Richard Cluver **Predicts**

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

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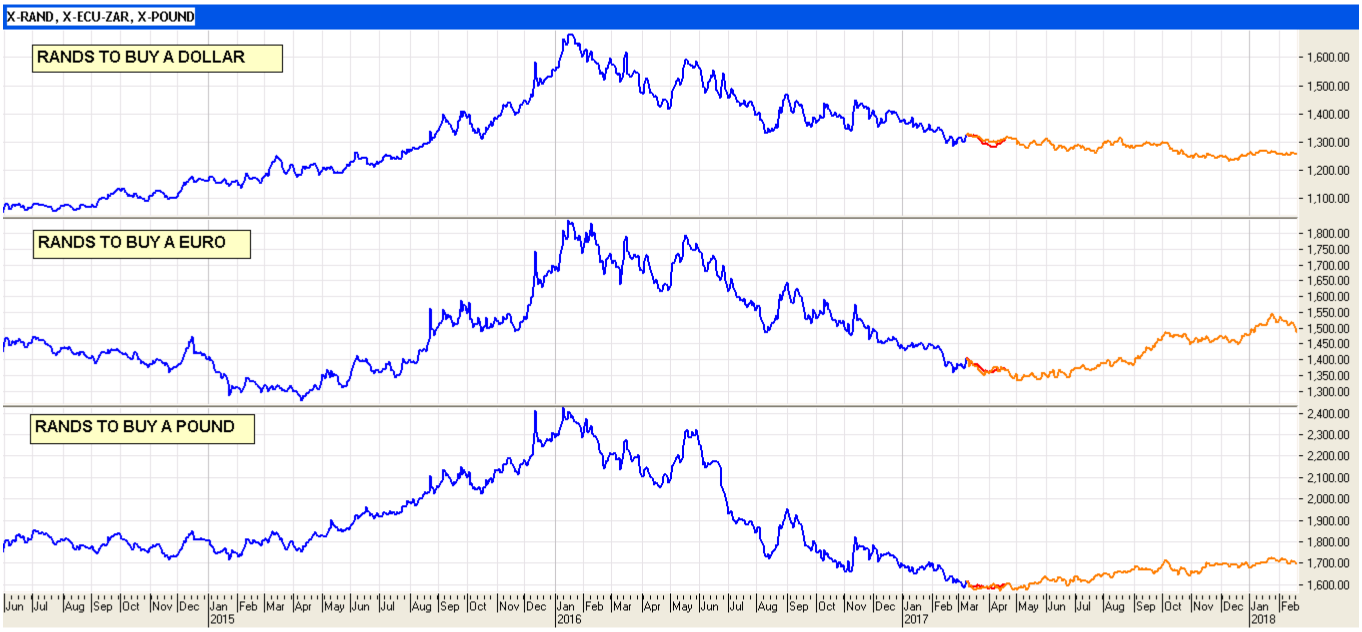
Forgive me the indulgence of confessing a greater than usual interest in the value of the Rand relative to the world's three most important currencies, but it is that time of the year when I am preparing for my usual visit to Europe, a journey that will this year take me initially to Britain for a month before going, as usual to my boat in Greece.

However, with the Northern Hemisphere spring already here, it is no doubt a common interest for many of you will be making similar journeys and will now be looking at buying foreign exchange. Given the volatility of the Rand in recent years, I have judged it good sense to buy bank notes and thus lock in my exchange rate before departure…so I know what I can afford!

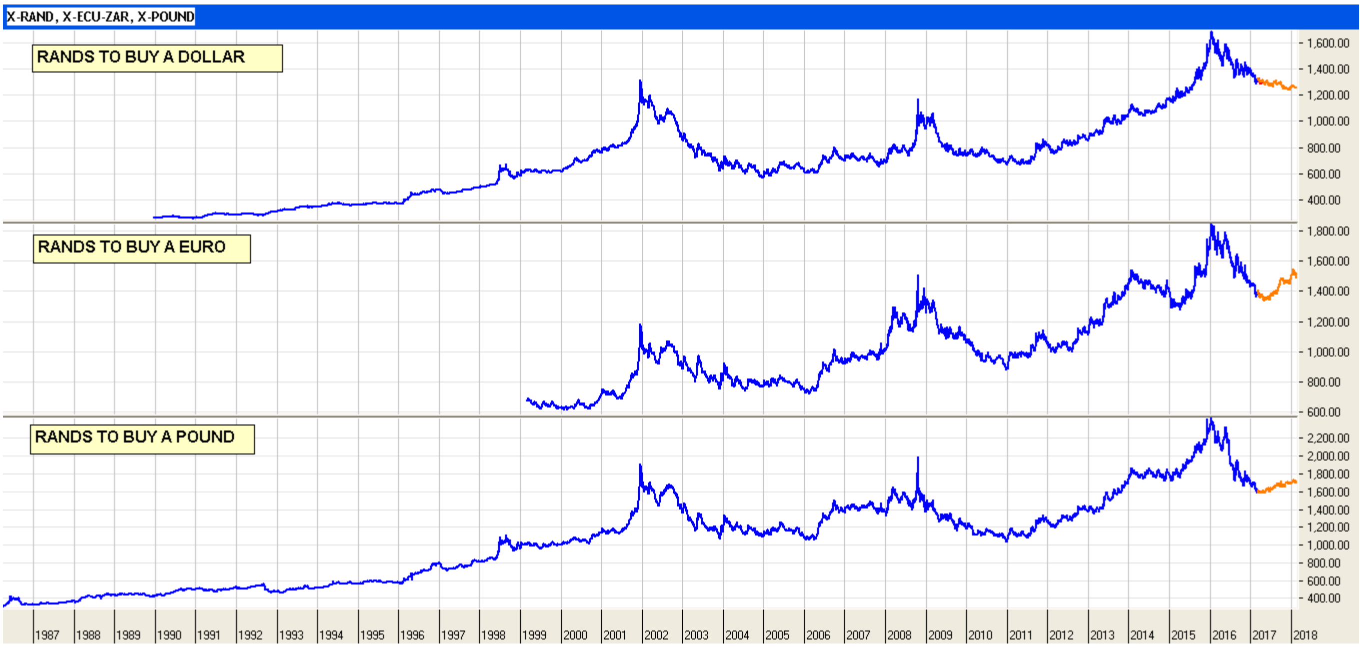
Furthermore, recognizing what happened to the Rand when President Zuma shocked the nation by replacing our respected former Minister of Finance Nene with the man who has come to be known as the "Weekend Special," such precautions have become far more important now that speculation is again abounding that President Zuma is moving to imminently replace Finance Minister Pravin Ghordan.

So it is interesting to note that ShareFinder projects that with regard to two of the three major currencies in the graph below the Rand is now almost at its strongest cyclic point and from May onwards it is projected to weaken steadily. Arguably, of course, the US Dollar is the currency that most concerns South Africans since a dominant proportion of our foreign trade deals are contracted in "greenbacks" and here at least the strengthening trend looks likely to continue.



I should emphasise, however, that these projections merely replicate the cyclic trends inherent in our exchange rates and while there is an extraordinary correlation over time between cycles and what happens in the real world of finance, it is impossible for artificial intelligence systems like those employed by ShareFinder to anticipate irrationally random political events. What the projections are showing us is that our currency has nearly reached its strongest point in its latest long-term cycle.

Normally these cycles last approximately seven years as is made clear when I expand the graphs as is illustrated below.



The problem, however, is that the cycles are becoming of much shorter duration as our international image has shifted from that of a country whose economic cycles were previously dominated by global economic changes as reflected by our previous role as one of the world's most reliable suppliers of base minerals to one where political irrationality has become the dominant issue. Seven-year cycles look like becoming two-year cycles if you study the graphs and that could potentially play havoc with economic and investment planning.

This change can very clearly be seen when one considers how the long-term cycles of the JSE have changed over the years. In my third graph composite below it can be seen in the topmost graph that the JSE All Share Index, apart from the major impact of the 2008 global economic crisis, achieved a steady upward surge until mid-2014 when the market moved into a series of short sideways-trending small cycles that epitomizes the present wave of uncertainty about this country and its future.

Naturally this was much more pronounced when one turns to the base metals index. Happily however, though also affected somewhat in recent years by this same volatility, the category of shares that meets ShareFinder's Blue Chip rules, has continued its upward surge and is projected to continue doing so.

Here it is worth noting that since 1997 the JSE All Share Index rose to peak in April 2015 having risen 657 percent in the time. It is projected to move sideways over the next two years. Base metals rose 280 percent between 2002 and 2008 but now stand only 130 percent above their 2002 level and are projected to fall over the next two years. Blue Chips, meanwhile have risen by 2319 percent since 1997 and, by the end of 2018 are projected to by then have risen by a total of 2583 percent.

The inference of the past 20 years is thus blindingly simple: if you wish to keep your life savings intact against the ravages of political incompetence and world trade vagaries, you need to concentrate on a Blue Chip portfolio.

The next month:

New York's SP500: I correctly predicted the end of a brief recovery. I expected the next recovery would begin on March 7 but that now appears likely to begin today.

London's Footsie: I correctly forecast continuing gains which, with some volatility would last well into March. Now I see declines for the rest of this month.

JSE Industrial Index: I correctly predicted a whip-saw decline well into March. Now I see a brief recovery until the 16th following which a sharp decline is possible.

Top 40 Index: I wrongly predicted that that the index could recover amid much volatility to the middle of this month. The brief recovery has been delayed and could begin now but will be short-lived and likely be over by the 16th followed by a decline until the 24th.

The ShareFinder Blue Chip Index: I wrongly predicted a decline until mid to late March. It only began on Monday and now a brief recovery is likely with the next decline likely to begin around next Tuesday.

Golds: I wrongly predicted the beginning of a recovery which could last most of March. Golds have continued falling and now seem likely to fall further only finding a brief bottom on the 22nd followed by a very brief recovery that could be over before April.

The Rand: I correctly predicted the beginning of weakness which I expect to continue until approximately Monday followed by a brief recovery.

The Predicts accuracy rate on a running average basis over the past 618 weeks has been 84.1%. For the past 12 months it has been 91.79%.

Richard Cluver