



Richard Cluver Predicts

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



Volume: 30

13 January 2017

Issue:2

Writing in my Prospects newsletter in December and again in this column last Friday, I warned that politics were likely to dominate the investment horizon. But I doubt that anyone expected how swiftly it would become a major issue as this week Americans began talking about the possible impeachment of President elect Donald Trump even before his inauguration had happened.

So serious has the problem become that yesterday one of America's most influential newspapers, the New York Times wrote in an editorial:

"Mr. President-elect, can you stand here today, once and for all and say that no one connected to you or your campaign had any contact with Russia leading up to or during the presidential campaign?"

The question came at the end of Donald Trump's news conference yesterday, from Cecilia Vega of ABC News. He did not answer it.

The country needs a clear answer.

Top leaders of a hostile foreign government — Russia — approved an effort to influence an American presidential election. They did it by stealing emails from Hillary Clinton's campaign, and they did it with the intention of helping Trump win. Given the closeness of the outcome, he may well have lost without the help.

The biggest unanswered question now is whether the Trump campaign played any role in Russia's effort. If it did, it committed a version of election interference that makes Watergate look meager by comparison.

Yet Trump declined to answer at the news conference (and his brief "No" later, while approaching an elevator, isn't sufficient). He instead ignored Vega's question of his campaign's involvement and focused on a question she tacked on, about Trump's message to Vladimir Putin. (Which is also a reminder that reporters often outsmart themselves, and let politicians off the hook, by asking multipart questions.)

"Richard Cluver Predicts"

13 January 2017

Page 1 ©2017 RCIS

Published by Richard Cluver Investment Services
<http://www.rcis.co.za>

richard@rcis.co.za

Mr. President-elect, we need an answer.”

Meanwhile here in South Africa our own President Jacob Zuma is treading the same perilous path as he begins an appeal against the High Court ruling that effectively reinstated the hundreds of charges against him for corruption. If he fails in this attempt it is very likely that even the ANC's Parliamentary majority could not save him from impeachment.

Impeachment of a President is an event of incalculable consequences for which the nation's currency is the major shock absorber and so it is worthwhile to note how the US Dollar has fluctuated in value over the past 52 years. And to put the graph below into its true perspective one needs to recall that there was a time just a century ago when one US Dollar, one British Pound, and countless other global currencies including the South African pound were backed by a single ounce of gold. The gold coin of that era were in face completely interchangeable until the world went off the Gold Standard, an event preceded by the US Federal Reserve Act of 1913 by which politicians took control of the US money supply in order to pay off the 1914-18 war debt. That act allowed private banks to reduce their reserves from over 20% to 10% backed by Federal Reserve Notes instead of gold. And the Fed itself was only required to keep reserves of 40% gold effectively increasing money supply six fold. Then, between 1922 and 1928 money supply was allowed to double again which led directly to the Wall Street crash of 1929 and the onset of the Great Depression.

In the closing stages of World War 2 the leading nations met in a hotel in Bretton Woods in the US where they put together the Bretton Woods Agreement which made the US Dollar the reserve currency of the world backed by gold reserves held by the Federal Reserve and set at 35 US Dollars per fine ounce. For the next 30 years this relationship held until, shortly before he was impeached, US President Richard Nixon was forced into the humiliating admission that the US had printed so many extra dollars that the 35-dollar relationship with US gold reserves no longer existed. In the aftermath of Nixon's impeachment the gold price soared until, in over-reaction it peaked at 850 dollars an ounce before eventually settling down into a + - 400 dollar range. Effectively the dollar was devalued to one tenth of its former value.

By the 1990s politicians had forgotten the disastrous consequences of their tampering with the money supply and so, in order to pay for the Gulf War the first President Bush began inflating the money supply and from October 1992 Wall Street began to boom. Overall, in that period the US increased its money supply six fold and the world's stock markets went into overdrive culminating in the 2008 market crash and what in other terms would have been the next Great Depression.

Perhaps we should be grateful that we were spared the worst consequences of the Depression and instead suffered only what has since become known as the Great Recession which still continues today. But the measures the world's central banks adopted to calm the economic storm, the money-printing exercise they euphemistically named "Quantative Easing" effectively re-doubled the world's supply of money and here at home the JSE All Share Index soared as it tried to retain "real value" rising 1060 percent from a low of 477.14 in November 1998 to a peak of 5535.51 in April 2015.

Thus the rich who owned shares saw their investments massively increase while the poor saw the price of maize meal double. Meanwhile, because of the recession, millions of jobs were lost and such pay increases as they were able to obtain were sparse in the extreme. The average South African disposable income rose just 35 percent from R25 008 a year in 1998 to a current R33 660. So it should

"Richard Cluver Predicts"

Published by Richard Cluver Investment Services

13 January 2017

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

Page 2 ©2017 RCIS

richard@rcis.co.za

surprise nobody that we have seen the rise of extremist politics in the shape of Julius Malema's EFF.

But let us go back over the whole period to the first Bush Presidency when the money presses began rolling. As you can see, the JSE All Share Index in my first graph below gained 1060 percent from a low of 477.14 in November 1998 to a peak of 5535.51 in April 2015



And now look at how the gold price responded, rising 615 percent from a low of \$254 in August 1999 to a peak value of 1816.19 in September 2011.



Just for good measure I have taken the gold price back to the 1965 level in my final graph. Before that it was static at 35 dollars an ounce from 1945 onwards.

"Richard Cluver Predicts"

13 January 2017

Page 3 ©2017 RCIS

Published by Richard Cluver Investment Services

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

richard@rcis.co.za



So what is likely if Mr Trump is actually installed and remains in office, and furthermore is able to initiate the infrastructure spending plans that he has promised. Well the US is massively in debt owing investors in its bonds nearly 20-trillion dollars. That is at the last count \$19 952 422 075 231. If Mr Trump gets spending the way he intends, that debt will soar and if the Federal Reserve monetises the consequences, share prices and the price of gold will inevitably soar once again...but the social consequences globally will become intolerable forcing at best major political change and...dare I say it; war.

So hold on for the lumpy ride ahead! But to retain your assets you should stay in blue chip shares and Kruger Rands.

The next month:

New York's SP500: I correctly predicted a recovery lasting until January 10 followed by weakness until the 19th and the decline is due to start now.

London's Footsie: I correctly predicted a recovery which is still in place followed by declines which I expect to begin in the new week.

JSE Industrial Index: I correctly saw the recovery into January followed by a decline which has just begun and should last until the end of the month.

Top 40 Index: I correctly predicted a volatile recovery followed by a brief and then further gains. That phase is now over and I see declines until the end of the month.

The ShareFinder Blue Chip Index: I correctly predicted a recovery which I expect to end today.

Gold: I correctly predicted a modest recovery continuing throughout the month. Now I see an earlier end with the peak around January 20 followed by a slightly weaker to sideways trend.

"Richard Cluver Predicts"

Published by Richard Cluver Investment Services

13 January 2017

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

Page 4 ©2017 RCIS

richard@rcis.co.za

The Rand: I correctly predicted the end of the recovery. Now I see further modest gains until the 20th followed by weakness into February.

The Predicts accuracy rate on a running average basis over the past 612 weeks has been 84.06%. For the past 12 months it has been 90.71%.

Richard Cluver