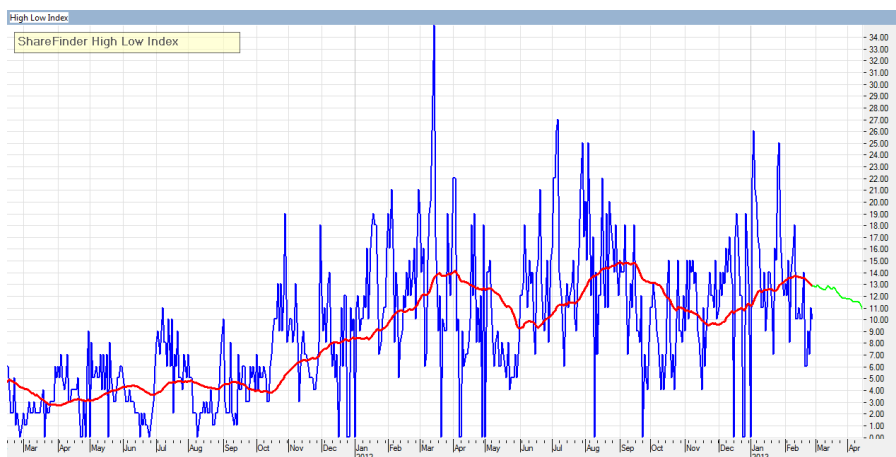
The investing world as a whole has become very conservative. Note that since late January the Developed World's markets are trending sideways while the Developing World's markets are heading steadily downwards emphasizing a weaker phase that began in early November.

And, though quite modestly, our South African Blue Chips are still outperforming their peers in the Developing World as illustrated by the relative strength graph in my third composite.

Nevertheless the weakening trend is becoming daily more obvious to



everyone as highlighted by my New Highs/New Lows graph on the right. Note that since early January the number of investment grade shares achieving new price highs for the year each day has been falling steadily while the number making new price lows for the year has similarly been falling. Projection of this trend suggests that it is likely to continue until late August before the market begins recovering.



Attempting a long-range projection to try and get a sense of what lies ahead, I have forced ShareFinder to push its Fourier projection system rather further into the future than is really wise which suggests that the present weakness of investment grade shares as a whole is merely a dress rehearsal for something rather more serious later in the year. Note my last graph suggests a recovery trend from now until May 17 followed by quite a sharp decline for the rest of the year bottoming at the end of January 2014 with, overall, a decline from today's levels of around 10 percent.



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The month ahead:

New York's SP500: The bout of weakness that I predicted has begun and I expect it to continue into April.

London's Footsie: The small retraction I predicted happened on time and I expect the subsequent recovery to continue until the end of March.

JSE Industrial Index: I correctly predicted gains into the first week of March. Now I see a weakening trend for the rest of the month.

Top40 Index: I correctly weakness which I expect to continue for the rest of March.

ShareFinder Blue Chip Index: I correctly predicted a weakening trend. Now I expect gains until the third week of March.

The Rand: I correctly predicted a recovery. Now I see a sideways to modestly rising trend for the rest of March.

Gold: The modest recovery trend I predicted took more the shape of a consolidation which should presage a modest recovery next week before further weakness sets in.

Bonds: I correctly predicted a modest weakening which I expect to last until the end of next week before some equally modest gains begin.

The Predicts accuracy rate on a running average basis over the past 467 weeks has been 81.54%.

Richard Cluver