



# Richard Cluver Predicts

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



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## 19 July 2013

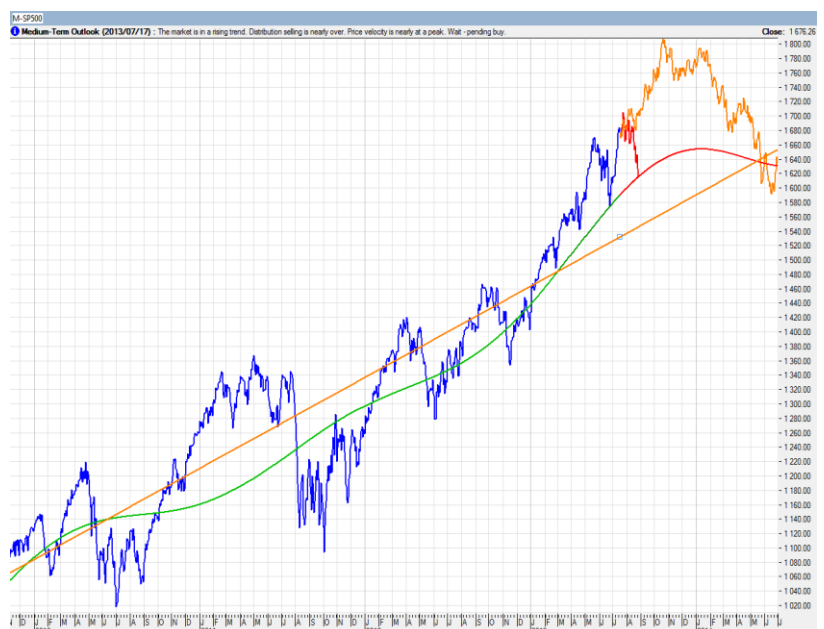
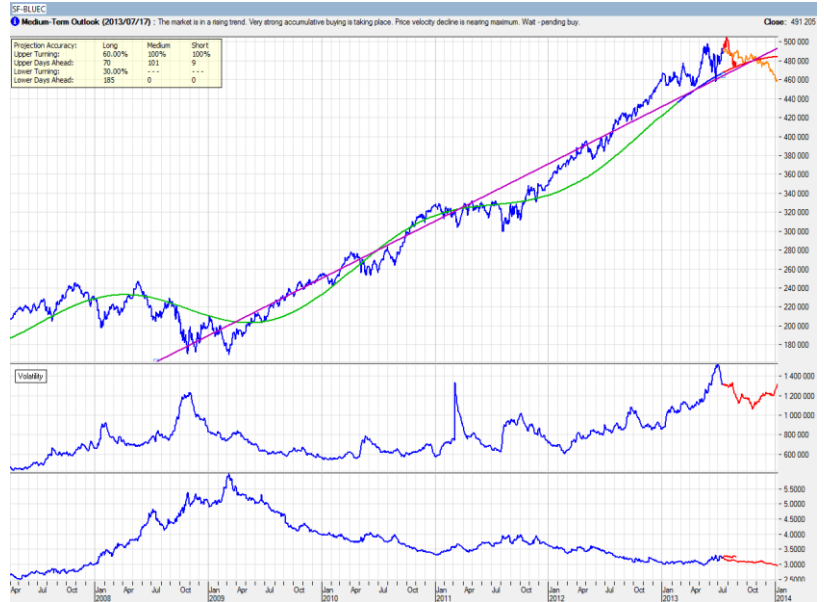
**Investors all over the world have had a few anxious moments these past few weeks as markets have demonstrated quite extreme volatility.**

Taking their lead from US Federal Reserve Chairman Ben Bernanke who has since been at pains to pour oil on the troubled waters, the volatility has been typical of what an end of a market cycle. The US is in recovery mode and the Fed intends slowly easing the world off the drug that has been keeping its economy alive. So bond rates have been rising as investors move away from interest-bearing instruments in favour of a return to equities.

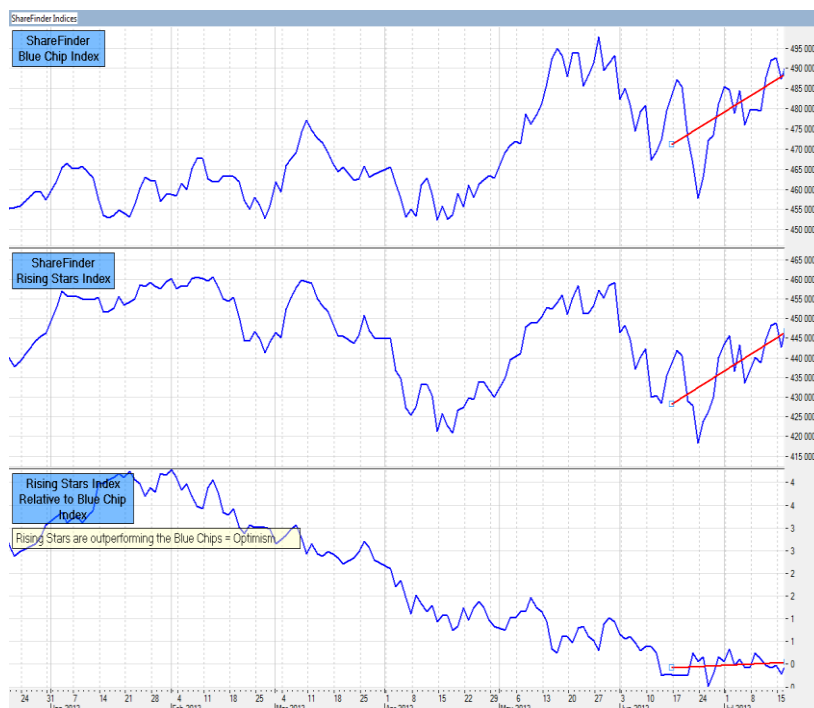
These trends have been under way since early 2012 and on our market share price volatility reached a peak on June 28. Here, lest readers are uncertain about the term "volatility", I should explain that this is a simple measure of the daily difference in price between the lowest and the highest prices recorded in an average day by an average blue chip share. It is a good illustration of the extent of certainty/uncertainty among investors as to the likely future direction of the market.

As the second graph in my first composite indicates, volatility has been easing steadily since June and looks likely to continue doing so until late October. So it has been important to note that while this has been happening there has been very little change in the upward price trend of South African blue chips. But from here on into the early part of next year it seems probable that all but the very best of local shares will continue losing ground in anticipation of a quite pronounced downturn that appears likely to start in the US towards the end of October as illustrated by my second composite.

Meantime, since the June shakeup, local markets have been



demonstrating a surprising degree of optimism. Usually when uncertainty is abounding, the Rising Stars category of investment grade shares tends to quite significantly underperform the Blue Chips. Since June 24, however, they have actually been rising marginally more strongly as illustrated by my relative strength graph on the right. Clearly this is proof of investors going in search of the higher growth rates that these riskier shares normally deliver; evidence that confidence has not been too badly dented by the recent market volatility. If this trend can consolidate itself it augurs well for the future.



## The month ahead:

**New York's SP500:** I correctly predicted further growth which I see extending until July with some interim weakness. Now I see the same extending until the end of August though some mid-week weakness is currently indicated.

**London's Footsie:** I correctly predicted a weaker trend for most of June followed by a recovery beginning around June 21. Now I see weakness until mid-August.

**JSE Industrial Index:** I correctly predicted a downward correction lasting until mid-June before the recovery began. Now I see a decline starting today and lasting until late August.

**Top40 Index:** I correctly predicted a downward correction. Now I see the recovery lasting until the first week of August.

**ShareFinder Blue Chip Index:** I correctly predicted a downward trend until mid-June followed by a recovery that I now see lasting until the end of July before the next downward trend begins.

**The Rand:** I correctly predicted that the Rand would gain fairly steadily into July. Now I see weakness beginning late in the new week.

**Golds:** I correctly predicted a continuing decline until August. Now I sense a recovery beginning around August 1.

**Bonds:** I correctly predicted the beginning of a new bout of weakness. Now I see a recovery lasting until mid-August.

**The Predicts accuracy rate on a running average basis over the past 480 weeks has been 81.77%.**

