



Richard Cluver Predicts

In our 31st year of service to the investing public of South Africa



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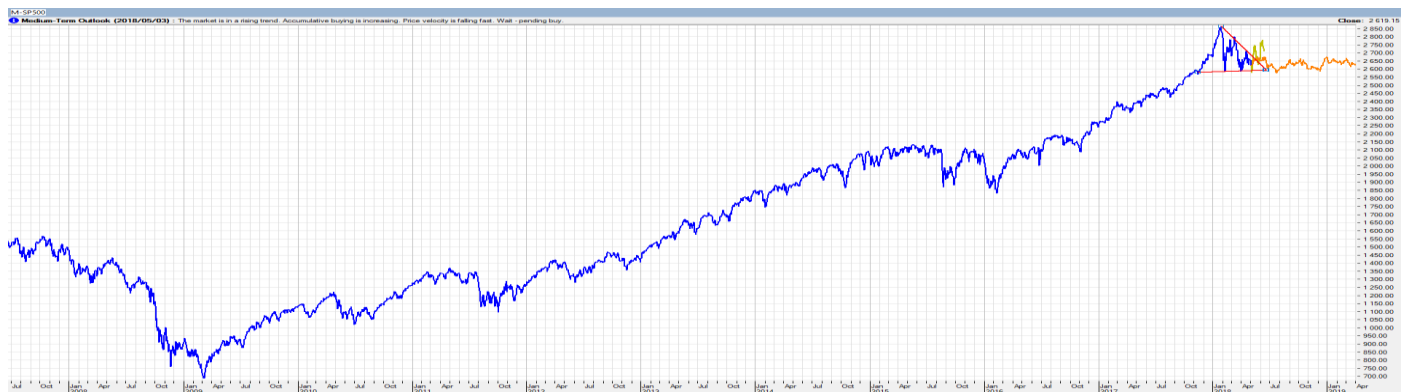
04 May 2018

Central bank engineering of the world economy is running like clockwork, at least in the medium-term, which makes things relatively easy for investors to interpret and act upon.

As always things have been driven by the US Federal Reserve which, at the turn of the millennium failed until it was too late to understand the toxic nature of highly-g geared futures instruments which had resulted in massive amounts of fiat money being poured into housing loans to people who could not afford to service the debt. The consequence, when the whole thing finally began to unravel, was the sub-prime lending crisis which in turn brought about the share market crash of October 2007 and the global recession that followed.

In order to prevent the recession evolving into another Great Depression, central banks used the process of “Quantative Easing” to pump trillions of dollars into the world economy, thereby driving interest rates down to such an extent that for the past decade pensioners have been squeezed by near-zero returns on their Sovereign bond investments. The unintended consequences were, of course, a prolonged recession resulting in widespread unemployment across the planet, particularly for young people exacerbated by the elderly being unable to retire.

Trillions of Quantative Easing dollars could not be mopped up by recession-bound industry and so it found its way to the world’s equity markets resulting in the longest-ever share market boom which I have illustrated in the graph below. The average growth of Wall Street’s S&P500 Index throughout at a mind-blowing compound 17.4 percent which created more dollar millionaires than the world has ever seen before. But note the falling triangle at the extreme right of the graph which has signalled the beginning of the end since the January 26 peak:



Artificially low interest rates produced many other distortions like, for example, property developers seizing the opportunity to build shopping malls in such profusion that wide scale real estate bankruptcies are probably inevitable as interest rates begin rising now that economic recovery in the US has led to full employment once again.

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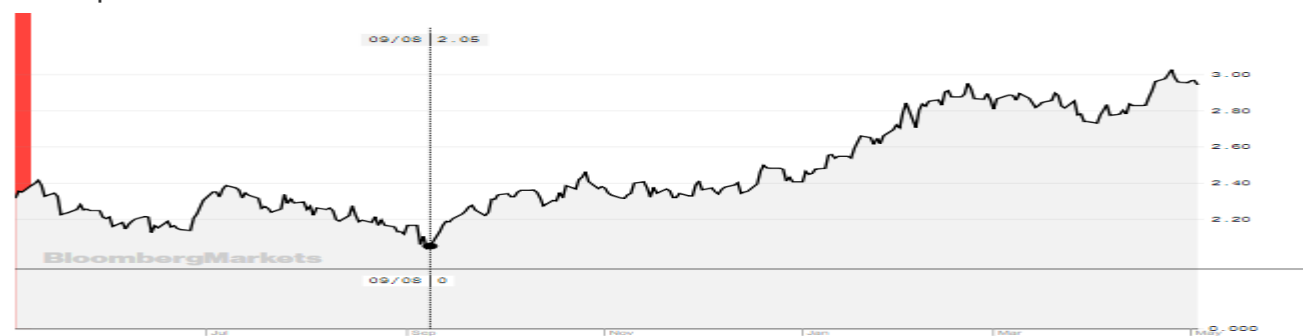
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Initially the US Federal Reserve merely tapered off its artificial money creation and then recently began, very gradually, raising interest rates. Inevitably the market reacted as illustrated by my following graph which shows how US 5-year bonds yields began rising from a low of 2.04 percent last September to 3.03 on March 24.



Further Fed interest rate increases are regarded as inevitable over the next year or two which implies that a bear market is inevitable in the medium-term and, because the bond and equity markets are inextricably linked, it is probably a given that the share market will similarly go into decline.

That is why New York's S&P500 Index has been falling since January 26. Interestingly, the index has been establishing a very solid base line at the 2580 level and ShareFinder's artificial intelligence system does not see this level being broken through in the next year and, furthermore it suggests that the optimum buying point will thus be around July 24 when the next bottoming is foreseen.



In the light of this, ShareFinder's projection for South African Blue Chips is very interesting because it senses an interim bottoming around May 7 but, following a recovery until approximately August 14, a second bear phase lasting until early November which better accords with my own gut instincts since I cannot believe that the Wall Street support line will hold in the long term if bond yields continue rising.



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The next month:

New York's SP500: I correctly predicted a brief gain and then a dip to the end of the month. Now I still see a brief recovery with the market peaking between May 7 and 14 ahead of another retraction and another peak on or about June 7.

London's Footsie: I correctly predicted a recovery which I saw see lasting into May. Now I see declines until the second week of June.

JSE Industrial Index: I correctly predicted a see-saw recovery with many ups and downs until mid-May. Now I see declines until May 24/30 before the next recovery begins.

Top 40 Index: I correctly predicted a recovery lasting most of April and I continue to hold that view with the next peaks spread through the early weeks of May. However, the latest downswing which I expected to begin between May 8 and 11 in fact started on May 2 and I see it lasting until May 22/29.

ShareFinder Blue Chip Index: I correctly predicted a recovery until the April 26 followed by a decline until May 3. Now I see further weakness until between Monday and Wednesday ahead of a recovery until May 21.

Gold shares: I wrongly predicted declines lasting until mid-May. However, the brief recovery is probably already over with weakness likely until May 8/21 though another brief gain is possible from the 8th to the 17th.

Gold Bullion: I correctly predicted declines. Now I see a brief recovery which is likely to be over between May 10 and 14 thereafter followed by declines until late June.

The Rand: I correctly predicted weakness which I expected to last until May 9. Now I see a recovery beginning between today and May 11 and thereafter a recovery trend with many ups and downs until late November at which stage I expect a Dollar/Rand exchange rate of around R11.88.

The Predicts accuracy rate on a running average basis over the past 656 weeks has been 84.58%. For the past 12 months it has been 92.05%.

Richard Cluver