# Richard Cluver Predicts

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

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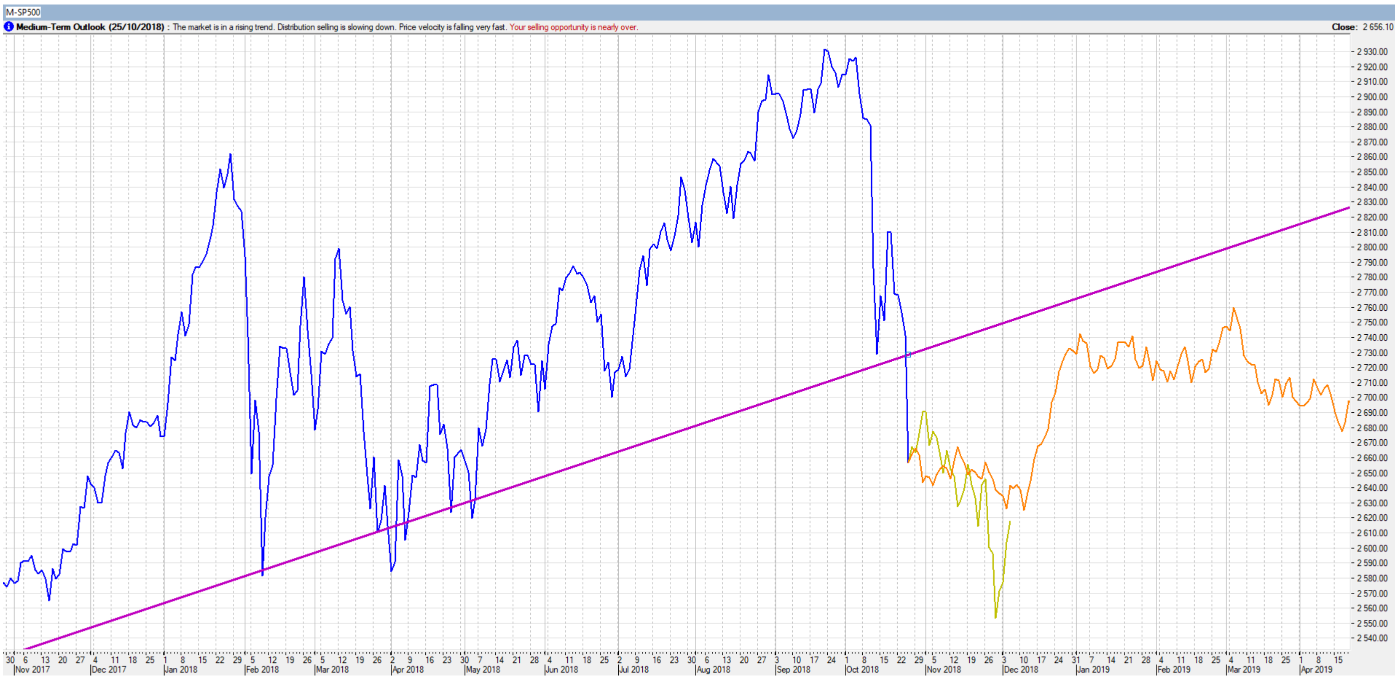
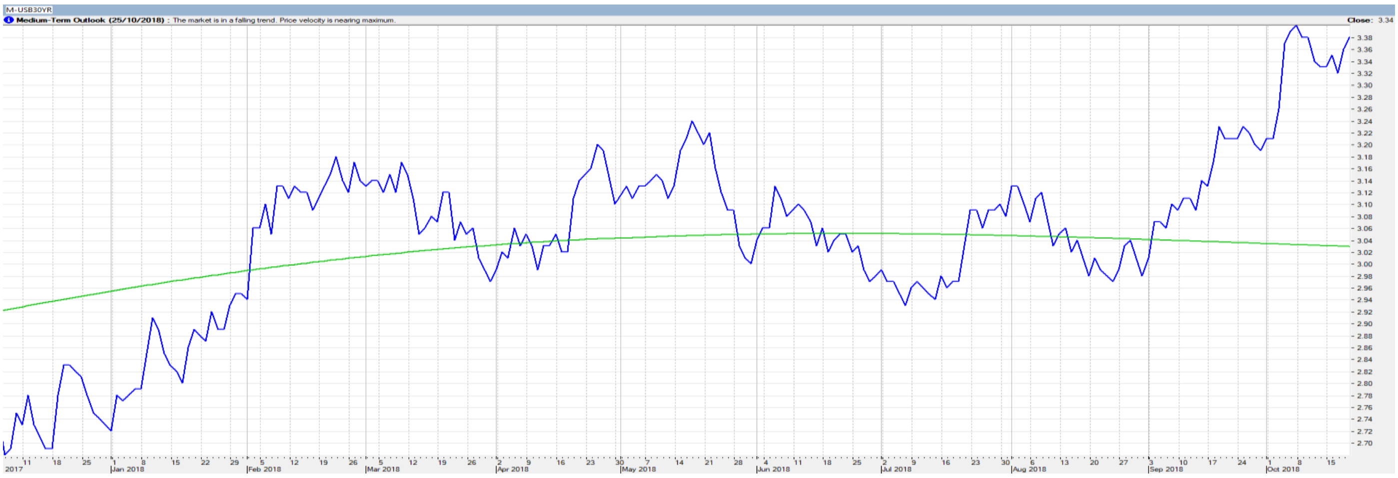
**Last Friday I drew attention to the fact that Wall Street's S&P500 Index – the most representative index of US share market activity – had just rebounded off a ten-year old trend line which demarked the longest bull market in US history.**

I predicted if, on a further attempt, that line was penetrated on the downside it would signal emphatically that the bull market was finally over. And this week it has done precisely that as my graph below indicates. Note further ShareFinder's artificial intelligence at work in respect of the yellow short-term projection that suggests that today the SP500 will attempt a brief recovery and fail. By November 1 the index will be on its way downwards once more and will likely continue falling until the end of November. I have not shown them here but all other ShareFinder indicators are confirming the probability of continued bear activity for the immediate future.

And that dear reader is about as certain a portend as you are likely to receive that world share markets will continue to move deeper into distress.




To understand why this should happen at a time when the US economy is booming on an unprecedented scale with the consequent unemployment rate the lowest it has been in decades, this means the average worker can expect to take home better pay either in overtime worked or simply as employers bid for workers against a shrinking supply. Inevitably more take home pay means a greater demand for goods and services and, in time, that translates into inflationary pressure. The US Federal Reserve whose prime responsibility is to protect the value of the Dollar is thus obliged to increase interest rates in order to cool off the economy and so, as my next graph illustrates, the yield on US long bonds has been rising steadily all year from a low of 2.68 percent last December to a recent high of 3.4 percent echoing prime rate increases by the Fed.




Rising bond yields thus attract investors who consequently cash in their shares in order to raise money to buy bonds. This is an inevitable step as investors become wary of overheated stock markets and fear an imminent collapse which, of consequence becomes a self-fulfilling event.

For the stock market to remain competitive in the consequence it needs to offer higher dividend yields which, in the absence of a broad sweep of corporate profit increases, can only occur if share prices fall.

All of this in turn has a ripple effect upon foreign markets. So, for example, since the yield of US long bonds began rising, the JSE Overall Index has been falling as my next graph of the JSE All Share Index illustrates. In the process there has been a battle between local bulls and bears which has resulted in the pennant formation I have drawn onto the graph linking all the market and highs of the past year. And a pennant is inevitably the predictor of a sharp break-out of prices as has been happening all this month and, if ShareFinder is its usually correct prediction self, is likely to result in protracted weakness well into the new year:


So, assuming you have listened to me these past few months and have moved into cash, you will be in a strong position to now consider buying shares at bargain basement prices.

## The next month:

**New York's SP500**: I correctly predicted declines which I see continuing at least until the end of November.

**London's Footsie:** I correctly predicted declines until early December and I continue to hold that view.

**JSE Industrial Index:** I correctly predicted a decline until the early part of December. Now I sense the possibility of a recovery beginning in late November.

**Top 40 Index**: I correctly predicted weakness which I still see lasting until early November when I see a brief recovery followed by further declines well into the new year.

**ShareFinder Blue Chip Index:** I correctly predicted a downward correction that I still see lasting until late November before a recovery trend begins which should see gains until May.

**Gold shares:** I correctly predicted gains until the first week of October followed by another correction down. Now I continue to see the downward trend lasting until mid-May.

**Gold Bullion:** I correctly predicted an up-turn which could last until late November. There are, however, some contradictions which suggest gold could go either way in the short-term to the second week of November.

**The Rand:** I misinterpreted ShareFinder last Friday (Jet lag?) when predicted a recovery. The programme was clearly signaling weakness until November 5 followed by gains until the first week of December.

***The Predicts accuracy rate on a running average basis over the past 679 weeks has been 84.85%. For the past 12 months it has been 94.6%.***

**Richard Cluver**