Richard Cluver **Predicts**

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

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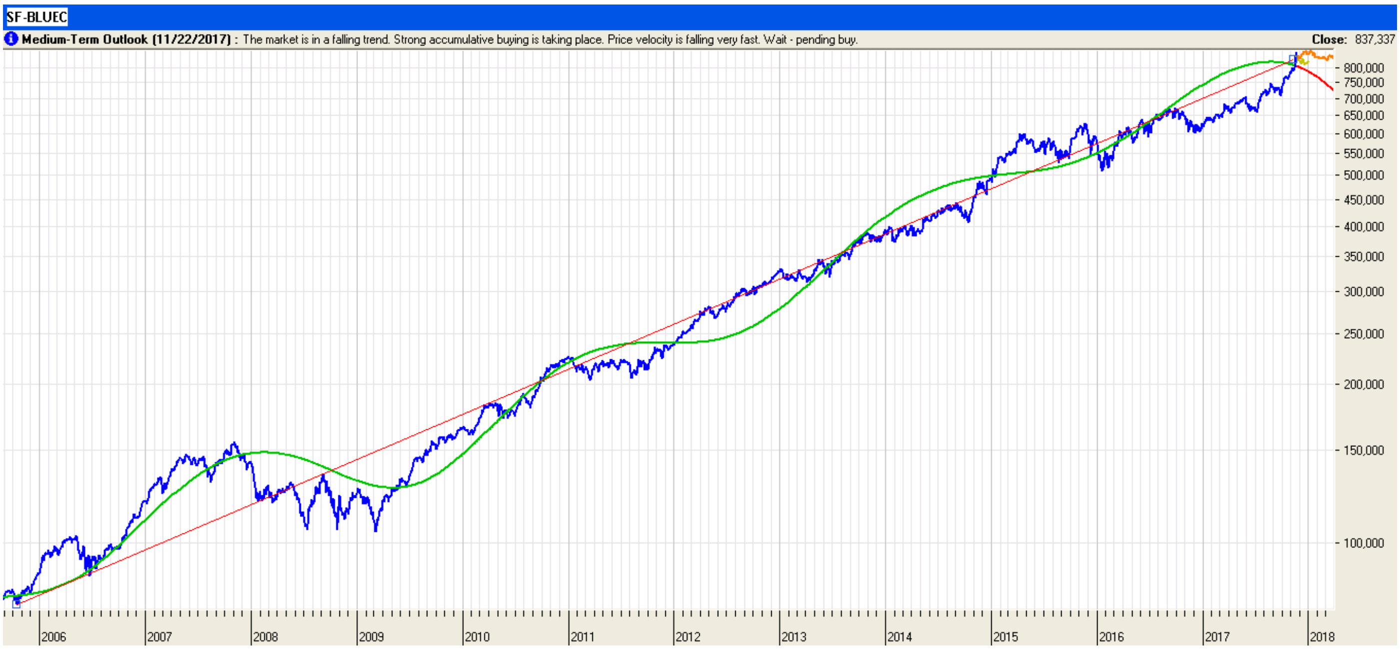
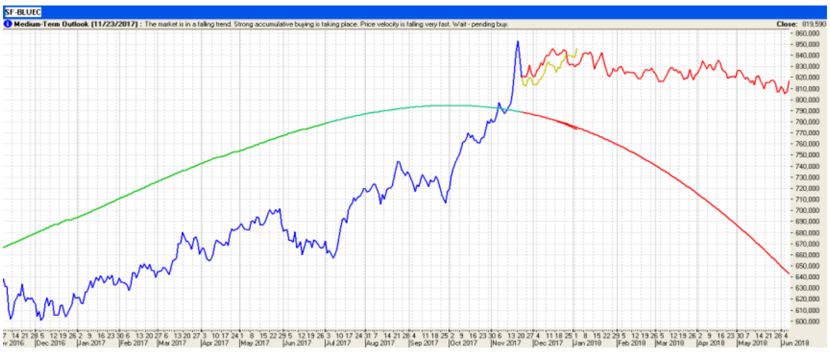
After another week of powering upwards at a rate we have not seen for many months, the JSE hesitated yesterday in line with global sentiment following a marked retraction of the Chinese market upon inflation fears.

So, it is timely to revisit how costly share markets have become lately, noting that the average JSE share now stands at a price earnings ratio of 31. Simply stated, if the entire earnings of every company listed on the JSE were to be employed to buy back all their listed shares, it would take 31 years to achieve that.

Remarkably then, the average Blue Chip share (by my definition the shares of companies that have been sufficiently loyal to their shareholders to pay them constantly-rising dividends over the past decade) is actually cheaper than the JSE average at a PE of 20.9. My first graph below shows how the ShareFinder Blue Chip Index has performed over the past decade rising at a compound annual average rate of 21.7 percent annually:

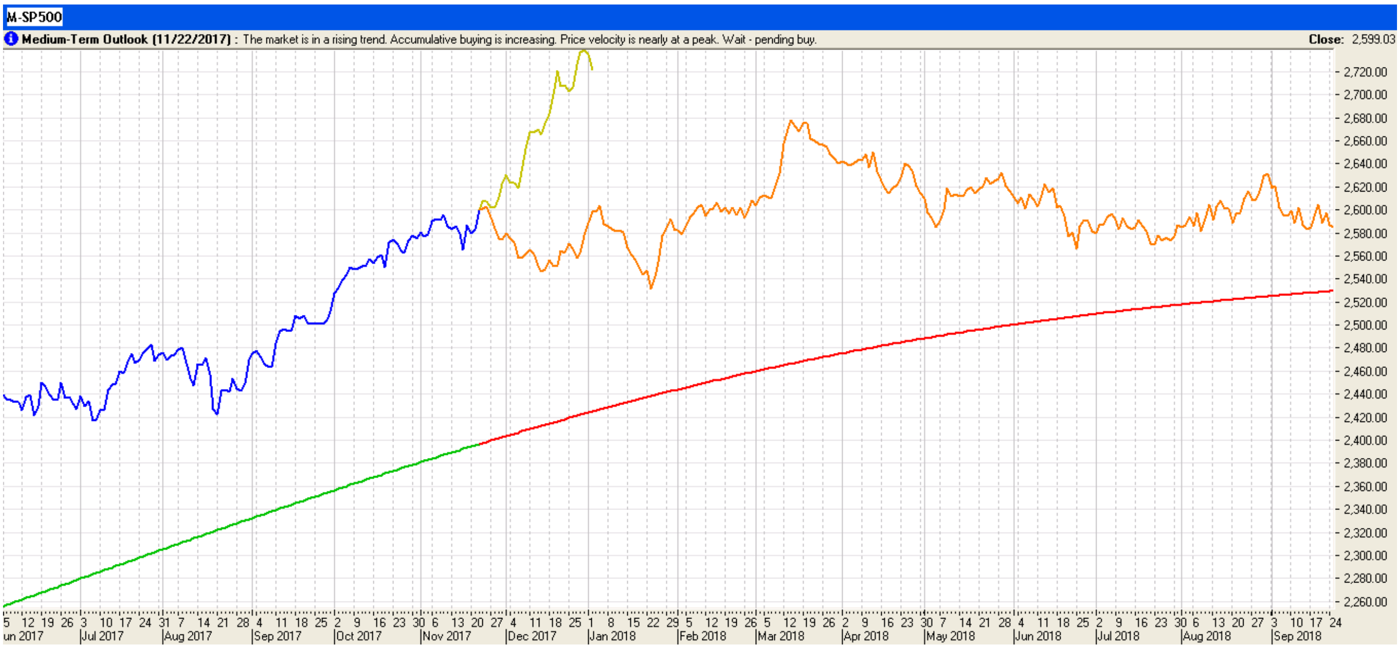


Note, however, the Index has already begun falling and ShareFinder predicts that it will continue doing so until the 27th before making a last peak immediately ahead of Christmas as you can see from my zoomed-in enlargement on the right:

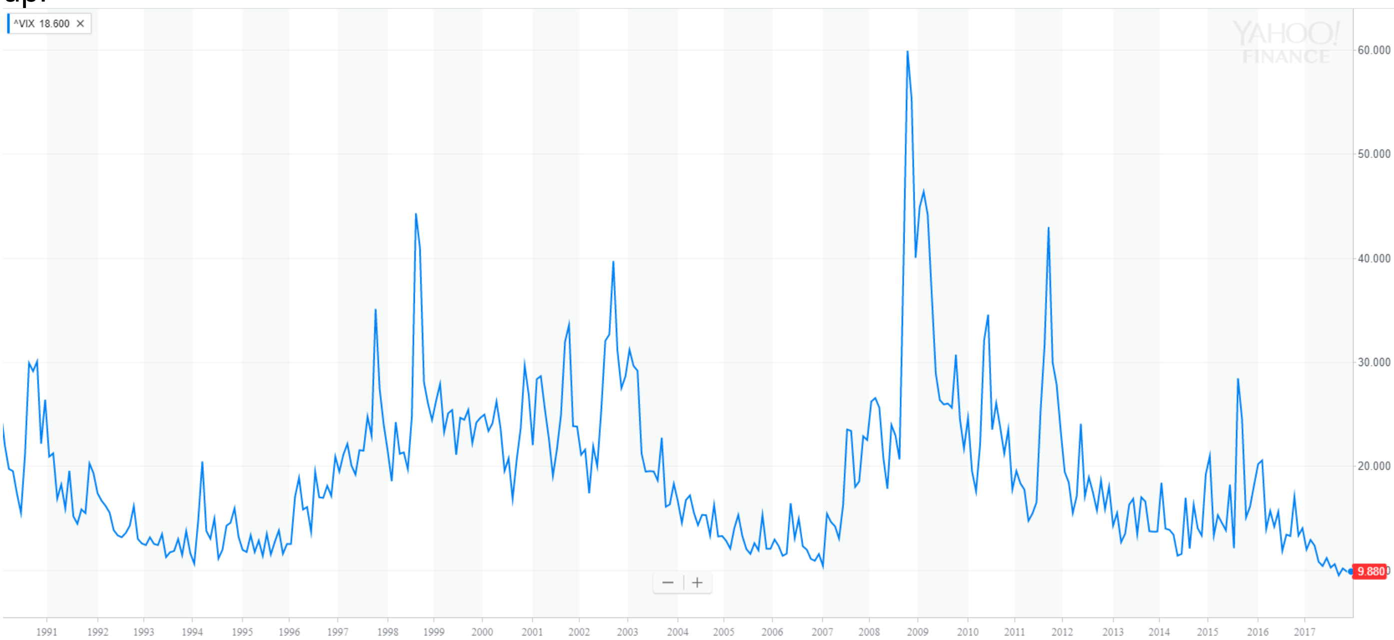


"Richard Cluver Predicts"

Meanwhile, in the short-term ShareFinder expects Wall Street to continue powering upwards until the end of December with a final “last gasp” peak projected for March 14:

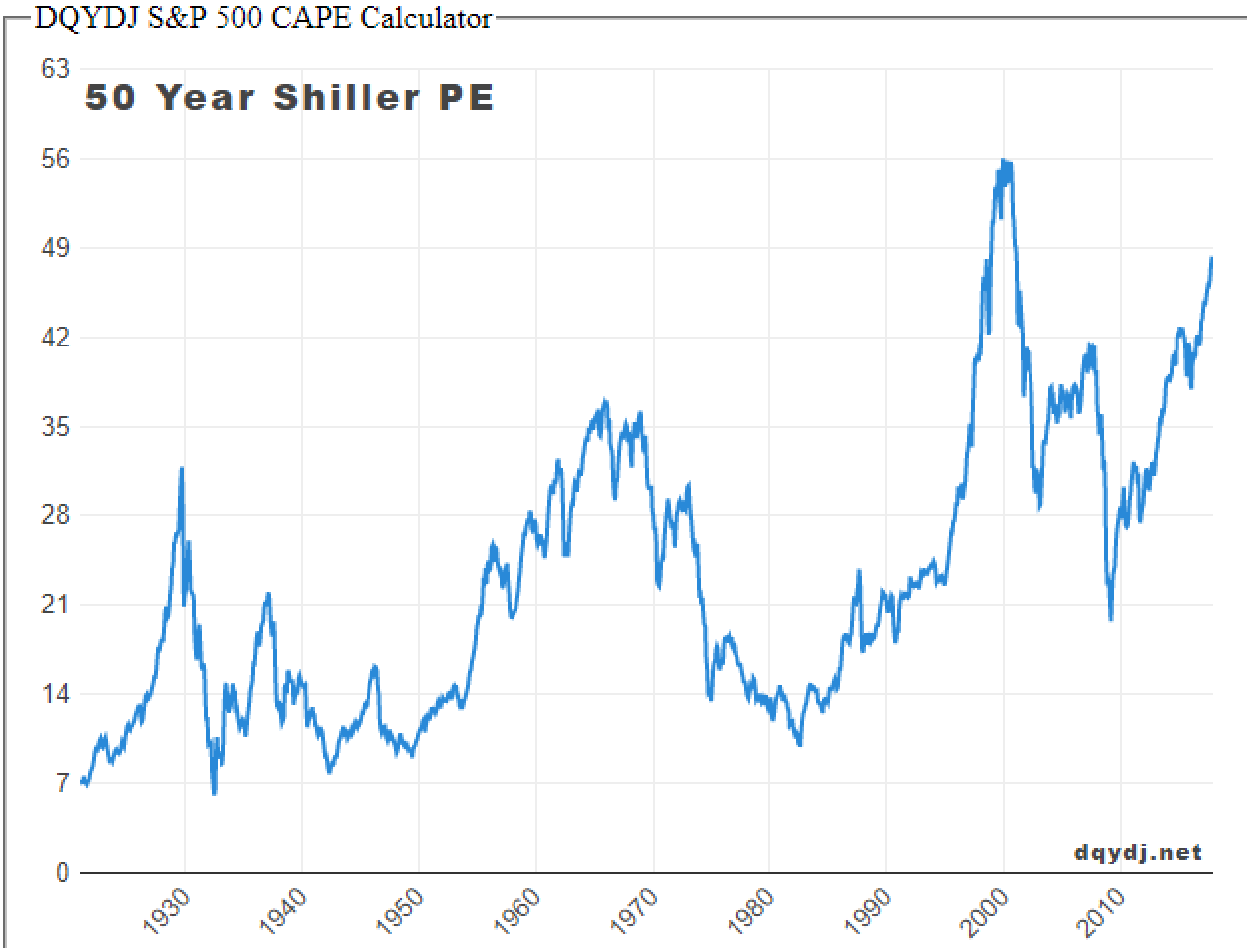


One would in such circumstances expect price volatility to be on the increase in such circumstances and so it is interesting to note that the VIX indicator is lower than it has ever been in the past 26 years. The last bottom at 10.42 occurred in January 2007 and peaked at 59.89 in October 2008 at the height of the sub-Prime crisis which began on August 10 2007 and continued down until March 5 2009. So, one should note that VIX volatility increases AFTER a crisis has begun so the way to interpret this graph is that an increase from these levels must be seen as a prelude to an imminent crash....and note the VIX is curving on the bottom as a prelude to turning up!



Thus, we might note that the Shiller PE, or Cape Ratio as it is generally known, is now higher than it has been save the bursting of the “Dot Com” bubble. Standing at 47.68 compared with 37.98 ahead of the 1967 crash and 30.64 ahead of the 1929 Great Depression peak. The Dot Com peak value was 56.006 in December 1999.

Ahead of the 2008 Sub Prime crash the Cape Ratio stood at 40.66.



The next month:

New York's SP500: I correctly predicted weakness which I see extending into mid December but refer to my graph above noting that short-term analysis sees the bulls in command until the end of the year.

London's Footsie: I correctly predicted a down-trend which I still see continuing into the first week of December. There could, however be a brief up-tick from early December until a final peak in late January.

JSE Industrial Index: I correctly predicted a weakening trend for November which is likely to bottom at the beginning of December followed by gains for much of the new year.

Top 40 Index: I correctly predicted things would go down-hill from here until the first week of December and I still hold that view with the next up-turn beginning next week and effectively continuing until April.

ShareFinder Blue Chip Index: I correctly predicted volatile weakness. Now I see a recovery starting and lasting until early January.

Gold shares: I correctly predicted the beginning of a recovery that could last until mid-December followed by considerable volatility until a final peak in early January after which it is down hill until March.

Gold Bullion: I correctly predicted rising prices until the first week of December. Then I see prices falling until mid-January at least.

The Rand: I correctly noted contradictory signs and the probability of further gains and, assuming we do not get a second down-grade to junk bond status this evening, I see a few more days of recovery. Nevertheless, weakness is likely throughout December.

The Predicts accuracy rate on a running average basis over the past 640 weeks has been 84.31%. For the past 12 months it has been 90%.

Richard Cluver

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