



Richard Cluver Predicts

In our 30th year of service to the investing public of South Africa



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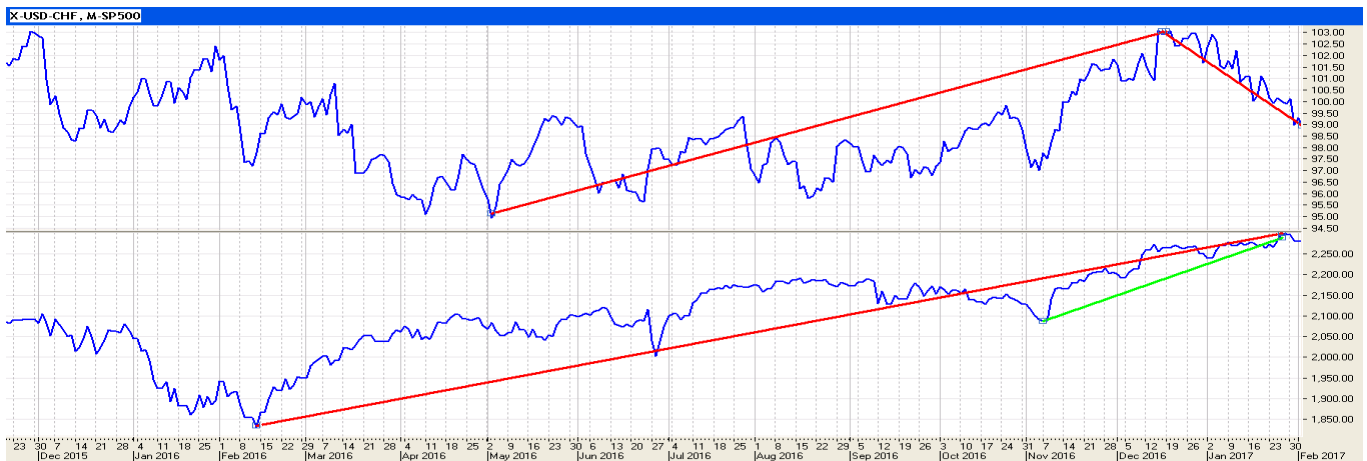
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One thing is becoming clear about the year 2017 and that is the fact that Donald Trump is going to do a lot more than simply shake up America. The world as we have known it for most of our adult lives is also changing; and not necessarily for the good.

My first graph represents an effort to determine what the world thinks of the Trump administration and what America thinks of him as illustrated by the securities markets. So, the first graph of the composite tracks the daily value of the US Dollar relative to the Swiss Franc. Thus we can see that during the months of the US election campaign the Dollar was gaining strength at an annualized rate of 13.6 percent. Then, once Donald Trump won the election the dollar reversed direction and began falling at a dramatic – 26.6 percent giving us a very pointed view of what the world thinks about a Trump future.

However, American investors plainly take the opposite view because Wall Street as measured by the Standard and Poors 500 Index has been gaining in uninterrupted fashion at an annual rate of 26.7 percent. Furthermore, as indicated by the green trend line in the lower graph, since America learned that Trump was to be their new President, Wall Street's rate of climb has accelerated to a present rate of 53 percent.



Well who is right; the people of America or the people of the world? Perhaps we should take a step back in history to record that the world has seen this same process once before after the onset of the Great Depression when the US Congress voted to raise trade barriers against foreign imports and what had been a US problem became a world wide depression which lasted right up to the end of World War 2. Indeed it was in large measure the cause of the rise of Adolph Hitler in Germany and had much to do with Stalin's Russia accelerating the process of communism from Marxist theory to active repression of millions of East Europeans. In short, the US-imposed Smoot-Hawley tariff barrier imposed against foreign imports in June 1930 was responsible for much of the world's subsequent pain.

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For a short analysis of the consequence I quote Wikipedia: “Modern measurements of Smoot-Hawley often ignore a wide range of important negative effects. For instance, the secondary financial markets, such as the New York Stock Exchange, crashed twice during the last eight months of Smoot-Hawley’s legislative history. Jude Wanniski and Scott Sumner have linked concern over the impending tariff to the October 1929 crash and the June 1930 crash. The Dow Jones Industrial Average fell 23 percent in the first two weeks of June 1930 leading up to President Herbert Hoover’s signing the bill into law. On June 16 Hoover claimed, “I shall approve the tariff bill,” and stocks lost \$1 billion in value that day—a huge sum at the time.

Furthermore, if losses of GNP were not evenly distributed across the economy but were concentrated (say, in export-oriented states), the tariff most likely distorted monetary conditions significantly. Two percent of GNP does not sound like a big change, but if it’s concentrated in one-fifth to one-third of the states, it’s very large indeed. The tariff dramatically lowered U.S. exports, from \$7 billion in 1929 to \$2.4 billion in 1932, and a large portion of U.S. exports were agricultural; therefore it cannot be assumed that the microeconomic inefficiencies were evenly distributed. Many individual states suffered severe drops in farm incomes due to collapsing export markets arising from foreign retaliation, and it’s no coincidence that rural farm banks in the Midwest and southern states began failing by the thousands.

Agriculture was not the only export sector destroyed by the tariff. The worldwide retaliation against U.S. minerals greatly depressed income in mining states and can be partially blamed for the collapse of the Wingfield chain of banks (about one-third of the banks in Nevada, with 65 percent of all deposits and 75 percent of commercial loans). U.S. iron and steel exports decreased 85.5 percent by 1932 due to retaliation by Canada. The cumulative decrease in those exports below their pre-tariff levels totalled \$369 million. Is it any wonder that Pittsburgh saw 11 of its largest banks, with \$67 million in deposits, close in September 1931? How about U.S.-made automobiles? European retaliation raised tariffs so high that U.S. exports declined from \$541 million per year to \$97 million by 1933, an 82 percent drop! Thus there was a cumulative export decline of \$1.57 billion from the pre-tariff volume to 1933. Is it any wonder that the Detroit banking system (tied to the auto industry) was in complete collapse by early 1933?

Now the world economic scene has greatly developed since the 1930s and so it would be wrong to think that the Donald Trump version of Smoot-Hawley will necessarily have the same impact upon the markets. Nevertheless it is worth noting that a growing number of analysts are saying that the US market is somewhat overvalued and due for a correction. Furthermore, ShareFinder’s analysis of the S&P500 Index suggest that a Wall Street downward correction is due to start now.

How many other Smoot-Hawley type consequences are likely to follow?



My graph above suggests that in the short-term Wall Street could correct downwards until February 17 before experiencing a “last gasp” upward surge (the green projection) but the medium-term projection, in red, senses that the market will trend steadily downwards until at least mid-July.

In sympathy, ShareFinder projects that the JSE All Share Index is already on its way down and is likely to continue down until mid-April before mounting a three-month recovery and then beginning the second leg of a down trend that could wipe out most of the gains since last December.

The next month:

New York’s SP500: I correctly predicted the start of a modest recovery which I saw continuing until mid February. Now I see the recovery ending on Wednesday and trending down until the 17th before beginning the last gasp.

London’s Footsie: I correctly predicted the beginning of a decline which I expected to continue until February 21. Now I am extending that until the 24th.

JSE Industrial Index: I correctly predicted a volatile whip-saw downward trend which I now expect to last until today followed by a whip-saw recovery until mid-March.

Top 40 Index: I correctly predicted a brief recovery which I now expect to continue until next Friday before trending down until the 22nd.

The ShareFinder Blue Chip Index: I correctly predicted gains but now I think that trend is over and see a whip-saw declining trend into March.

Gold: I correctly predicted a very erratic continuing recovery which I still see lasting until late this month.

The Rand: I correctly predicted an increasingly volatile period but overall I see the Rand gaining until the end of February.

The Predicts accuracy rate on a running average basis over the past 615 weeks has been 84.11%. For the past 12 months it has been 91.79%.

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