Richard Cluver Predicts

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

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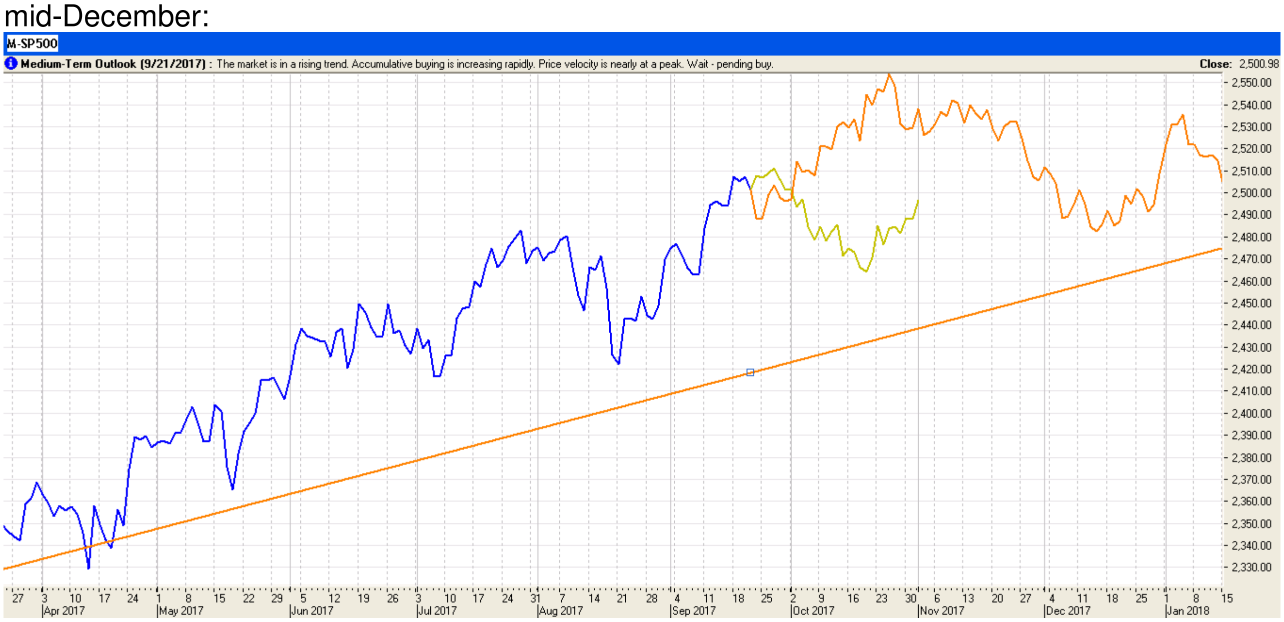
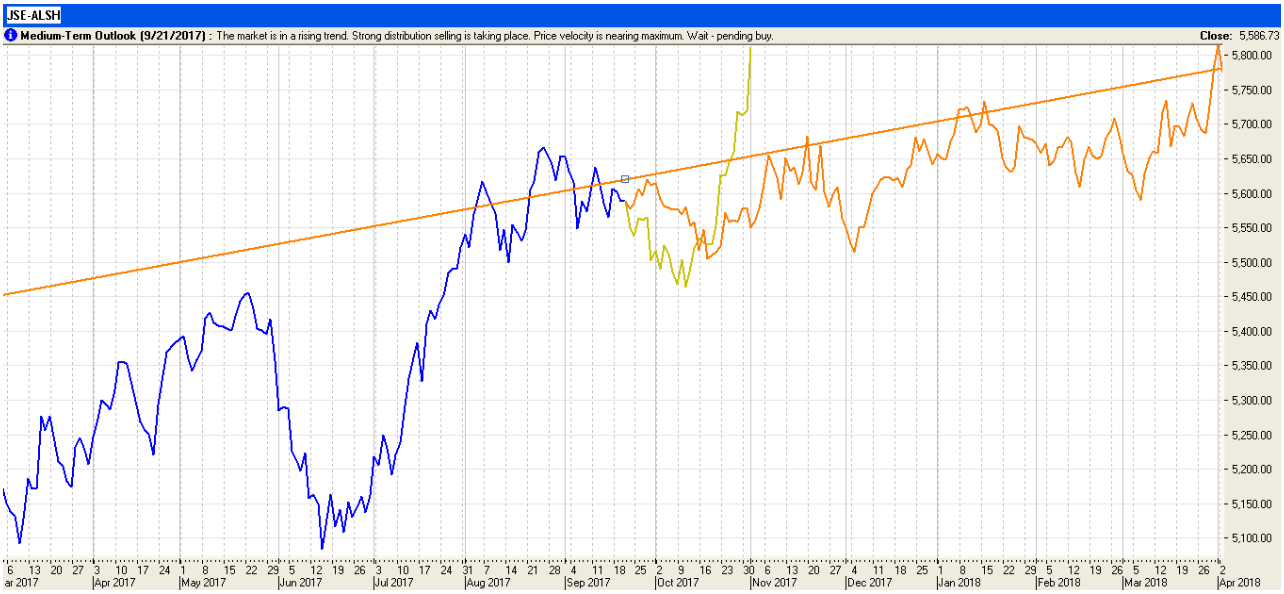
Last week we noted "Round Three" in the Trump baiting game when North Korea fired another missile and true to form President Trump responded this week in a speech to the United Nations in which he pledged to annihilate North Korea. Nuclear war could be just a hair's breadth away!

Next, US Federal Reserve chairman Janet Yellen yesterday announced the Fed's exit from Quantative Easing. The process of reducing the $4.5tn balance sheet would start in October, she announced, leaving it to run steadily into the next decade. And, reported the Financial Times, a firm majority of Ms Yellen's Fed colleagues backed a further rate move this year, most likely in December. Only four of 16 policymakers are seeking to keep rates unchanged for the rest of 2017, the same number as in June, and no fewer than 11 policymakers want to see at least three rate rises next year, with only five advocating fewer than that.

Not many months ago, the announcement that Quantative Easing was to end would have spooked markets prompting yet another steep downward spike of Wall Street indices but, as my graph below highlights, the Standard & Poors 500 Index moved almost imperceptibly downwards and ShareFinder thinks – note the yellow short-term projection – that the market will only begin retreating next Thursday and, even then it is likely to be a modest retreat lasting only until mid-October. Here note, however, the medium-term (red) projection sees the decline continuing until mid-December:



Meanwhile here at home the Reserve Bank announcement yesterday that the much-expected interest rate reduction would not be happening just yet should be negative for the market in the short-term but it had a similarly imperceptible effect upon a market that has already been progressing downward since August 25 and is projected to continue on downward until the second week of next month:



It seems, as I have lately been observing, that markets have distanced themselves from the real world. Meanwhile, as I have been highlighting, the Robert Schiller inflation-adjusted Wall Street average PE ratio continues its steady upward climb, now nearly equalling the level it stood at immediately before the 1929 Black Tuesday crisis:

So it is anybody's guess what magnitude of political or natural crisis it might finally trigger a downturn: not the threat of nuclear war nor the worst earthquake ever to strike Latin America nor three successive hurricanes of devastating proportions in the Caribbean have so far been able to end the current irrational exuberance. Needless to say, if you have not yet taken the precaution of at least ridding your portfolio of share market underperformers, you are skating on very thin ice.

The next month:

New York's SP500: I correctly predicted a downward trend. Now I see brief gains until the 27th before the next down-trend begins.

London's Footsie: I warned that the signs were divided and the result was the market went sideways. Now I see more of the same with daily ups and downs as investors search for direction.

JSE Industrial Index: I correctly predicted a weak month with the probability of declines throughout and I continue to hold that view while the market moves sideways to modestly down.

Top 40 Index: I correctly predicted a down-trend which I see continuing for most of the month and into October.

ShareFinder Blue Chip Index: I correctly predicted a down-trend likely to continue into October.

Golds: I wrongly predicted a brief recovery. Now I see continued declines.

The Rand: I correctly predicted weakness. Now I see a brief recovery but fresh weakness could come again as early as mid-week.

The Predicts accuracy rate on a running average basis over the past 632 weeks has been 84.27%. For the past 12 months it has been 91.07%.

Richard Cluver