Richard Cluver Predicts

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

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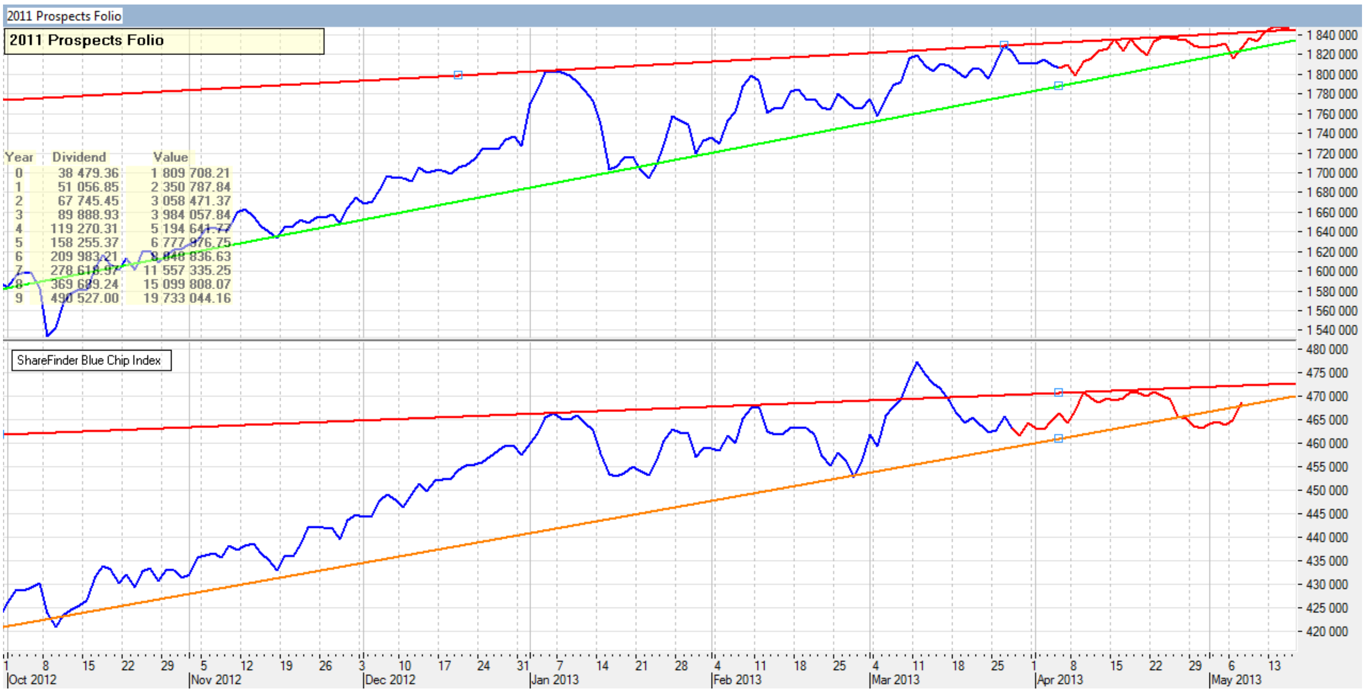
I have a long-established market-watching habit which I really need to cure myself of. At least twice a day I spend ten minutes or so watching the streaming share prices on Summit TV in order to get a feel of how the market is running. And almost invariably it gives me a false impression.

For a start, quite a number of the shares I hold seldom if ever appear in the market streamer and, while one can judge the overall market tone from the number of percentages that appear in either red or black as the case might be, that does not mean that the individual shares in my own portfolios are displaying joy or pain. To illustrate the point, for weeks now these TV-watching forays have been convincing me that the market is at best moving sideways and, furthermore, when coupled with dismal reports about our trade deficit and the consequent slide of the Rand – the latter even more pertinent to me now as I prepare to go on my usual sailing holiday in The Mediterranean in June and July – I have the distinctly somber feeling that things are not going too well.

Now the fact is that I have at my fingertips what is arguably the world's most sophisticated market measuring software and we are on the point of rolling out a Rolls Royce version which is causing great excitement at RCIS. And this tells me quite a different story. Consider the graph below which tracks the performance of the Prospects Portfolio which I maintain for the benefit of the readers of this column:

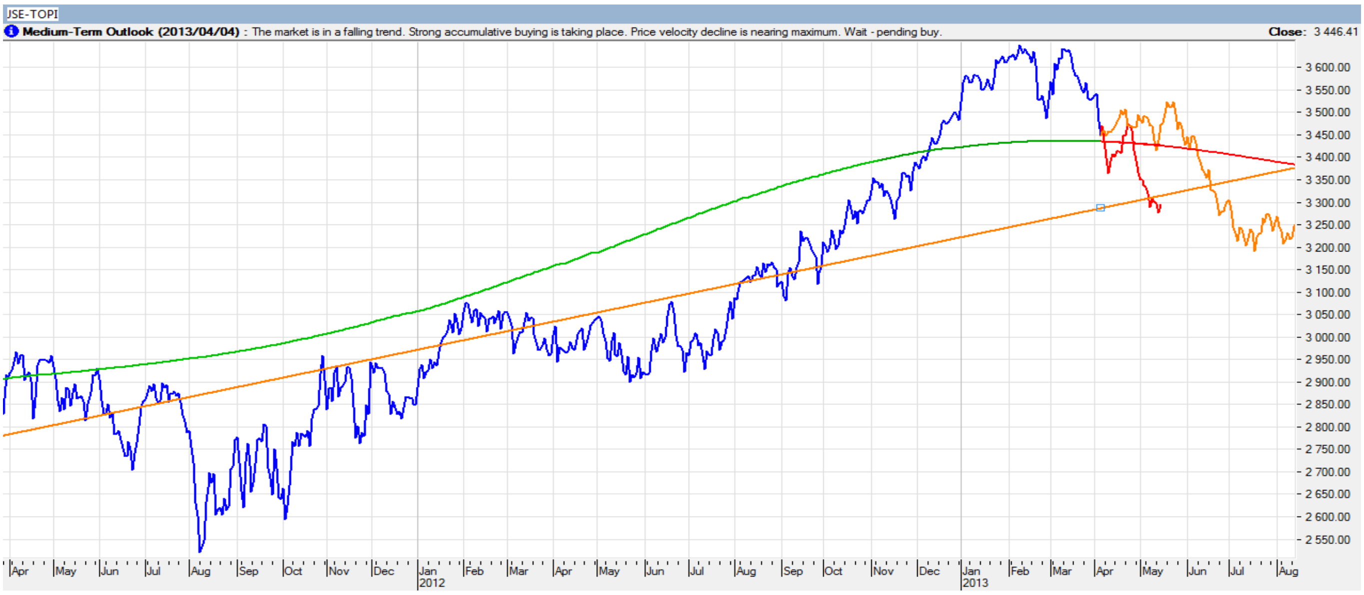


The green line in the upper graph tracks the long-term mean value of the portfolio since we launched in it January 2011 and it is rising steadily at 36.4 percent compound; a rate at which its capital value doubles every two years and which has taken its value since we started from R1-million to R1.8-million. That is very healthy in a world beset by recession and economic crisis.

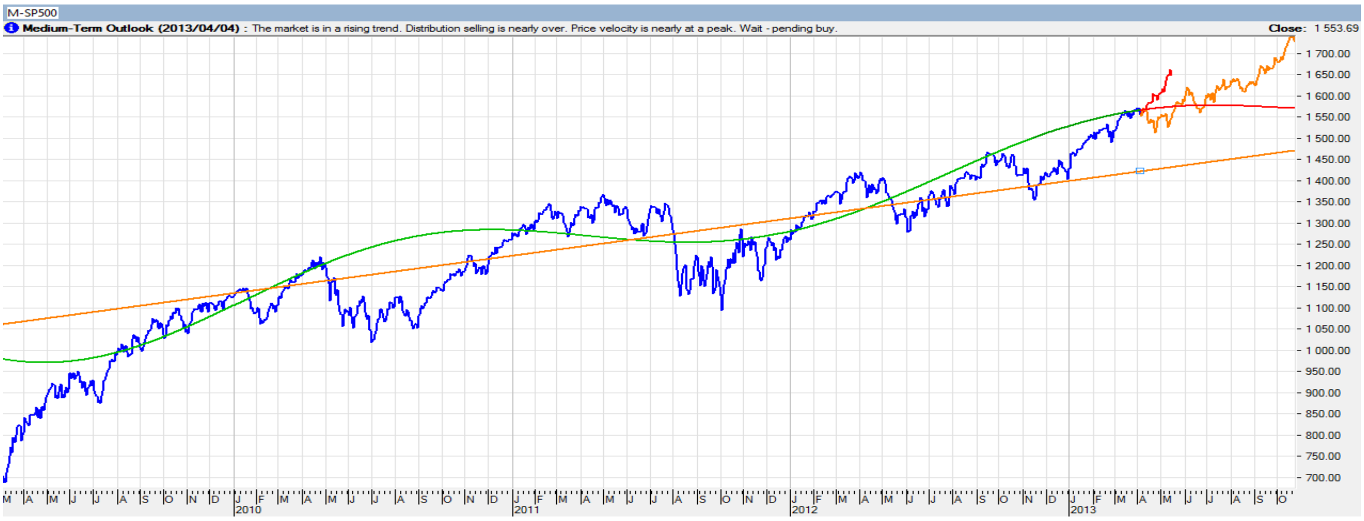
The red line links the highs of the past three months and is rising somewhat slower at a much more sedate six percent annual rate which does serve to partly confirm my pessimistic mood. And note that the red and green lines together trace out a pennant shape which is a notorious sign for technical analysts. The implication, such analysts believe, is that somewhere in the not too distant future a sharp value break-out will occur. Note, however, my short-term Fourier Projection which is usually better than 80 percent accurate (the red line projecting the daily movement in the portfolio value into the third week of May) suggests that the price trend will remain within the confines of the pennant for the foreseeable future. Other technical tools within the ShareFinder programme suggest, furthermore, that an upward breakout is likely.

For what it is worth, I have also displayed the performance of my own Blue Chip index which has been climbing long-term at a somewhat more sedate 23.6 percent. Collectively, both graphs emphasise that there is nothing fundamentally wrong with the JSE at this stage.

Of course one gets quite a different picture when one considers the JSE Top40 Index. Suffering because the Topi is heavily weighted with commodity shares, its graph presents a sorry picture. Furthermore the outlook if far from attractive trending downwards and projected to continue down for at least the first half of the year. This picture below is what overseas analysts get when they look at South Africa for the Topi is the most widely-used measure of local share performance. As they say, appearances can be deceptive!



Contrast that with the projection for New York's broadest measure of performance, the S&P500 Index, and one understands fully why investment money is currently flowing away from our shores to the infinitely more appealing opportunities offered by Wall Street right now.



Of course the S&P index is only rising at 7.7% compound which is just a fifth of the growth rate of the Prospects Portfolio so there is no reason to get despondent about what South Africa can offer those who search out true value.

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The month ahead:

New York's SP500: As I predicted, Wall Street peaked this week and has begun weakening. However I expect it to continue upwards for the rest of April.

London's Footsie: I correctly predicted a brief recovery before the decline resumed. Now I see a downward trend until the middle of next week before recovering for the rest of the month.

JSE Industrial Index: The recovery phase I predicted was more brief than I expected and yesterday's downward trend is likely to see a continuation for a day or two before recovery begins again on Tuesday.

Top40 Index: The recovery that I correctly forecast was extremely brief and now I see the decline continuing into the second week of May but featuring an up-tick until April 23.

ShareFinder Blue Chip Index: I correctly predicted brief weakness. Now I see the probability of a recovery beginning early next week.

The Rand: I correctly predicted a recovery beginning and lasting well into April.

Golds: I correctly predicted that the trend would be down. Now I expect a recovery to begin at the end of next week.

Bonds: I correctly predicted a strengthening phase which should last until early May but the new week is likely to offer several weakening days.

The Predicts accuracy rate on a running average basis over the past 472 weeks has been 81.66%.

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