Richard Cluver Predicts

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China's deepest concern were it to impose total trade sanctions upon North Korea in retaliation for its provocative missile and nuclear testing programme is that dictator Kim Jong Un's heavily-populated country would collapse economically and millions of refugees would then stream into China.

And aware of this trump card, Kim continues unconcernedly with his attempts to push the United States towards an atomic war. It is madness I know, but then most observers are reasonably convinced that Kim is either completely unhinged or a master chess player who is taunting and humiliating the leader of the world's most militarily powerful nation. And of course, one of the things that most troubled the world about the election of Donald Trump as President of the US was a perception that his sense of balance is seriously flawed.

On Sunday Kim upped the ante considerably by detonating a hydrogen bomb and shortly thereafter South Korea reported evidence that the North was preparing another missile launch and, mid-week the US launched missiles of their own as a demonstration of their newly-deployed anti-missile defence system in South Korea, exacerbating tensions with China.

As a result, the US Dollar is being battered and things could get decidedly worse as the financial world digests this week's European Central Bank meeting and the resignation of Fed vice chair Stanley Fischer, which could open the way for Trump to shape economic policy with a new appointment.

Add in the devastating Caribbean hurricane and, today, news of a magnitude 8 earthquake in Mexico and the ante gets cranked up even further.

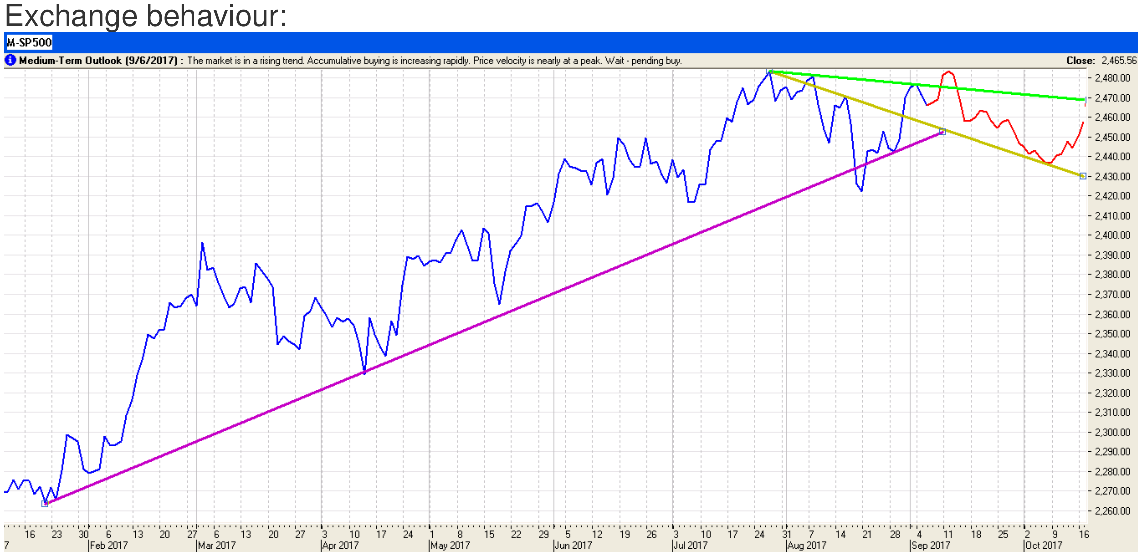
Thus, every day that this dangerous game continues it brings us closer to a conflagration of unimaginable proportions which, at the very least must be viewed as a "Black Swan" event at least equal to:

* The fall of Lehman Brothers in 2008 which ushered in "The Great Recession.
* The Dot com bubble collapse (During 2000–2002, the bubble collapsed. Some companies, such as Pets.com and Webvan, failed completely and shut down. Others, such as Cisco, whose stock declined by 86%, and Qualcomm, lost a large portion of their market capitalisation but survived).
* The Wall Street Crash of 1929.

Each of these shook the world economy to its knees and saw trillions wiped off global stock exchanges.

Furthermore, as I have repeatedly advised readers, global share prices are at unprecedentedly high levels and, in the opinion of most leading market watchers, in imminent danger of a major downward correction as illustrated by the Schiller Cape Ratio graph below:

We've been here a number of times before and every time the behaviour of share market investors has been the same. In the last phase of a share market bull run greed trumps prudence with investors promising themselves they will get out soon but not being able to resist the extra money they are making each day as the indices soar. So let us consider Wall Street's S&P500 Index which is the most representative index of New York Stock Exchange behaviour:



To draw a reliable trend line you need to be able to intersect at least three market turning-points and so you can see my mauve line underscores New York's rising trend which since January this year has been gaining at a compound annual average rate of 13.3%. My green line links the three latest market peaks and the yellow line links two of the past three while, in red, ShareFinder predicts what it expects will happen in the next month, calculating the probability of a mere two percent decline over the next month.

I have been watching ShareFinder's projections of the S&P500 with great interest since the July market peak and have noted that both the extent and timing of the movements has been nearly 100% accurate and so I can reasonably expect the forward correction will be accurate. But I am very aware that ShareFinder is not as good when it comes to Black Swan events though, to be fair, long-time readers of this column will be aware that ShareFinder did predict the 9/11 market crash with unerring accuracy.

More importantly for South African readers of this column is the likely impact of these events upon the JSE All Share Index and so I reproduce what ShareFinder sees for the latter, noting here the very sharp decline that is already under way with ShareFinder's short-term analysis (in yellow) seeing it continuing into the second week of October.

The medium-term projection sees the market recovering from October 17 and then entering a rising trend which will see the market peak at the end of March before entering its next down phase. This latter projection is, moreover, in full accord with the (red) long-term cycle trend of the market.

So the news is not good in respect of the local market as a whole and, very troublingly, it almost as dire when one considers the projections for the Blue Chips in my final graph below.

Note that the (red) long-time cycle is peaking now and both the short(yellow) and medium-term (mauve) projections see the market continuing down until at least next Tuesday and possibly until October 18 when a final year-end recovery is projected before a significant downward break is projected to begin in early January.

Here note that since my return from Europe in June, ShareFinder has consistently been targeting early January as the likely start date for a major market retreat.

The next month:

New York's SP500: I correctly predicted a recovery lasting into the first week of September. Now I see declines for most of the month.

London's Footsie: I correctly forecast a recovery. Now I see declines for several weeks.
JSE Industrial Index: I correctly predicted a weak month. Now I see the possibility of a moderate recovery starting around September 14.

Top 40 Index: I correctly predicted a down phase that I continue to see lasting most of the month and possibly into early October.

ShareFinder Blue Chip Index: I wrongly predicted a recovery which has been postponed at least until the 14th.

Golds: I correctly predicted a brief decline before a recovery trend sets in. Now I see gains until mid-month.

The Rand: I correctly predicted a recovery but warned of the likelihood of fresh weakness beginning now. Now I see weakness is likely until the 27th.

The Predicts accuracy rate on a running average basis over the past 631 weeks has been 84.25%. For the past 12 months it has been 91.07%.

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