13 July 2018

The JSE All Share Index has been falling steadily since mid-January amid considerable volatility which has enabled me this Friday to trace out a classic pennant formation which is always seen as a precursor to a major market direction change: in other words, a break-out of the pennant that could go either way; up or down in quite dramatic fashion.

Translate that into the issues currently driving our market and one might conclude it into something like the ANC's property debate being unequivocally settled in either direction or, on the global stage, US President Donald Trump's trade war grandstanding being resolved. The truth is markets don't like uncertainty and until investors are provided with something solid upon which to base their decision-making they tend to shy away from buying. Ultimately too, if the issue remains unresolved for too long the usual outcome is a sustained bear market. So, let us consider what the graph below can tell us about the future of the JSE:

Let us start with the purple line which represents the market mean over the past 22 years. It has risen throughout that time at 4.9 percent compound which pretty much represents how the South African economy has grown once one strips out inflation.

My smaller illustration on the right gives you a quick 22-year overview of the same graph so you can see how the market actually performed relative to the purple mean…and in particular note that since early 2014 how closely the ALSI has tracked this mean.

"Richard Cluver Predicts"

Now ShareFinder, as we well know from a 16-year study of the accuracy of its predictions, has been correct better than four times out of five throughout that period and in recent years that forecast accuracy rate has been creeping steadily upwards to now be better than nine times out of ten. So, when ShareFinder calculates that the JSE will break upwards out of that pennant formation as you can see in my topmost graph, I take such things very seriously.

So, to give you the details this morning, ShareFinder currently calculates (note the yellow line in the topmost graph) that the JSE will bottom on August 15 and although the medium-term trend will continue to be downward until October 5, there will be a decisive upward movement thereafter which will see a new market peak established on November 13.

Importantly, however, the ShareFinder projection suggests that for the next 12 months the market will continue to flirt with that purple line which, dear reader, means that it is likely to be business as usual for South Africa Pty Ltd for the next year.

Furthermore, if I try to push ShareFinder to look further into the future we get the same picture of business as usual though February 6 to March 12 next year looks like being a period of negativity.

Might I guess that the ANC will call a general election to be held between those dates? Just thinking. It could be something quite different which triggers such uncertainty early next year!

But whatever the outcome, ShareFinder suggests that the markets will be happy about the period between March 12 and October 25 next year and, although there appears likely to be something of an upset between then and November 27.

In conclusion it looks, if ShareFinder's forecasts can be relied upon to deliver their usual accuracy, that nothing particularly bad is likely to happen between now and the year 2020.

I should add that I have observed that whenever I attempt to push ShareFinder's forecasts too far into the future the actual dates of these trend changes seem to change by a day or two and sometimes by a week or two but the actual trend tends to remain accurate.

The next month:

New York's SP500: I correctly predicted a very volatile falling market until late July and I continue to hold that view although the downturn has only just begun.

London's Footsie: I correctly predicted a recovery beginning continuing until mid-August.

JSE Industrial Index: I correctly predicted declines which I now see lasting until between July until August 14/16.

Top 40 Index: I wrongly predicted an upsurge. Now I see the decline lasting until the 18 followed by a brief up-tick and then further declines until August 13.

ShareFinder Blue Chip Index: I correctly predicted declines followed by a recovery which I now see lasting until late in August.

Gold shares: I correctly predicted a recovery which I saw continuing until September and I still hold that view.

Gold Bullion: I wrongly predicted a recovery. Now the signs are confused and the market could go in any direction though the longer-term view is for a sustained recovery until September.

The Rand: I correctly predicted the Rand should recover and continue doing so amid considerable volatility until its strongest point in late November but some short-term weakness is likely from the 19th to August 17.

The Predicts accuracy rate on a running average basis over the past 664 weeks has been 84.6%. For the past 12 months it has been 91.92%.

Richard Cluver