Richard Cluver Predicts

In our 29th year of service to the investing public of South Africa

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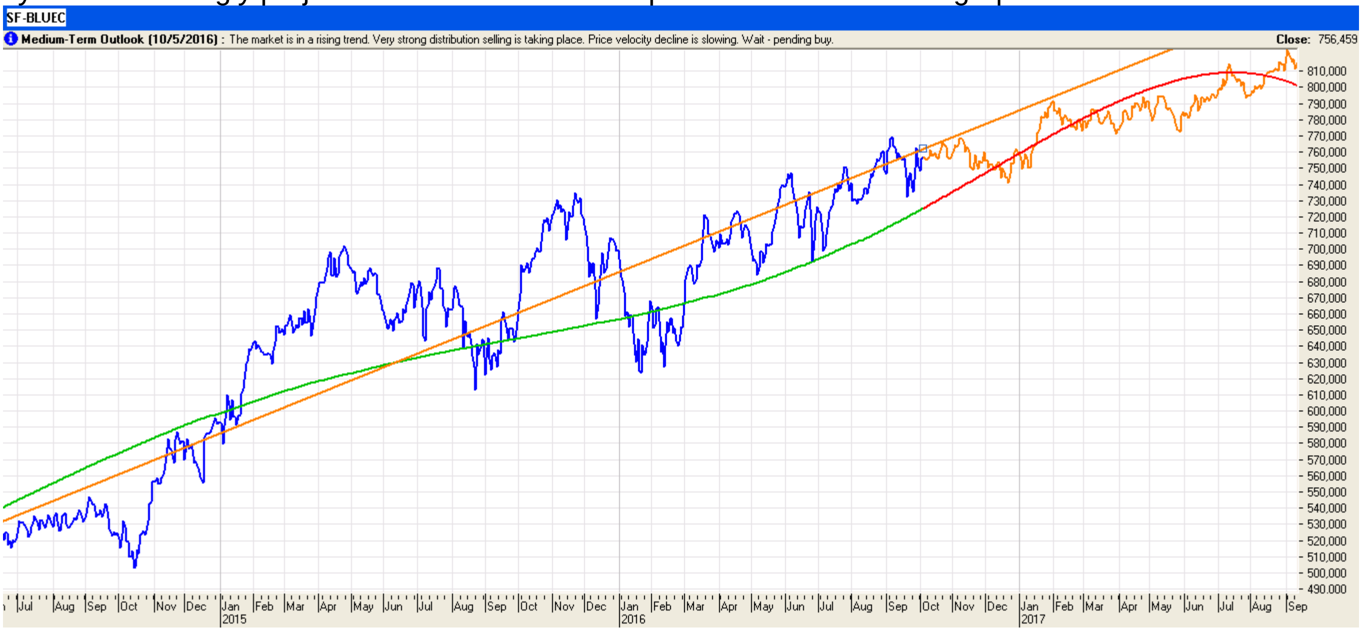
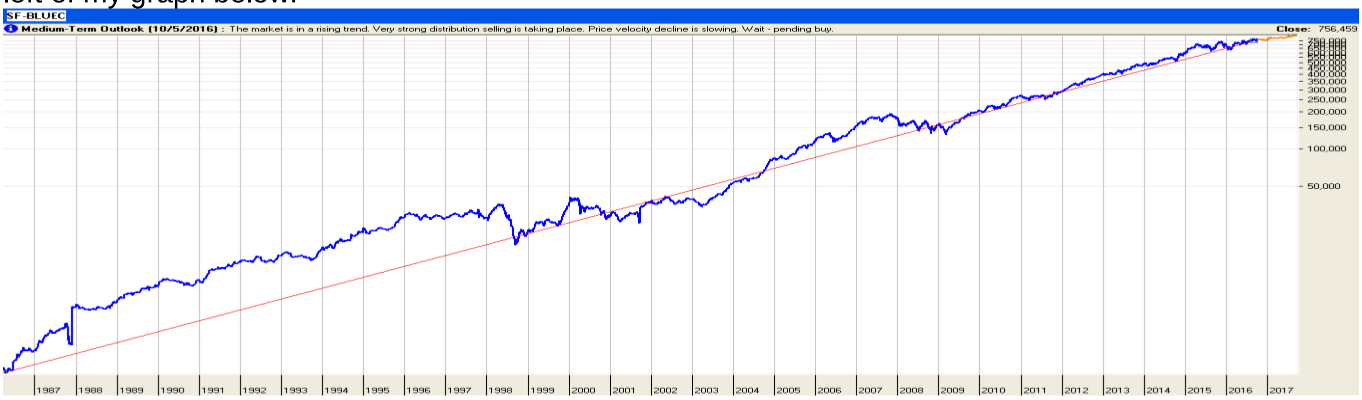
My instincts tell me that the longest-running bull market of modern history will be coming to an end in the foreseeable future and I have to confess that this fear is starting to cloud my judgement.

The point is that a bear market is inevitable. The only question is when. And it is at times like this that ShareFinder's so very accurate artificial intelligence projections become less than helpful because the world's share markets have been rising for so long that the dominant wave cycle is upward and the system accordingly projects that a continuation is probable. Consider the graph below:



The straight red line marks the upward trend of JSE Blue Chips which has been rising at compound 23.7 percent since the beginning of May 2009 when the sub prime crisis of 2007 finally bottomed out.

And, if one cares to take an even longer view, my South African data goes back to before the great bear market of 1987 which decimated portfolios at the time but appears merely as a small blip at the extreme left of my graph below:



What one can logically deduce from this second graph is that investors who are prepared to simply sit it out, can weather a major bear market and come up smiling in the end. But ask anyone who has ever sat through one of them and they will tell you that in the end nearly everyone loses their nerve.

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In 1987 the Blue Chips lost a third of their value in a matter of weeks and investors who became convinced that the slide would continue ad nauseum, eventually began to bail out in substantial numbers as they tried to salvage what was left of their decimated savings.
Hindsight is, of course, always a perfect science and, as my graph makes clear, the market was back to even greater heights before the end of 1987.
Then came the bear market of September 1998 in which Blue Chips lost nearly half their value in a six-month-long plunge but within a year of turning around they were aging back above their previous high. Again from 2007 to 2009 we experienced the sub-prime crisis when Blue Chips lost a third of their value once more but within six months of bottoming out they were again back above their previous peak.
But imagine if you could sense ahead of the event that a bear market was coming and could sell out in time in order to buy back at the bottom. The fact is that could you manage this you could double your capital. Comfortable nest eggs could be turned into considerable wealth. Modest retirement plans could become a luxury yacht on a world cruise!
The big problem about all of this for investors taking the long view is Capital Gains Tax which would extract as much money from the average long-term portfolio as the worst of the great bear markets of the past. So, whether you like it or not, most of you are forced to simply sit on your hands doing nothing and forced to sit through the agony and indecision of all future bear markets during your declining and most vulnerable years.
This would not be a problem if, like most developed countries, you would not incur Capital Gains Tax if you re-invested the capital within the current tax year. And that is the situation of unit trust investors who only become liable for CGT when they actually sell their units. Thus, if their unit trust managers are intelligent enough to foresee a coming market crash and sell out in time, the multiplier effect can be realized. The sad reality here, is that the average growth rate of ALL South African unit trusts is just 6.16 percent. So when you compare that with the 22.5 percent compound average growth of the ShareFinder Blue chips, it is clear that few, if any, of the fund managers have taken advantage of this situation. A few have come close. The Coronation Industrial Fund with a compound average of 17.3 percent, the Nedbank Managed fund with 16.6 percent and the Sanlam Industrial Fund with 16.6 have all come close. But surely they should at least have equaled the ultra long term Blue Chip Index growth rate of 22.5 percent. They could have done that with a simple Blue Chip Tracker even if they failed to iron out the bumps of the regularly occurring bear markets.
So, watch this space. In early 2017 I will be launching the ShareFinder Blue Chip Tracker unit trust which I am very confident will shake up the unit trust industry.
Meanwhile, readers should keep their eyes sharply on the markets. The next Blue Chip down phase is scheduled to occur between November 9 and December 22….interesting dates because during that time we should learn who is likely to be the next US President and it is even betting that if Donald Trump wins the race world markets will take a beating.
Then again, US Treasury Secretary Janet Yelland has signaled that she could announce an interest rate hike in December and that is another event that will almost certainly shock the Market.
Here at home a sovereign ratings downgrade could equally shatter our delicately poised market.
So, in conclusion, let us move away from the Blue Chips for a moment and consider the JSE All Share Index which is currently clearly showing a pennant formation: a classic technical analysis warning that the end is nigh with downward breaks currently projected for February and July. Either could signal the end.

So the clear message to investors is to start conserving cash and ridding your portfolio of doubtful investments.

The next month:

New York's SP500: Within a market that has been declining since mid-August, I correctly predicted short-term gains. Now I see it heading downward until early November when a brief recovery is likely.

London's Footsie: I wrongly predicted declines which I last week saw continuing until October 12. Now I see a whip-saw rising trend until the first week of November.

JSE Industrial Index: I correctly predicted a recovery which I still see lasting in whip-saw fashion until November 3.

Top 40 Index: I correctly predicted a recovery and I still see it lasting until October 10.

The ShareFinder Blue Chip Index: I correctly predicted a brief recovery which I see lasting until early next week.....then a volatile sideways trend until the market tops on October 31.

Golds: I correctly predicted a decline until October 11 and now I see that continuing into November.

The Rand: I correctly predicted a weak phase which should end on Monday following which I see gains throughout October.

The Predicts accuracy rate on a running average basis over the past 598 weeks has been 83.85%. For the past 12 months it has been 90.36%.

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