Richard Cluver Predicts

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

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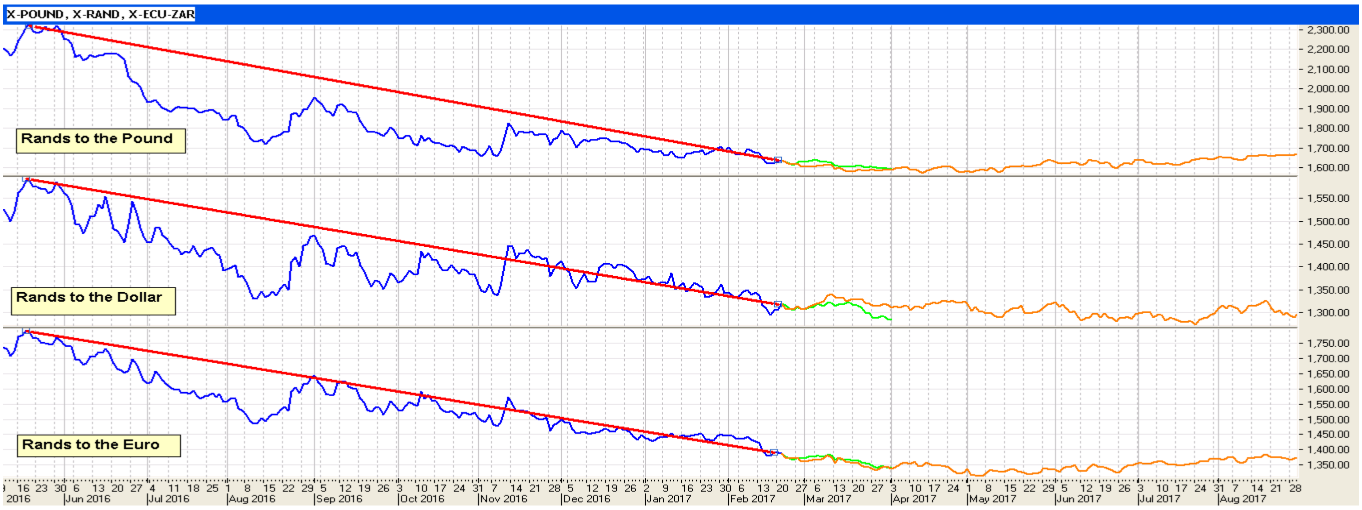
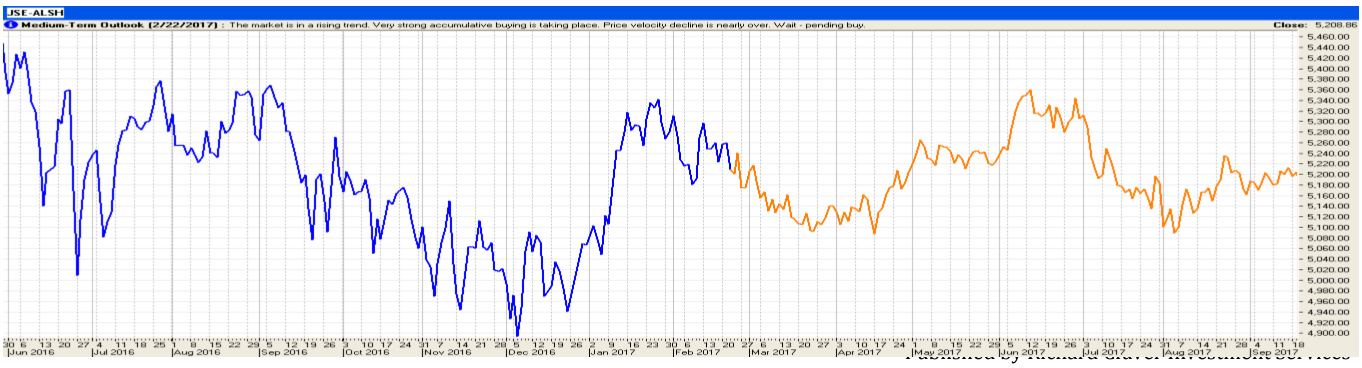
Please note there will be no issue of my Predicts column next Friday and a skeleton presence in the office from this Friday until next Wednesday.

Perhaps the most talked about political issue in the days leading up to the Budget this week was the possibility of President Zuma appointing disgraced former Eskom CEO Brian Molefe to Parliament ahead of him replacing Finance Minister Pravin Gordhan. But in an interview this week Gordhan implied that this was nothing more than speculation.

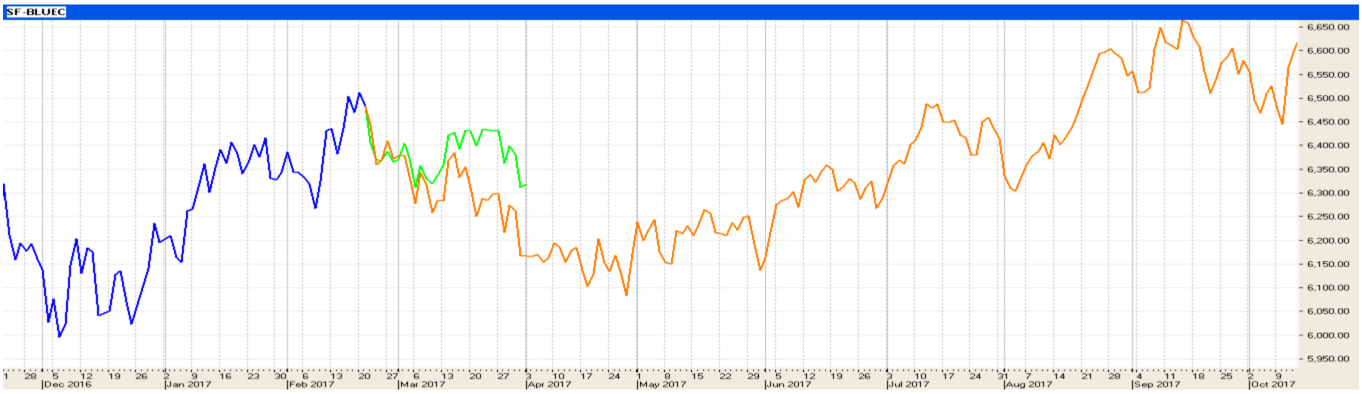
And judging by the performance of the Rand these past few weeks, it is just that; speculation. Early this week there was a marginal weakening of the Rand against three of the major currencies that we trade against, the Pound, the US Dollar and the Euro but, as my graph below emphasizes, it has been very slight and, furthermore, ShareFinder senses very little change in the steady strengthening trend of the Rand at an annual rate of 37 percent against the Pound, 22 percent against the Dollar and 28.5 percent against the Euro.



However, ShareFinder suggests that share market investors will not be happy with Mr Gordhan's budget with the JSE All Share Index accelerating the downward slide that began on January 25 as illustrated by my graph below:



Furthermore, ShareFinder predicts that Blue Chips will now also come under pressure as investors react to Mr Gordhan's punitive increase of the dividend tax from 15 percent to 20 percent. Arguing for this increase, the Minister said that in their attempts to avoid his personal tax 45% upper marginal rate, wealthy people might be tempted to instead pay themselves a dividend. This assumes that most taxpayers relying upon dividend income are in business and can so manipulate their income whereas the reality is that the most affected by a dividend tax are our pensioners whose life savings supplement meager pensions. They are hardly "the rich." The graph below shows that even Blue Chips are likely to be punished as a result:



The dividend tax was last increased from 10 to 15 percent in April 2012 and it had been widely predicted as likely to rise again this year given Minister Gordhan's continual insistence that the wealthy must pay for government's increased income requirements. The question that investors must ask themselves is how fair the increase has been?

Well, had you been closely following the Prospects Portfolio which I regularly update in each monthly issue of my Prospects newsletter you will have enjoyed an annual increase in value of 19.7 percent in its capital value and seen your dividends increase annually by 26.19 percent. To put that another way, back in April 2012 the portfolio was valued at R1 218 668 and delivering an average dividend of 3.59% or R43 750 on which the dividend tax payable was R6 562.50.

Since that time the value of the portfolio has risen to R2 944 999.22 and the annual dividend total to R53 010 on which at the new dividend tax rate of 20 percent the tax deducted will be R10 602.

So you can easily see that your after-tax yield on the portfolio has risen from R37 187.50 to a current R42 408. In other words, notwithstanding Mr Gordhan's depredations, the money in your pocket has increased by 14 percent overall. It sounds as if you are ahead, and you would have been were it not for inflation which has averaged 5.53 percent annually over that period leaving you considerably worse off in real terms.

Here I should add that the Prospects portfolio has been the best performing portfolio in South Africa throughout this period gaining at an annual rate of 19.8 percent as illustrated in the graph above.
The next best performers during that time were the Coronation Industrial fund which grew at an average of 13.95 percent and the Allan Gray Orbis Global Equity fund which delivered 12.8 percent annually. After tax investors in these two funds will be very much worse off!

The next month:

New York's SP500: I correctly predicted the end of a brief recovery and I expect investors will have to wait until the 7th of March before the next one begins.

London's Footsie: I correctly forecast continuing gains which, with some volatility, I see lasting well into March.

JSE Industrial Index: I correctly predicted a whip-saw decline well into March.

Top 40 Index: I correctly predicted a brief recovery which, with considerable volatility, could last until mid-March.

The ShareFinder Blue Chip Index: I correctly predicted the end of the recovery and continue to expect a down-trend until mid to late March.

Golds: I correctly predicted a volatile downward trend. Now I see the beginning of a recovery which could last most of March.

The Rand: I correctly predicted the beginning of weakness which I expect to continue until approximately March 10.

The Predicts accuracy rate on a running average basis over the past 617 weeks has been 84.14%. For the past 12 months it has been 92.5%.

Richard Cluver