



# Richard Cluver Predicts

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



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**A surprising number of investors have quite large amounts of cash accumulated because they have feared the likelihood of a major market downturn sometime in the not too distant future.**

It's an understandable view. Our share market is certainly expensive which would justify at least a pause while earnings caught up. There is, furthermore, a well-founded view that when the US Federal Reserve starts tapering off its present policy of "Quantative Easing" there will be a degree of market uncertainty. Current thinking suggests that the "taper" could involve something like a \$20-billion reduction in the Fed's monthly purchases and that it could come as early as September.

And then there have been my own ShareFinder projections which for months have been suggesting that a market correction might be expected around October of this year. So let us consider the latest projection of the ShareFinder Blue Chip Index in the graph below:



Note first of all that the recovery after the May-June correction failed to equal the May price peak and that each subsequent market recovery has been just a little bit lower. In the process the graph has formed a perfect inverted head and shoulders formation. Such chart patterns always cause serious concern to technical analysts since they are seen as a portend of a severe market retracement which in this instance they would expect to at least reach the levels last seen in mid-April. That would imply an average decline in value of around 10%.

Furthermore, the orange Fourier projection on the right hand side of the graph pretty much agrees with the head and shoulders prediction. So it is highly likely that a substantial proportion of JSE investors are pessimistic right now and it follows that a self-fulfilling prophecy is currently in the making. And that being so, it could soon be a good time for cash-flush investors to look to entering the market.

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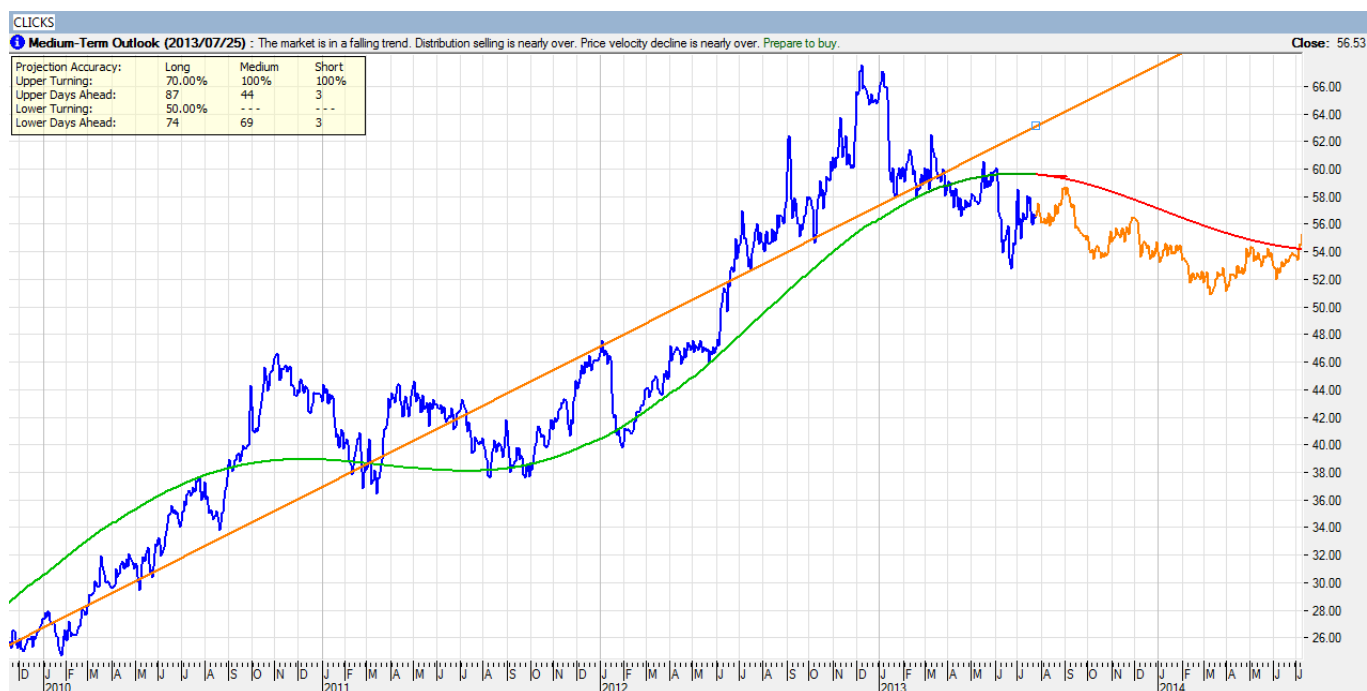
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Published by Richard Cluver Investment Services

<http://www.rcis.co.za>

[richard@rcis.co.za](mailto:richard@rcis.co.za)

Shares to watch out for which both offer a combination of high historic dividend growth rates translating into exceptionally high average price growth rates and are already in a downward trend are: Clicks, MTN Group, Compuclear, Cashbuild, AVI and Pinnacle.



I have particularly singled out Clicks as a focus share today because it has already come off considerably from its R67.50 high of last December. Compared with a Blue Chip compound annual average dividend growth rate of 21.42%, Clicks has grown its dividends at compound 29.19% over the past five years and the share price has grown at compound 35.41% achieving in the process a return of 76.7% on shareholders' equity. If ShareFinder's projection is correct, it is likely that Clicks shares will fall to R54 in October and could fall as low as R51 in early March before beginning a recovery.

Why is Clicks currently underperforming its peers? Well of course the market has of late been ignoring balance sheet fundamentals and has somewhat blindly turned against retail. It is likely furthermore that the market was disappointed by the group interim statement in April which disclosed that turnover had increased by 11.4% to R8.5 billion, with selling price inflation of 2.0% for the period. Retail sales increased by 6.3%. The interim dividend was increased by 10.0% to 48.5 cents per share.

Now whereas these figures were not as good as Clicks usually produces, the market has ignored the fact that they are still considerably ahead of those produced by the average blue chip lately.

## The month ahead:

**New York's SP500:** I correctly predicted further growth. Now the decline that began late this week appears likely, with a brief interim up-tick, to continue down for most of August.

**London's Footsie:** I correctly predicted the beginning of a weaker trend which I see extending until late August. With a brief up-tick ending Monday.

**JSE Industrial Index:** I correctly predicted the beginning of a downward correction which I expect to last until late August.

**Top40 Index:** I correctly predicted a recovery. But now I see the market declining at least until the end of August.

**ShareFinder Blue Chip Index:** I correctly predicted a downward trend lasting until the end of August.

**The Rand:** I correctly predicted weakness beginning late this week and I expect to see it continuing until at least the end of August..

**Golds:** I correctly predicted the beginning of a recovery. Now, however I see a sideways trend for most of August.

**Bonds:** I correctly predicted a recovery which I continue to expect will last until late August.

***The Predicts accuracy rate on a running average basis over the past 481 weeks has been 81.82%.***

**Richard Cluver**