Richard Cluver Predicts

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

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Carnage on Wall Street is quickly transforming the US investment landscape from optimism to pessimism. Suddenly, commentators who thought the boom would go on forever are now sensing Armageddon and issuing "I told you so" statements.

The latest this week came in the Wall Street journal in an interview with one of the godfathers of technical analysis, Ralph Acampora who says the stock market is in bad shape and it's worse than many Wall Street investors appreciate. Acampora said the technical damage that has resulted in the Dow Jones Industrial Index and the S&P 500 index erasing all of their gains for 2018, and the Nasdaq Composite Index falling into correction territory—usually characterized as a decline of at least 10% from a recent peak—will take months to repair.
Acampora cited a breakdown of so-called FANG stocks—a quartet of technology and internet-related companies that include Facebook, Amazon, Netflix, and Google-parent Alphabet as the clearest sign that the worm has turned on the bull market.
On Monday, those names which have been significant catalysts for market sentiment and price moves, shed a combined $120-billion in market value. On top of that, Amazon became the most recent of that group to close in bear-market territory, defined as drop of at least 20% from a recent peak.
"I've been a bull for a long, long time and like everyone, I was waiting for a correction, but this is something different," said Acampora. "All the leadership is getting crushed," he said.

Acampora said he believed that the entire stock market would go into a bear market and said the current dynamic in the market was eerily similar to the stock-market crash of 1987, when the Dow slid a historic 22.6% in a single day on Oct. 19 of that year.
"Honestly, I don't see the low being put in yet and I think we're going to go into a bear market," he said. He speculates that the market may not be healed until around the first quarter of 2019.

Meanwhile, the S&P 500 is on track for its worst month since May 2010. Historically, when the market is in such turmoil, moves by stocks and sectors become tightly correlated. That, in turn, tends to spur investors to use bearish options on major indexes for protection from further losses.

Lately, though, investors haven't been doing that, a potentially positive sign, analysts say.

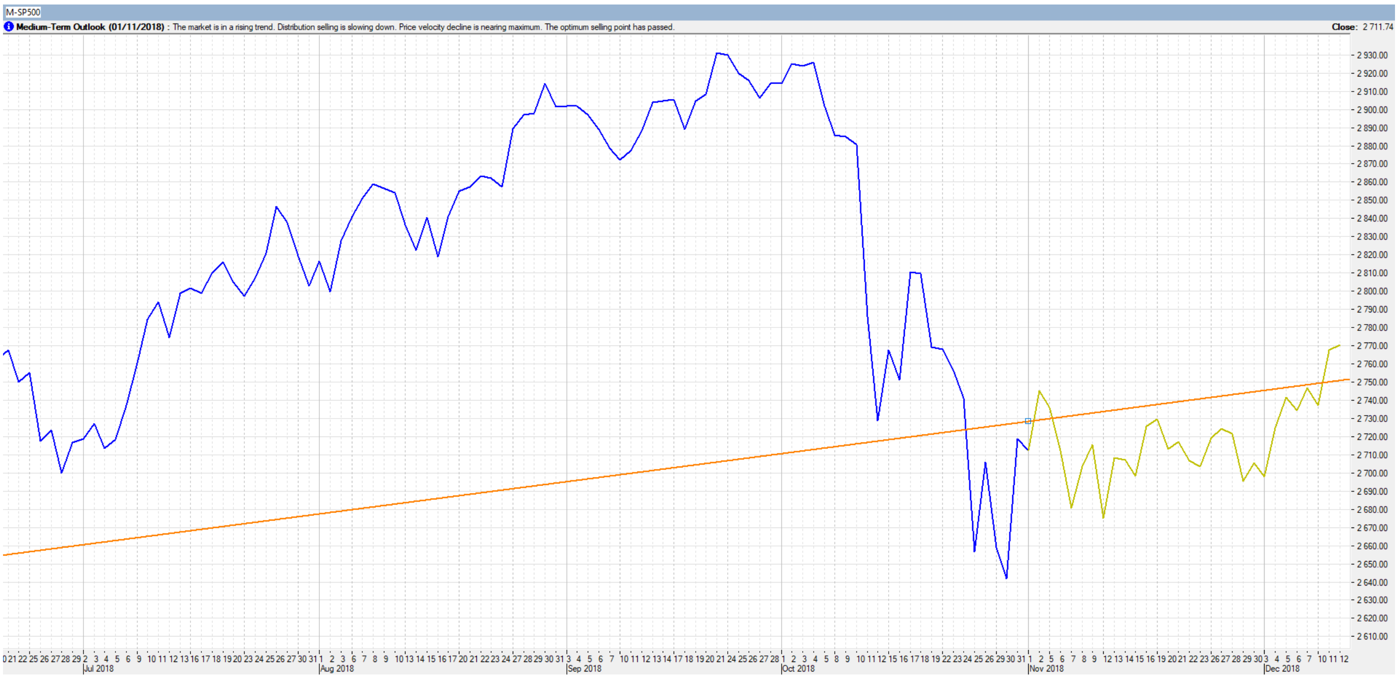
"There's not a lot of broad-based panic," said Joanne Hill, chief advisor for research and strategy at Cboe Vest Financial. "People aren't as nervous about holding [the S&P 500] than they are an overweight position in Facebook."

But in options markets, at least, there hasn't been a stampede into benchmark protection.

Ms. Hill said the recent market volatility appears to be driven by investors rotating out of companies' dependent on high growth like technology stocks.

In the past fortnight I have detailed how Wall Street's S&P500 Index – the most representative index of US share market activity – initially 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 last week it did precisely that.

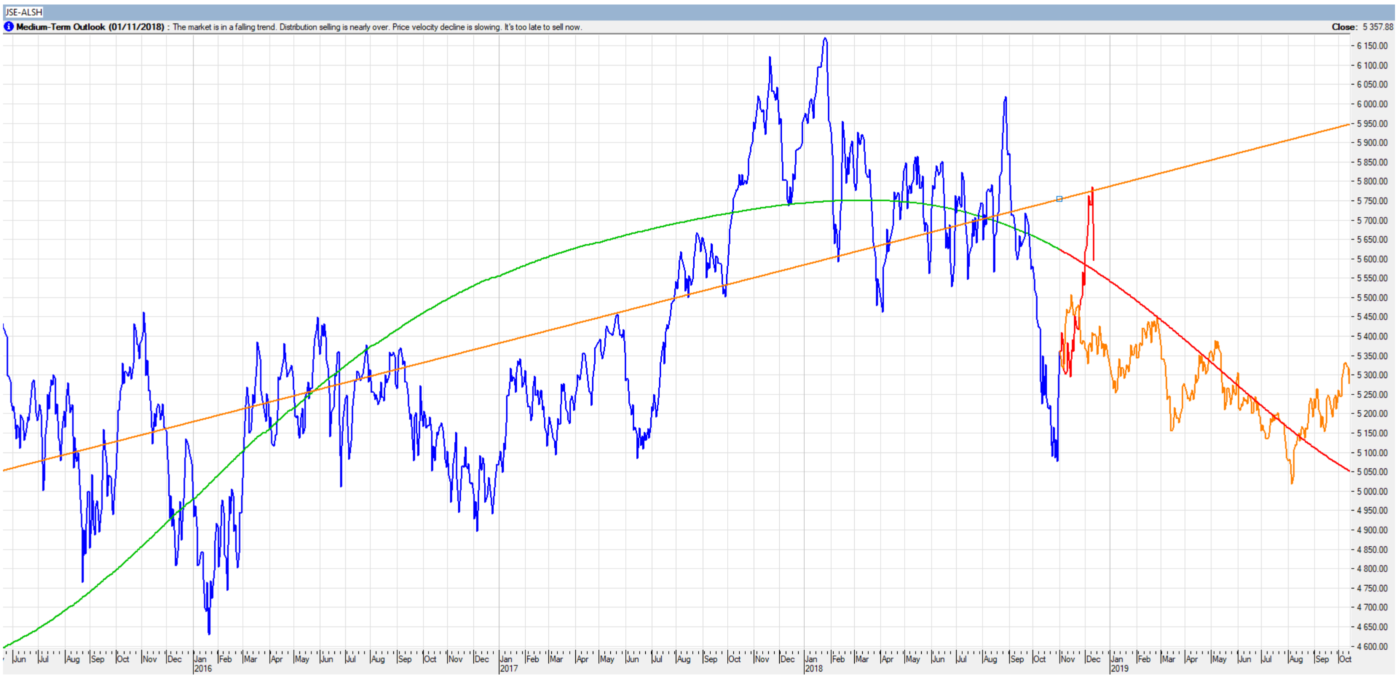
Last week I predicted that the S&P500 would attempt a brief recovery and that it would fail. So, let us turn to the graphs to see how that has played out:



If you turn back to last week's graph of the S&P500 you will see that ShareFinder's artificial intelligence system got it precisely right. And now we face another critical test because the programme sees the S&P500 marginally cutting upwards through its orange ten-year trend line today and then falling back once more. Critically, ShareFinder sees the market remaining below that line until mid-December by which time it is likely that apprehension might have become entrenched.

So, the longest bull market in Wall Street history could be at an end!

Turning to home, the JSE All Share Index has made a valiant attempt to recover some of its lost ground but, ShareFinder thinks that, although November is likely to be a better month, the up-move is likely to fail in early December and then it could be downhill for much of 2019.



The outlook for South African blue chips is, however, rather better. Here ShareFinder thinks the recovery might already have begun. But it is likely to be a long drawn out event:

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 brief recovery followed by further declines well into the new year. Now I see brief weakness around November 12/13 followed by gains into early December and then protracted weakness.

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

ShareFinder Blue Chip Index: I correctly predicted a brief recovery which could be over on Monday followed by weakness for the rest of the month. But the long recovery road should begin at the end of this month.

Gold shares: I correctly predicted the downward trend would continue and I still see it lasting until mid-May.

Gold Bullion: I correctly predicted an up-turn which I still see lasting until late November. But then it is likely to be downwards after that…well into the future.

The Rand: I correctly predicted the beginning of a recovery which I now see lasting until around November 28 followed by renewed weakness until late April. Brace yourself for more than R15 to the US$ in April.

The Predicts accuracy rate on a running average basis over the past 679 weeks has been 84.87%. For the past 12 months it has been 94.6%.

Richard Cluver