Richard Cluver Predicts

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

Volume: 29

Issue: 33

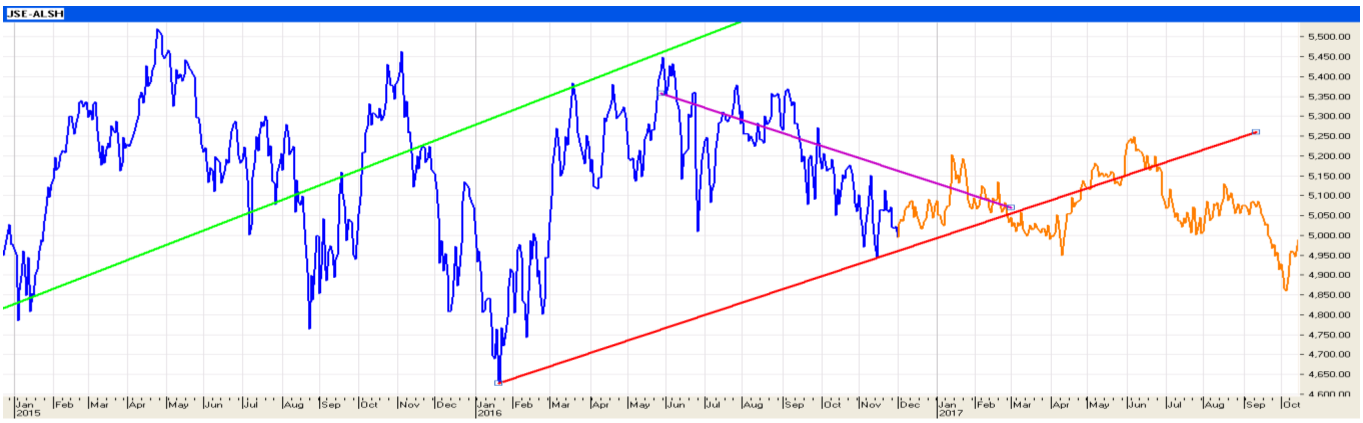
02 December 2016

After 19 months of simply going sideways from its April 2015 peak value of R2 942 335, the Prospects Portfolio made a new high in October of R2 966 832 before following the market down to a mid-November low of R2 725 452. And while a continued recovery is being projected to an end of January peak of around R2 926 664, the projection until the end of May is likely to be downward as South Africa continues to make heavy weather of the Jacob Zuma era of mismanagement.

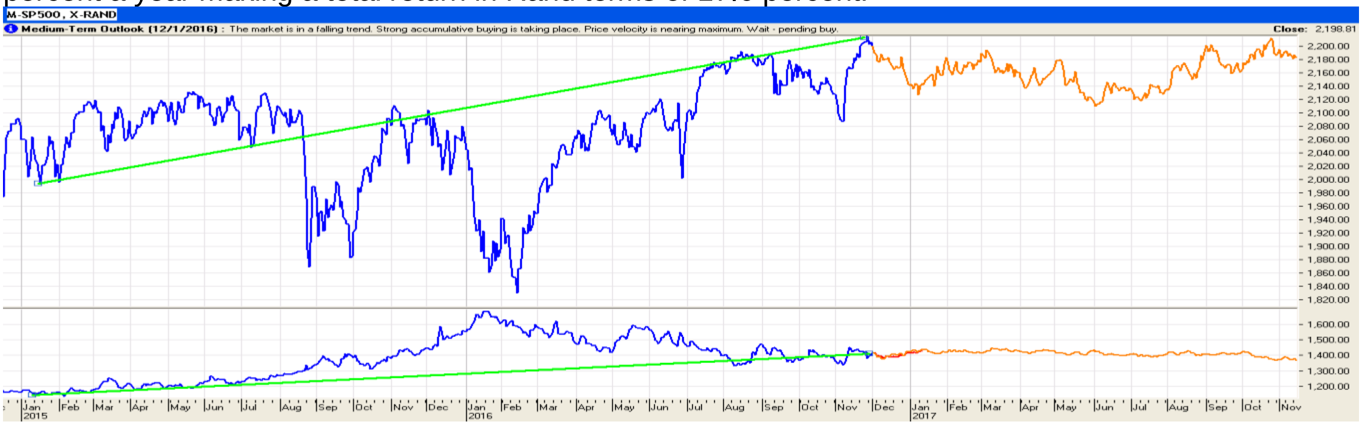
In the graph below I have reproduced what ShareFinder thinks will happen to the Prospects portfolio over the next year with, in the second graph, what ShareFinder thinks will happen to the Blue Chips: a similar downward trend until March end.

The green trend lines show how the long-term performance of the Prospects portfolio has been an upward growth of 22.8 percent and the red trend line the recovery of the portfolio at an annualized 46.3 percent compound from the low of the November 2015 bear market to the recent October peak: somewhat better than the Blue Chip recovery trend of 36.5 percent compound. Happily too, the rate of projected decline from now until the end of February 2017 is a mere annualized rate of -5.1 percent compared with a projected Blue Chip decline rate of -12.9 percent.

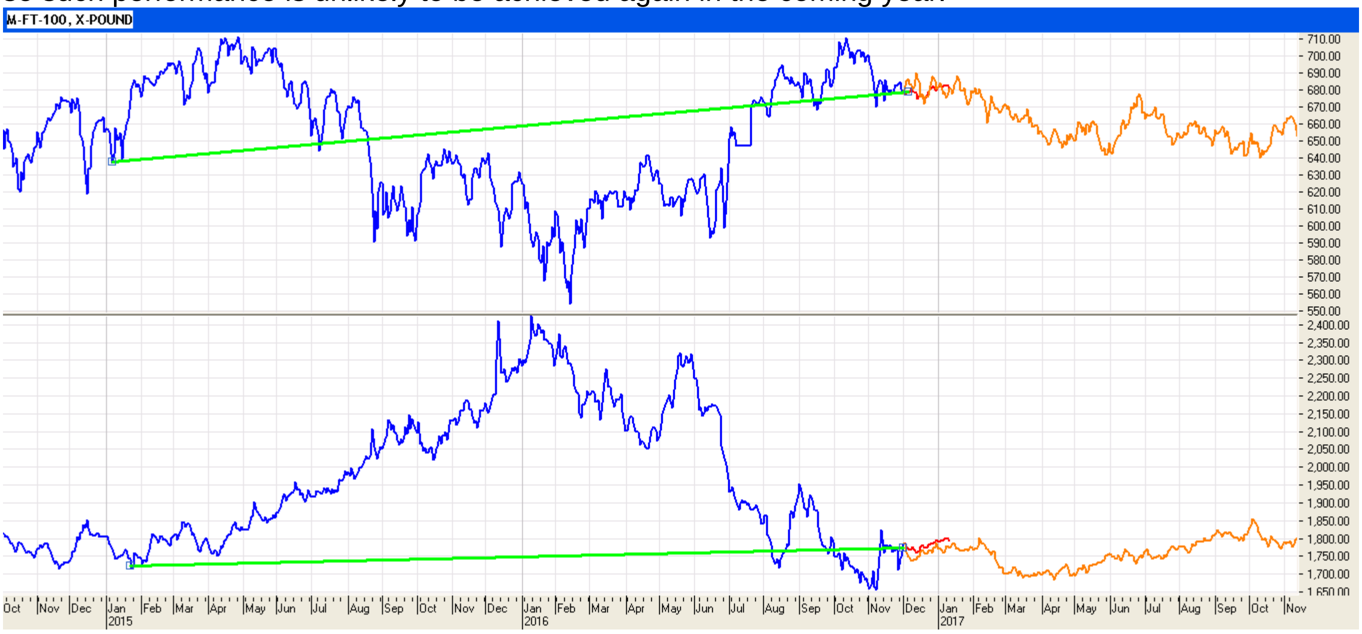
By way of consolation, had you invested in a JSE All Share tracker fund you would have enjoyed a long-term growth rate of 13.1 percent; just about half the growth rate of the Prospects Portfolio and, as depicted by the purple line, you would have been losing money at compound 7 percent, some 50 percent worse than the Prospects Portfolio. Furthermore, you would have been losing steadily since April 2015:



Now readers might recall that a year or two ago I was urging you to send a portion of your investment capital abroad to provide you with some insulation from the damage that the Zuma administration was wreaking upon our economy, and so I thought to offer a comparison graph of the performance of New York's S&P500 Index over the same period and you can thus see that you would have enjoyed a 5.8 percent compound average gain had you bought an S&P tracker. Furthermore, as the second graph of the composite shows, the Rand lost value relative to the dollar at a compound average rate of 11.8 percent a year making a total return in Rand terms of 17.6 percent:



Had you instead invested in a London tracker fund you would have seen your money grow at 3.3 percent and since the Rand lost value relative to the Pound at compound 1.6 percent, you would have see a total growth rate of 4.9 percent compound. Happily, however, I can report that those clients who elected to take advantage of the managed London portfolio which I launched a few years ago, that fund had a January 2015 value of Pounds 4.041021-million and is today worth Pounds 6.55-million offering an annualized growth rate of 27.35 percent which together with the Rand slippage of 12.6 percent offered a growth rate of 28.95 percent, significantly beating the 22.8 percent achieved by the Prospects Portfolio over the same period. I should add, however, that the London portfolio performance was significantly boosted by the happy inclusion of one share, Armour Designs which was taken over earlier this year and so such performance is unlikely to be achieved again in the coming year.



The next month:

New York's SP500: I wrongly predicted the recovery would continue at least until the end of the year. Now I see a downward trend until the third week of December.

London's Footsie: I correctly predicted a down-trend for the rest of the month. Now I see a recovery until Christmas.

JSE Industrial Index: I correctly predicted a brief decline but wrongly expected a recovery to follow, never anticipating that the ANCs weekend meeting would effectively endorse Jacob Zuma for the rest of his term. Now I see a continued decline into the second week of December.

Top 40 Index: I correctly predicted an increased probability of a decline which I now see lasting until at least December 16.

The ShareFinder Blue Chip Index: I correctly predicted a volatile sideways trend into the first week of December. Now I see declines for most of the month.

Golds: I correctly predicted a decline and, although some sideways trending is initially possible, the overall trend should remain downwards.

The Rand: I correctly predicted a recovery well into December but was caught out by the Zuma effect which I expect to be brief with recovery continuing until at least December 16.

The Predicts accuracy rate on a running average basis over the past 606 weeks has been 83.95%. For the past 12 months it has been 89.64%.

Richard Cluver