Richard Cluver Predicts

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

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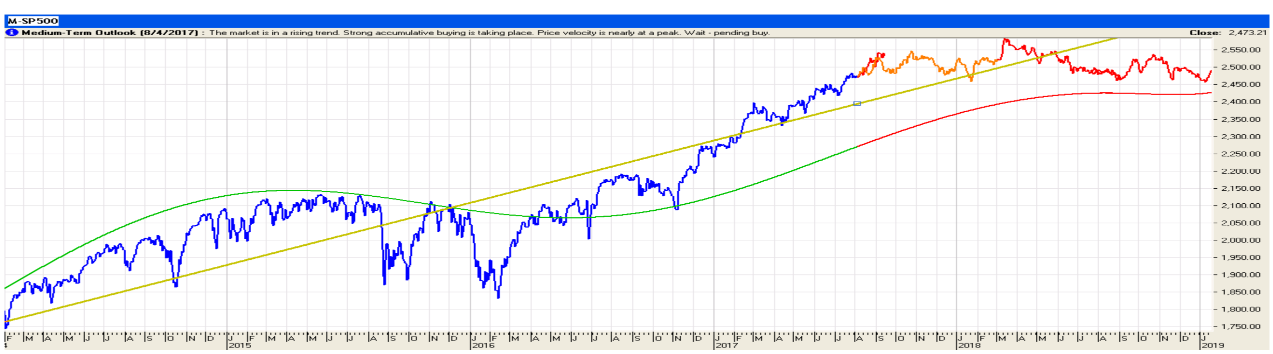
I have written lately of the growing concern among investment analysts that the longest bull market in modern share market history might shortly come to an end with all eyes upon the US Federal Reserve for signs that it will raise interest rates and thus precipitate the expected crash.

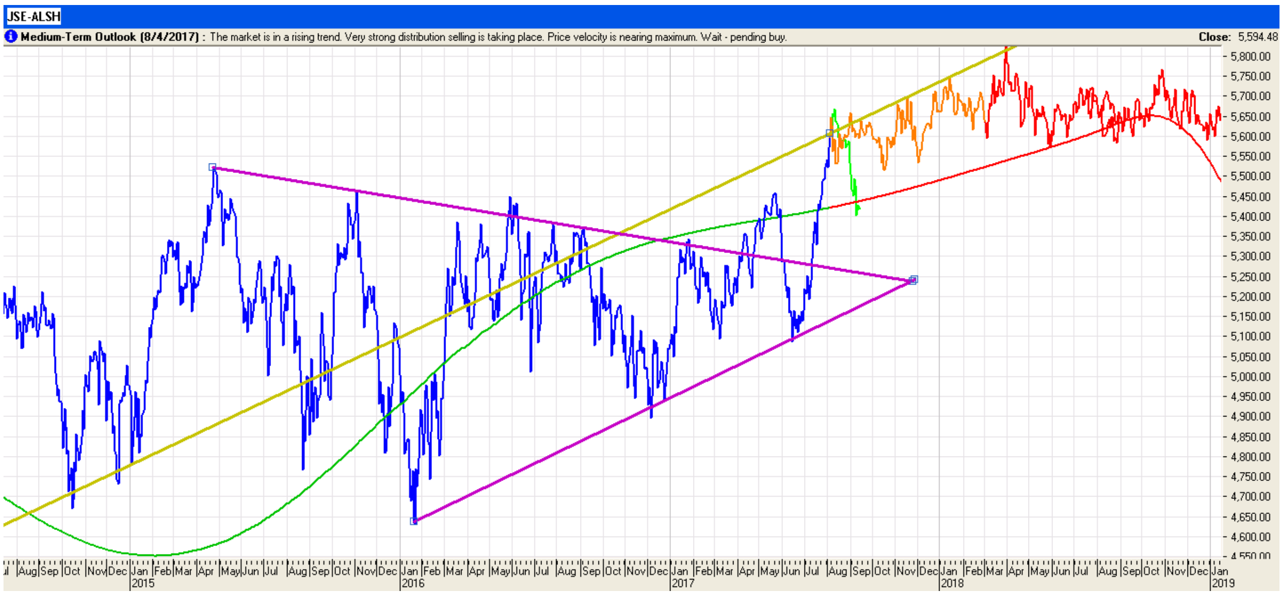
Now of course the people who run the Fed are far from stupid. They have generally been Ivy League academics as concerned about their own places in history as they are about the welfare of the global economy and none would want to have as their epitaph that they triggered what many believe is likely to be the greatest economic catastrophe of all time. So its reasonable to expect them to operate as cautiously as they are able.

That we are skating on thin ice is, however, without question. The historic Schiller Cape Ratio which I have posted from time to time in this column now stands at 30, that is 78.6 percent higher than its historic mean of 16.8, a level that has only been exceeded twice before in history as the graph below illustrates:

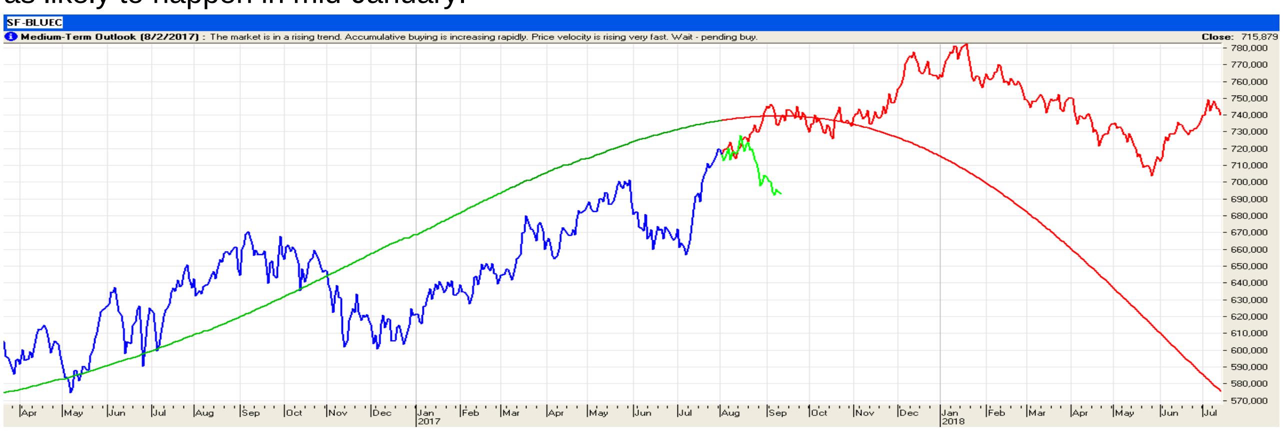
So it is anybody's guess as to how close we are to a final downward correction. For what it is worth ShareFinder currently predicts that the downward slide will begin early in March next year as illustrated in my graph below:



Turning to the JSE All Share Index, I have drawn in trend lines to highlight how a classic break-out occurred from a pennant formation in mid July which has taken the market upwards to intersect with its yellow ultra-long-term trend with a light green ShareFinder short-term projection implying that a downward break is likely in the new week although the red medium and long-term projections suggest that the bull market will continue until the end of next March.



The ShareFinder Blue Chips could last a little longer but as the light green short-term projection suggests, a similar short-term down-trend is imminent while the end of the bull market is sensed as likely to happen in mid-January.



ShareFinder will adjust these dates as new data impinges upon its artificial intelligence algorithms and I will keep you regularly posted as we move towards these dates. But the signs are clear at this stage.

Meanwhile, I reiterate my previous comment that now is the time to start considering insurance. The best option is to liquidate all shares in your portfolio which are at any risk, and I will take a closer look at these in next week's Prospects newsletter. For those who are constrained by Capital Gains tax considerations, the alternative is to buy a "Put Option" on one of the JSE Indices. You will need to discuss this with your stock broker but in broad terms a put on the Alsi should cost you around 10 percent of the value of your portfolio: a lot of money for many of you, particularly so if my predictions come to naught, but a very attractive place to be in if I am right!

The next month:

New York's SP500: I correctly predicted a down phase which I expected to last until around the 17th before the next recovery trend sets in. Now I foresee a recovery beginning a little earlier lasting until the third week of this month before the next down-turn occurs.

London's Footsie: I correctly forecast a short recovery. Now the next down phase has begun and I see it lasting into the second week of September.

JSE Industrial Index: I correctly predicted a brief recovery which could last a few days more but the signs are confusing and so I am reluctant to call this one. However, in the light of all the other indices, I think a down-phase is probable.

Top 40 Index: I correctly predicted that the recovery would continue until between the 14th and the 21st. Now a longer downturn is imminent which could take us into mid September.

The ShareFinder Blue Chip Index: I correctly predicted an imminent down-turn which has now begun but it will be very brief with a recovery early in the new week and then a mid-month downturn into September.

Golds: The brief retraction I predicted began a little earlier than I expected and could last until early September.

The Rand: I correctly predicted a recovery beginning around August 7 andI expect the gains to last until at least the third week of this month.

The Predicts accuracy rate on a running average basis over the past 627 weeks has been 84.21%. For the past 12 months it has been 91.07%.

Richard Cluver