RICHARD CLUVER INVESTMENT SERVICES

Richard Cluver Predicts

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

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Treasury's move to bail out SAA using short-term money…. which effectively means that other Government services which are already short of cash are likely to be even more tightly squeezed in the coming months…. severely impacted the Rand this week as many saw it as increasing the likelihood of a ratings agency downgrade to junk status for our bonds.

The good news, however, is that ShareFinder expects our currency to revert to mean in the next week or two and resume its strengthening trend in the medium-term. I say that rather ruefully because in order to avoid the impact of possible further Rand weakness I paid in full this week for a planned Christmas trip to the South Pacific….and I did not consult ShareFinder first. Oh well, I am also human!

In the graph below you should pay attention to the triangle (or pennant) formation which I have highlighted with two converging mauve trend lines. As I have frequently explained, this triangle is one of the most accurate of all the technical analysis patterns because it highlights the self-evident fact that the Bulls and Bears are gradually reaching consensus – that the optimists and the pessimists are steadily getting closer to one another in their expectations for the future. But sooner or later one or another group will overcome the other as has now occurred with the dramatic upward break-out of the Rand-Dollar exchange rate.

Since a rising Rand graph means that it will take ever-increasing amounts of Rand to buy a dollar, an upward break-out of a pennant formation thus signifies that for the immediate future the pessimists are in control. But notwithstanding chart theory, I prefer to back ShareFinder's constantly proven forecast accuracy which is demonstrated week by week by the accuracy average figures published every week at the end of this column. Thus, note the yellow (medium-term) and orange (short-term) projections which both forecast that the Rand will very soon be in recovery mode and that a break below the lower mauve trend line is likely more than once before the end of this year and that by April we could be re-visiting the Rand strengths we were experiencing when Pravin Gordhan was still Minister of Finance.

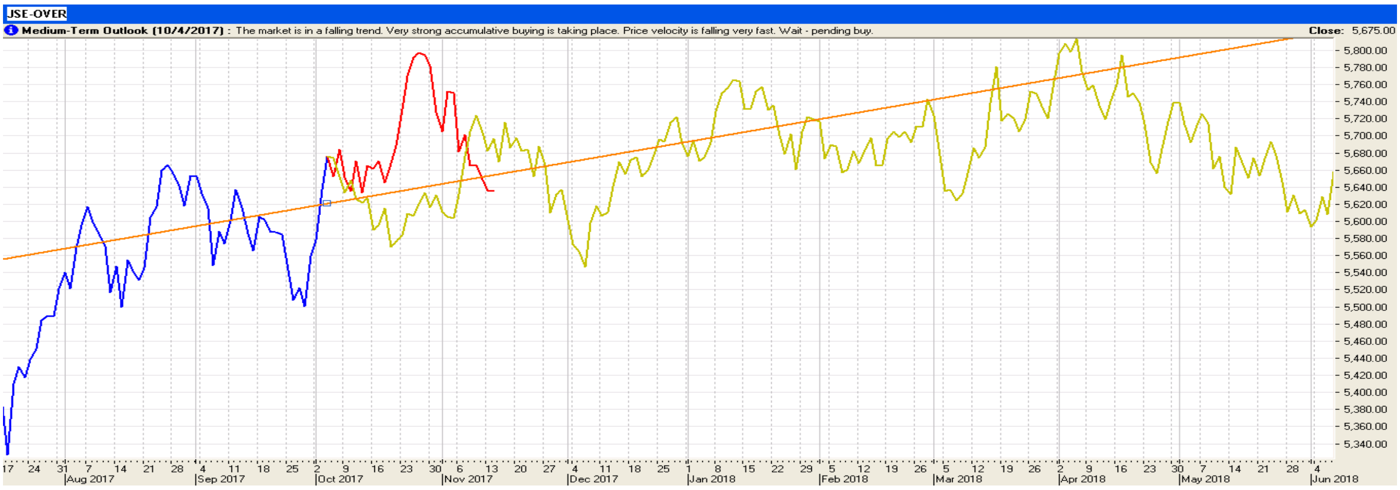
Importantly, however, note also that the smoothly-curving green line of ShareFinder's long-term projection system is projected (in red) to flatten out during the February to April period before beginning a fresh rise which, in the long-term, implies that the phase of Rand recovery which began in January last year, is nearly over and that a gradual weakening of the Rand might be expected to be resumed from approximately mid-July next.

Of course, our Rand is the shock-absorber that rolls with each punch that is delivered to the South African economy and while we continue to be dominated by the selfish self-interest of politicians rather than what is good for the people of South Africa, it is a given that the Rand will continue to take strain and our economy will continue to limp along. And our share market will similarly continue to mirror an economy that does not know (or care) where it is going because our leadership is more intent upon nest feathering than creating jobs for the poor.

And when I turn to ShareFinder's projections for the JSE Overall Index, these are the most worrying of all. Not for many years have I seen such a dramatically-plunging long-term projection line. So here it is important for you to understand that when the JSE Overall Index (as represented by the blue line in the graph below) moves in the opposite direction to the green line of the long-term cycle trend, then you must know that we are living in the last stages of a medium-term cycle.

So, note that from early March this year the blue line of the index plot began moving upwards above the green line and has continued doing so all this year taking us ever closer to the moment when a dramatic downward break will happen. So, if you examine the extreme right-hand side of the graph you will see that ShareFinder's short-term projection senses that a market peak will happen around October 25 to November 9 and the JSE will trend down thereafter.

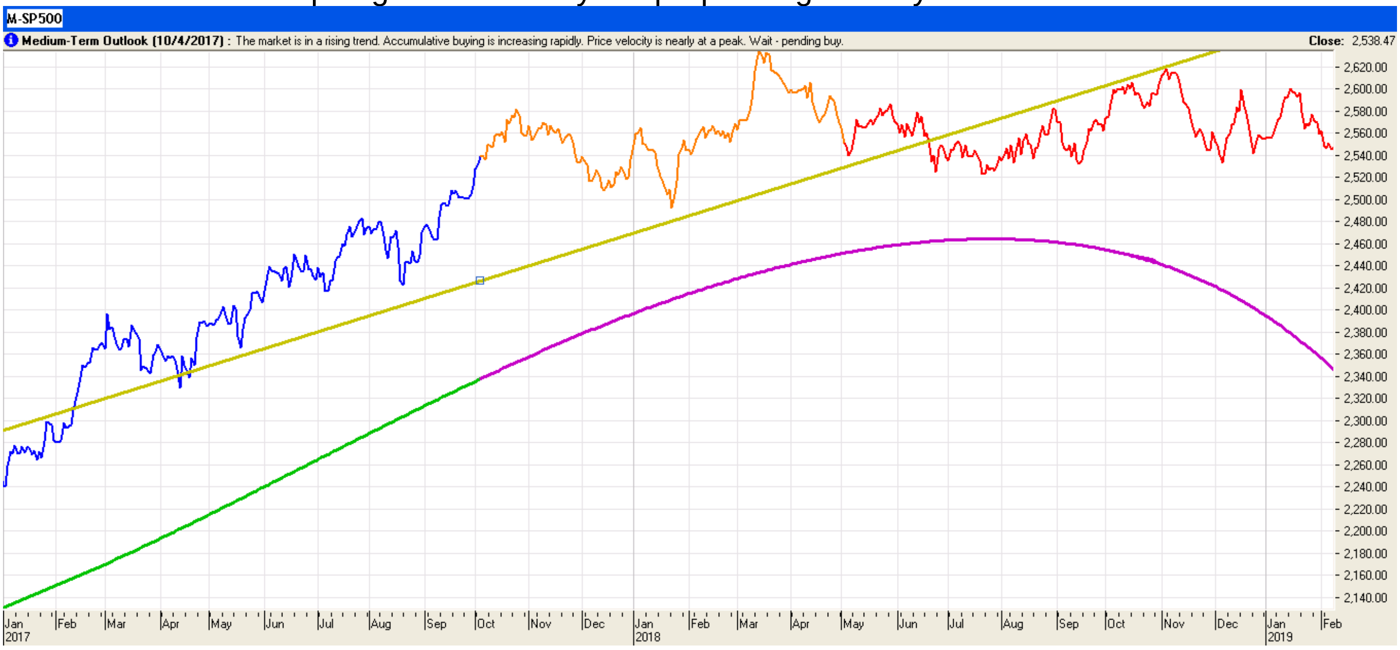
However, I have blown up ShareFinder's forecasts for the new year and, if the programme is correct, instead of a dramatic plunge, the medium-term forecast in yellow sees the market yawing up and down in a still-rising trend at least to the end of April



It is, I know, a very confusing set of projections suggestive of a local market as much in the sway of our local economic uncertainty as it is under the influence of Wall Street which is in turn in the sway of the fiat money machinations of the US Federal Reserve, the European Central Bank and the Bank of Japan, all of which have led us into unknown monetary policy which many fear will not end well.

So, of course, Wall Street is likely to be the early-warning system we should all pay careful heed to. The S&P500 Index graph below, like the JSE, shows a dramatic ending of the long-term cycle. In the graph the yellow trend line represents the nine-year upward trend of the longest-ever Bull market that Wall Street has ever experienced, fuelled by the fiat money the Fed was until recently churning out in massive quantities.

So note that while ShareFinder also senses weakness from the end of this month, it continues to suggest that a last gasp rise will happen between late January and mid-March with another weak phase between mid-March and mid-July before a broadening sideways trend sets in for the rest of 2019 ahead of a final plunge heralded by the purple long-term cycle trend.



If you are left a little confused by all of this, know you are in good company because the best economists of our planet cannot tell us how all of this is likely to pan out. We know we avoided another Great Depression in 2008 but it will be many years before we really understand whether the monetary measures adopted then were an effective long-term antidote or just an antibiotic that has merely postponed an eventual crisis arising from the truly astounding levels of Government debt that is still being piled up by all the leading nations. And, of course, until we know the answer to that question, our share markets will continue to reflect global indecision; a phase in which you, the investor, can profit mightily if you use sophisticated software to guide your actions.... or lose substantially if you do not remain alert!

The next month:

New York's SP500: I warned that the signs were confused but in the event the medium-term projection proved the correct outlook promising an upward trend until October 25 and so far, we are on track for that although the short-term projection is still offering a brief decline.

London's Footsie: I correctly warned of an imminent decline which has now started and is likely to continue until October 13 before an upward surge takes us through to November 8.

JSE Industrial Index: I wrongly predicted a weak month with the probability of declines throughout. However, the opposite happened and now I see gains at least until the 10trh when after a brief setback, the up-trend will resume taking is into early November.

Top 40 Index: I wrongly saw the down trend continuing but now I see a continuation of the up-trend until the end of the month with a short weak phase within that until the 16th-18th.
ShareFinder Blue Chip Index: I wrongly predicted a down-trend likely to continue into October. Now I see gains at least until the 9th when a brief down phase is likely within an overall rising trend lasting until October 26th.

Golds: As it was last week when the Bulls and the Bears were opposing one another and the medium-term analysis proved the right one, now the medium-term projection senses gains and the short-term sees declines. I will go with the former with gains until October 12.
The Rand: I wrongly saw a recovery but this has only been delayed with ShareFinder seeing the beginning of a recovery lasting until mid-November.

The Predicts accuracy rate on a running average basis over the past 634 weeks has been 84.23%. For the past 12 months it has been 90.36%.

Footnote: A New York Times reporter Nicholas Kristof just back from a visit to North Korea reported today that he has never before been as alarmed as he is now about attitudes there:
"Far more than when I previously visited, North Korea is galvanizing its people to expect a nuclear war with the United States. High school students march in the streets in military uniform every day to denounce America. Posters and billboards along the public roads show missiles destroying the U.S. Capitol and shredding the American flag. In fact, images of missiles are everywhere — in a kindergarten playground, at a dolphin show, on state television. This military mobilization is accompanied by the ubiquitous assumption that North Korea could not only survive a nuclear conflict, but also win it. "If we have to go to war, we won't hesitate to totally destroy the United States," explained Mun Hyok-myong, a 38-year-old teacher visiting an amusement park."

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