Richard Cluver Predicts

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

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I have of late become so obsessed about the probability of a worldwide share market "correction" that I might have been guilty of overlooking other important issues. Accordingly, though I do not intend to allow my attention to be diminished, it is time to turn to other important issues….like the value of the Rand as South Africa collectively ignores everything else in its own obsession with the Guptas and the fast-approaching ANC elective committee meeting.

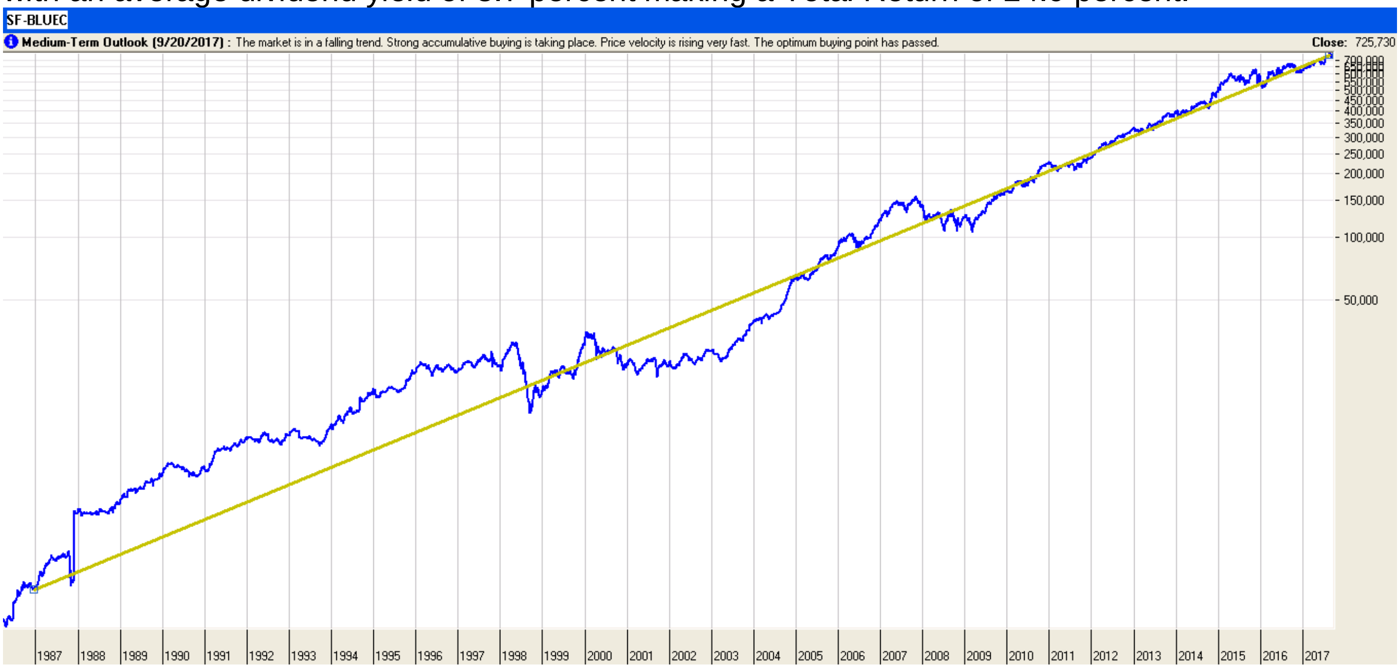
Lest you have failed to notice, the Rand has of late been losing ground at a significant rate against the British Pound and, while ShareFinder sees this as a medium-term aberration, it is having a significant effect upon readers' foreign investment values. In my graph below, the yellow line represents the 30-year relationship of the Rand to the Pound back to the balmy days of 1987 when it took just R3.16 to buy a Pound. Compare that with January 19 last year when, in the aftermath of the axing of Finance Minister Nhlanhla Nene the Rand collapsed to R24.0117 to the Pound before beginning a long recovery which reached its apex on March 30 this year when it had reached R15.9578 to the Pound ahead of Pravin Gordhan's axing as Minister of Finance.

So let us note the yellow trend line on the graph which shows that had you bought British Pounds and simply put them under your mattress these past 30 years you would have earned 5.8 percent compound on your money throughout that period. However, if you compare that with the 8.8 percent that you can currently earn from FNB on a five-year fixed deposit, the gain might not appear so impressive though you would of course have to pay tax on the interest which would have probably negated the difference.

However, as my next graph indicates, had you invested in a cross section of the category of shares that my ShareFinder system identifies as London Stock Exchange Blue Chips, during that period you would have achieved, in Pound terms, compound 9.75 percent capital growth together with an annual average dividend yield of 3.6 percent representing a total return in Pound terms of 13.35 percent which, converted to Rands would have thus given our investor a total annual increase of 19.15 percent.

So, was it worth the effort and expense of applying for permission to ship Rands to Britain, opening a brokerage account there and setting up structures to facilitate offshore ownership such as a foreign trust in order to avoid the complications of high British death duties should the structure still be in place at your death?

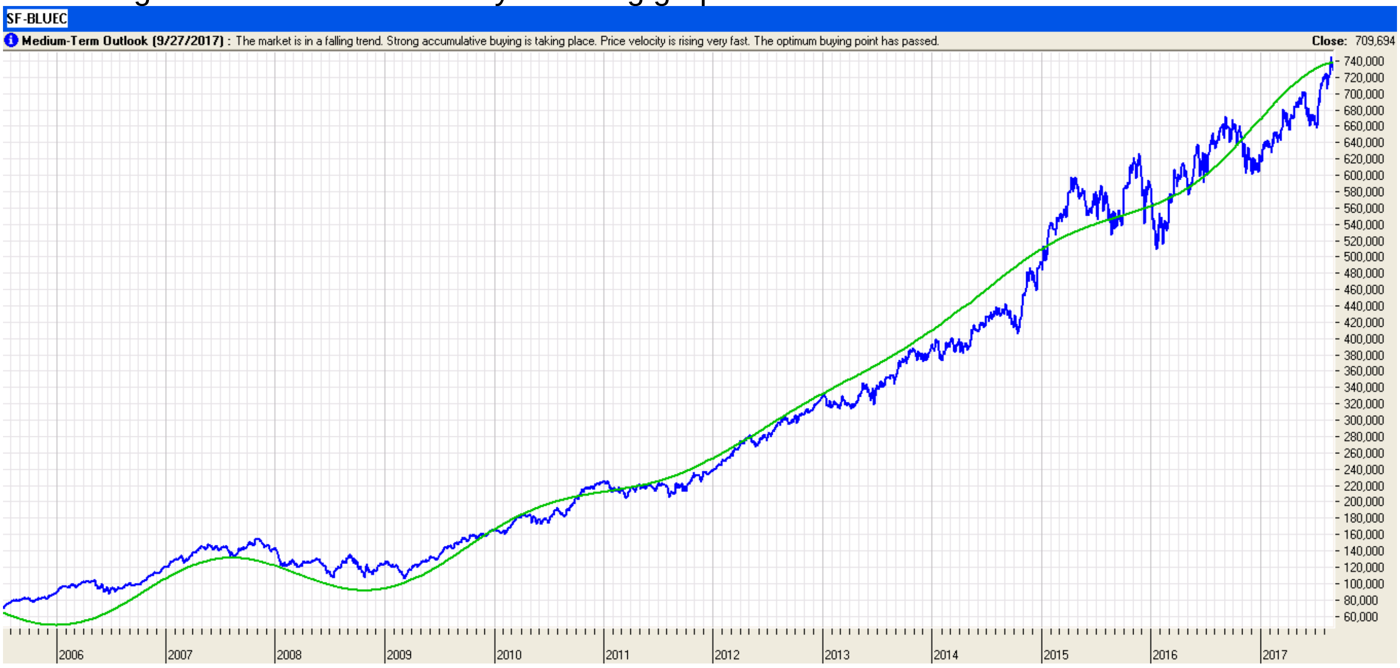
The answer is a resounding NO. As my graph below illustrates, had you utilised the ShareFinder programme to isolate a list of South African Blue Chips back in 1987 and held them throughout the next 30 years you would have enjoyed compound annual average growth of 21.2 percent together with an average dividend yield of 3.7 percent making a Total Return of 24.9 percent.



What would that have meant in actual terms had you, for example, invested R100 000 back in 1987? Well the London investment, converted back into Rands today, would have given you R22 851 539. Had you invested the same amount into South African Blue Chips your investment would today be worth R 98 499 855.

But before I leave the subject, I would like to direct you to the snaking green lines on my topmost and second graphs. They represent how ShareFinder predicted these markets would move week by week throughout the 30 years which have allowed ShareFinder users to anticipate the timing of the points when a rising currency or share value turned around and became a falling trend and, of course, vice versa. If you study them you will see that they were not quite accurate in 2002 and 2008 but have become increasingly so in recent years, so much so that our forecast accuracy rate as detailed at the end of this letter every Friday, has now reached 91.43 percent. The reason for this is that artificial intelligence systems, like the one built into ShareFinder, require large amounts of historic data in order to achieve forecast accuracy. Ten years ago I thought there was a glass ceiling at 82 percent because ShareFinder never seemed able to better that figure and then in recent years the accuracy rate began creeping steadily upwards at around one percentage point a year.

It is beyond the scope of this article to calculate what your overall gain would have been had you taken yourself to a tax haven where Capital Gains Tax was not as destructive as it is in South Africa and there used ShareFinder's projection system to trade in and out of securities in order to multiply your gains, but it is clear if you study the signals that those green lines provide, you could further multiply your gains by a factor of up to ten. To do so, however, you would need to stray outside the quality of shares that generally represent the Blue Chips which have been in almost constant gain since late 2008 as my following graph illustrates:



The next month:

New York's SP500: I correctly predicted brief gains until the 27th before the next down-trend begins. The down-turn continued modestly in a mainly sideways mode signaling the probability of another up-trend. However the signals are opposed to one another with the short-term projection sensing a fairly pronounced decline until October 6 while the medium-term projection sees recovery beginning now and continuing until October 25.

London's Footsie: I correctly warned of a continuation of the sideways trend. Now I sense an imminent decline until at least October 13.

JSE Industrial Index: I correctly predicted a weak month with the probability of declines throughout and I continue to hold that view into October with declines until at least the 20th.

Top 40 Index: I correctly predicted a down-trend which I still see continuing until October 23.
ShareFinder Blue Chip Index: I correctly predicted a down-trend likely to continue into October and I now see declines until October 12.

Golds: I correctly predicted declines which I see continuing until October 19 but here as well the Bulls and the Bears are opposing one another with a possible up-turn projected in the medium-term analysis until October 12.
The Rand: I correctly predicted that fresh weakness could come as early as mid-week. Happily now I see recovery continuing throughout October and possibly until mid-November.

The Predicts accuracy rate on a running average basis over the past 633 weeks has been 84.27%. For the past 12 months it has been 91.43%.

Richard Cluver