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

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There is considerable debate as to whether the huge price decline that occurred on Wall Street between September 21 and October 30 that brought the S&P500 Index down by 10 percent overall and pared over 20 percent from the value of market front runners – the so called FANGS – was a technical correction or the start of a longer-term bear market?

Well the correct answer to that is that only time will tell. However, the rapid recovery of the index over the past eight trading days makes it clear that investors are still happy to buy when they sense a bargain which suggests that at this stage there is insufficient pessimism to justify the prospect of a full scale bear market getting under way. However, how justified are the optimists who have bought into this market in thinking they have bought value?

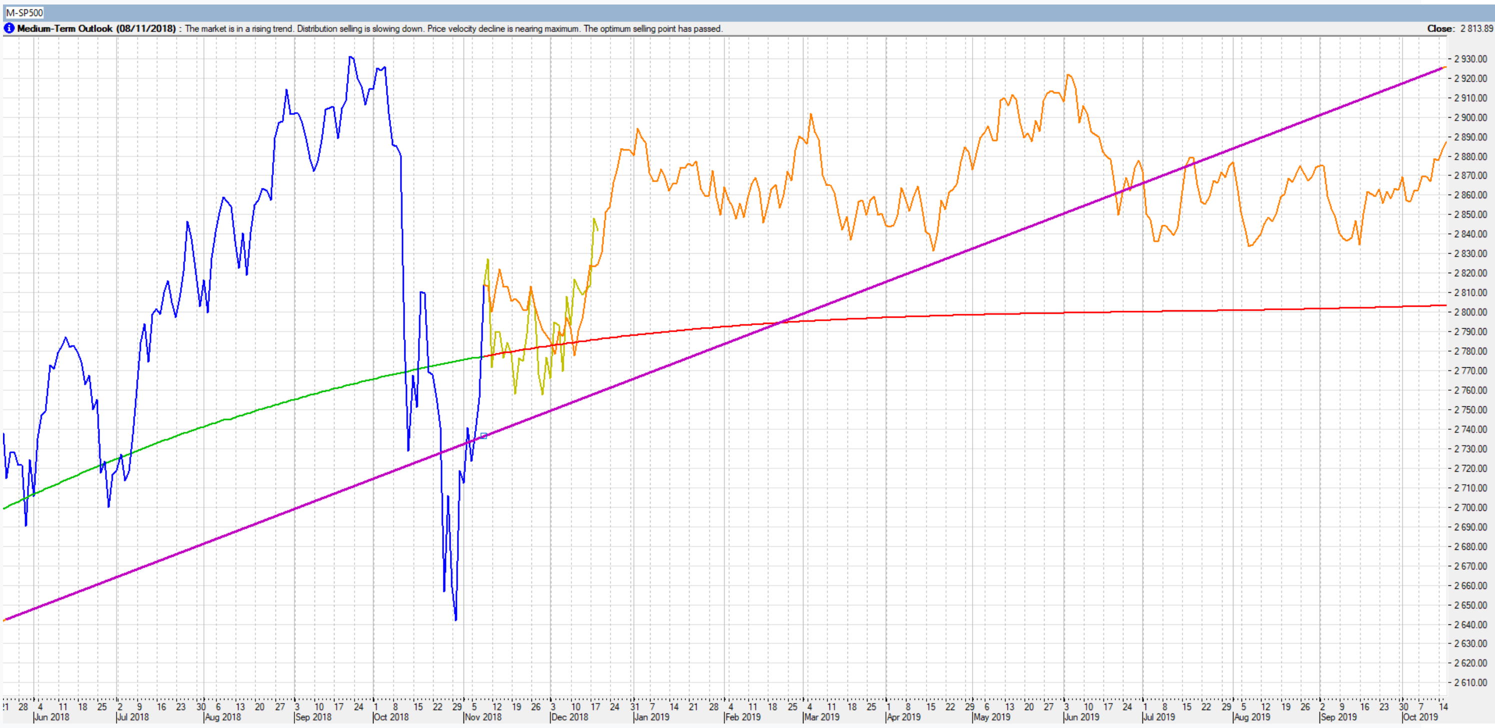
Let me start by turning as I always do on such occasions to the Robert Schiller Cape Ratio which is an inflation-adjusted market average price/earnings ratio:

Standing at 31.62 this week relative to the 44.9 that it achieved just before the bursting of the "Dot Com Bubble" in January 2000, the graph makes it clear that Wall Street is still massively expensive relative to its entire past history and accordingly, in conclusion, investors are still excessively optimistic about the probability of USA Pty Ltd delivering future dividend and earnings growth.

For those who have forgotten it, Wikipedia defines the Dot Com bubble as: "a period of excessive speculation that occurred roughly from 1995 to 2000, a period of extreme growth in the usage and adaptation of the Internet.] The Nasdaq Composite stock market index, which included many Internet-based *companies, peaked in value on March 10, 2000 before crashing. The burst of the bubble lasted from March 11, 2000 to October 9, 2002. During the crash, many online shopping companies, such as Pets.com, [Webvan](#), and [Boo.com](#), as well as communication companies, such as [WorldCom](#), NorthPoint Communications and Global Crossing failed and shut down. Others, such as Cisco, whose stock declined by 86%, and Qualcomm, lost a large portion of their market capitalization but survived, and some companies, such as eBay and Amazon.com, declined in value but recovered quickly."*

Now the reality of the US economy is that with this week's mid-term elections having given the Democrats control of Parliament, President Trump's wings have been severely clipped. He will not, for example, not be able to wage his trade war with China with the same impunity as before and in a host of other areas where his maverick approach to governance has shaken confidence, greater stability is likely in the months ahead. Accordingly, the market is unlikely to experience as many shocks as it has recently.

However, the US economy is reaching the end of a growth cycle and inflation is rising apace which implies that the Fed will continue to raise interest rates in the future with negative consequences for global share markets. Sooner rather than later then, Wall Street has to turn negative and so it is useful to turn to ShareFinder's artificial intelligence system for guidance:



Note that the blue line of the daily value of the index has cut upwards through its purple long-term trend line and provided it is able to remain above it as the yellow (short term) and red (medium-term|) projections suggest, the Bull will still be in control. However, ShareFinder calculates that the current recovery is likely to peak at the end of December before trending down until mid-April when, after a brief six week rally, it will trend downwards once more.

All of this is, furthermore, supported by the extremely accurate green wave line which similarly peaks around mid-2019. All of ShareFinder's major analytical tools support this outlook and it fits well with my own gut feel about the trend of the US economy as a whole.

Turning to the ShareFinder JSE Blue Chip Index, a mirror image recovery is clearly evident but ShareFinder expects it to run out of steam between November 13 and 22 and likely run down until mid-December before beginning a protracted recovery.

Whether that recovery actually happens will, in my opinion, largely depend upon President Cyril Ramaphosa. With an election date now set as happening next May, he has just six months to sell a convincing economic recovery story to the South African public and foreign investors alike. To achieve that he needs to demonstrate real action in a very short time and up until now his snail-pace reform has not achieved that objective.

The issues are quite simple. The Government currently consumes 29 percent of our gross domestic product and spends a third of that on the public sector wage bill which stands at about R328,000 per civil servant per year on average. This is R587-billion per year for over 2 million bureaucrats. Take out the additional spending on the dole and it should come as little surprise that there is practically nothing available for investment in growth-producing infrastructure projects.

Clearly Ramaphosa has to face down the trade unions and tackle that wage bill in a decisive fashion. But given his October Jobs summit announcement of a moratorium on public sector job losses he is clearly between a rock and a hard place on that one.

One innovative idea that I have not heard bandied about, but which could unlock billions of frozen Rands would be an end to Capital Gains taxation which, as it currently stands, means the private sector cannot free up capital for new projects without paying massive tax penalties. Given that CGT contributes comparatively little to the fiscus, such a move could be a major game changer compared to the comparatively modest R290-billion the President has so far solicited from foreign investors.

The next month:

New York's SP500: I failed to predict the dramatic rebound but nevertheless expect that markets will shortly decline once more into mid-December.

London's Footsie: I failed to predict the dramatic rebound but nevertheless expect that markets will shortly decline once more into mid-December

JSE Industrial Index: I correctly predicted a brief recovery. Now I see gains into early December and then protracted weakness.

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

ShareFinder Blue Chip Index: I correctly predicted the brief recovery would soon be over. Now I see another week or two of gains followed by weakness into mid-December followed by a long recovery.

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 still see lasting until around November 25 followed by renewed weakness until late April.

The Predicts accuracy rate on a running average basis over the past 680 weeks has been 84.86%. For the past 12 months it has been 94.33%.

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