Richard Cluver Predicts

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

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If last week was the shock horror stage of the market, this week it was all smiles for the uninitiated who think it is party once again. Past experience of the last five market crashes of the past half-century, however, offer a quite different perspective.

What we are now into is what the marketplace has come to know as the “dead cat bounce” stage. Whoever actually coined that rather unpleasant simile which is based upon the idea that if you drop a dead cat from the top of a building, it will bounce “a little” with little being the operative word. Sometimes after a sharp retraction at the end of a bull market, it will recover enough to exceed the previous market high and that is then taken as a positive sign that the optimists have returned to the market.

Usually, however, this “bounce” stage does not quite equal the previous peak and observers rate that as a very pessimistic sign which will significantly affect the subsequent retraction, resulting in a series of ever-diminishing peaks as the bear market gets under way.

Thus, seasoned investors will be watching the next few weeks with considerable trepidation but little optimism because what we are now witness to is probably the last dying gasp of the longest-running bull market of modern history.

Furthermore, the decline has been sparked by the very real observation that US job numbers are increasing and the world as a whole is returning to normal in the aftermath of the “Great Recession”. Inflation has begun ticking up all over the world and central banks have one principal mandate which is to defend their currencies with the only weapon at their disposal which is interest rates. Inevitably then, as inflation begins ticking up, so interest rates will rise and, using the measurement tools that are at their disposal, US observers are able to calculate that as many as four rate increases are likely this year in that country.

Equally inevitably, interest rate increases will lead to a decline of share prices because there is an absolute relationship between the two, thus explaining why investment professionals see, at the very least, a slow-down in the growth of share markets and, since it is widely acknowledged that share markets everywhere are as expensive as they have ever been, that the greater probability is a sharp retreat.

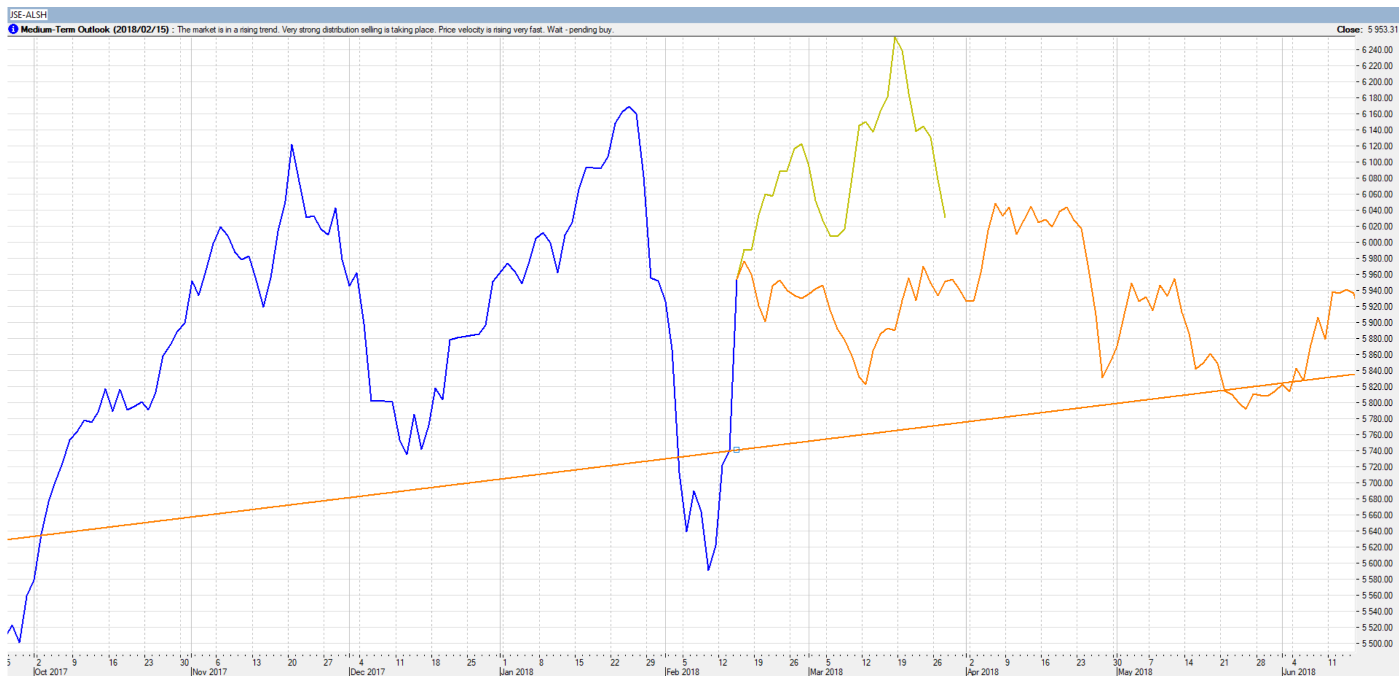
So the graph on the right shows what ShareFinder thinks is likely for the next few months on Wall Street. The yellow trace represents the short-term analysis

which is usually the more accurate probability and it sees the recovery ending on February 23 with another last recovery attempt of March 9 before the inevitable slide begins.

Locally, of course, JSE Blue Chips are likely to behave a little differently. As my graph below illustrates, ShareFinder thinks there will be a series of ever-lower interim market peaks starting with today and then the 22nd and finally February 28.

A further last attempt might be made between March 7 and 14 but then it should be all over!

In respect of the All Share Index illustrated below, things might be played out over a slightly longer period with last peaks on March 19 and April 6:



I will continue to re-visit this analysis as frequently as possible in the next few months because these major market turning points have a dramatic effect upon data analysis systems like

ShareFinder which tend to be exponentially weighted – meaning that the latest data has a significantly greater impact upon projections that earlier data. In simple terms that means that the dates and times of the projections tend to be more fluid at times like this when markets are making dramatic moves and so one can expect change to the dates I have just given you.
However, the important point I am making is that while these predicted market turning points might change by a few days either way, the probability of a market decline of the order of 40 percent or even more is now very high. Thus, if you have not yet taken the opportunity to sell off a chunk of the shares in your portfolio, the next few days will offer you the last opportunity to do so.
Provided you create a fair amount of cash in your portfolio now, you will then be able to get back in at more of less half price later in the year, thus offering you the possibility of nearly doubling your wealth in the months ahead.
This is, in other words, potentially the greatest investment opportunity that you are likely to face in many years to come. I hope that you are fully able to take advantage of it.

The next month:

New York's SP500: I correctly predicted the decline was coming ahead of a last-gasp rise until mid-March and then further weakness. Now I see the next decline beginning between February 23 and March 26.

London's Footsie: I correctly predicted that the decline would continue…probably until June. And I continue to hold that view, now extending the decline until mid-November.

JSE Industrial Index: I correctly predicted a corrective rebound that would not last long and I now see the peak of that happening on February 27 followed by a decline to late May.

Top 40 Index: I correctly predicted a rebound which I now see lasting until March 20 ahead of a decline until late May.

ShareFinder Blue Chip Index: I see an upward rebound lasting until the end of market today or Monday followed by declines until the second week of march when a very modest recovery could begin.

Gold shares: I correctly predicted further declines which I now see lasting until March 8 followed by a brief recovery and then further declines until mid-May.

Gold Bullion: I correctly predicted a short recovery until late March before another slide begins lasting until late June.

The Rand: I correctly predicted further gains and I see them continuing until the end of the year when R10.69 is possible.

The Predicts accuracy rate on a running average basis over the past 646 weeks has been 84.44%. For the past 12 months it has been 91.43%.

Richard Cluver

News Flash!

By Richard Drew/Associated Press

Was the VIX fixed?

Finra, Wall Street's self-regulatory agency, is looking into it. It's unclear whether this is a formal investigation, but the discovery of any misconduct would be a black eye for the CBOE, which runs the Volatility Index.

One theory is that someone could have swayed the VIX through bets on S. & P. 500 options.

More from Gunjan Banerji of the WSJ:

> Last week, the resurgence of market volatility triggered a spike in the VIX and the collapse of a widely traded E.T.P. that buys and sells VIX futures. The E.T.P.'s demise helped send CBOE's shares sliding 18 percent over the next four days amid speculation that losses like those suffered by the E.T.P.'s investors could lead to greater regulatory scrutiny for the VIX going forward.

The markets flyaround

• The recent volatility helped Credit Suisse's trading results, while Lloyd Blankfein is embracing it as a way to bolster Goldman Sachs's trading unit.

• An Uber driver convinced the hedge fund manager Paul Britton that the "Goldilocks" bet on market calm was poised to unravel. (Bloomberg)

• Pierre-Henri Flamand, chief investment officer of the Man Group, warned against buying stocks in market dips for now. (Bloomberg)