Richard Cluver Predicts

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

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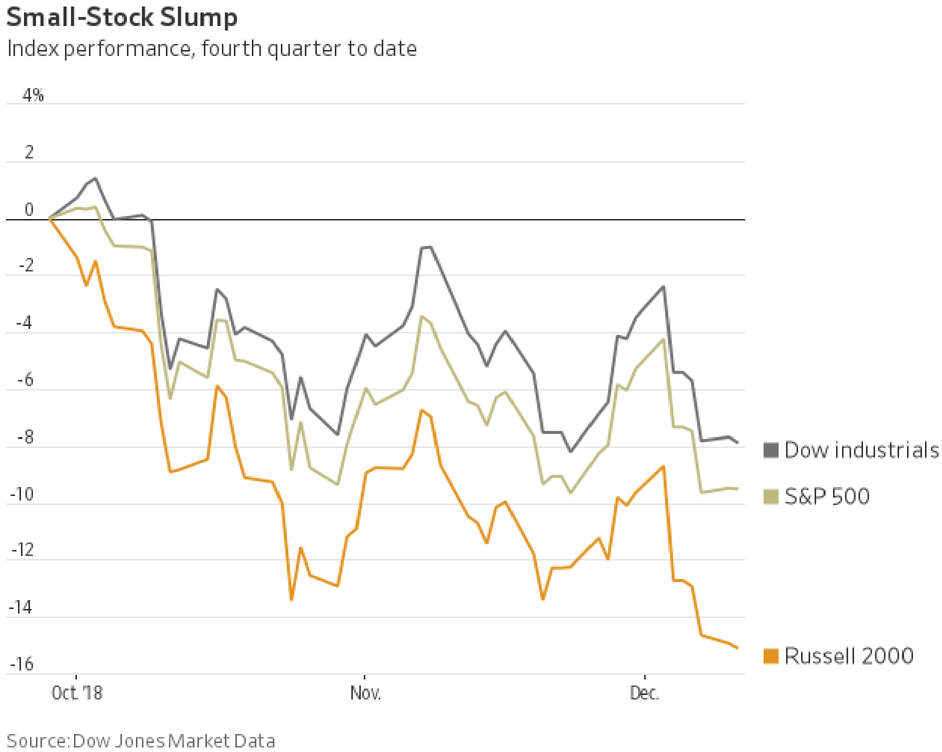
The steadily increasing global share market price volatility that we are currently witnessing is usually the herald of a major price break-down.

If you stop to ponder it, big daily or weekly price movements in any security represent a classic sign of indecision. Clearly the optimists out there think a share is worth much more than the current price while the pessimists think it is worth much less. There is, in other words, diminished consensus while the market awaits some event that will give it clear direction.

Given the plethora of bad news coming out of many major nations: According to a Reuters poll of economists, the risk of a US recession in the next two years has risen to 40%,.the Brexit crisis in Britain which could be a forerunner to the break-up of the EU, Trump's blustering trade wars with China which threatens global trade as a whole, an incipient new French Revolution of citizenry no longer able to stomach the highest taxes in the world, an Italian economy about to implode, a global debt crisis and South Africa's Eskom-highlighted debt crisis to name only a few of the major uncertainties facing investors, it's an open question which one might trigger an avalanche!

But there is, of course, the alternative view that most of these things have been around for a long time and a turn-around by any of them could spark a major securities price recovery. So, for the brave souls who venture in as buyers right now, there could be a fortune to be made in the next few months.



The Wall Street Journal this week reported that the Russell 2000 measure of small cap US stocks has so far this quarter lost 15 percent of its value, significantly underperforming the Dow Industrial Index and the S&P500 which are closer to representing the Blue Chips. It reported," *Shares of small U.S. companies have underperformed their* *larger peers in recent months, a shift from earlier in the year when investors flocked to small caps as a shelter from trade-related tensions.*

Fears about slowing economic growth and higher interest rates, along with tariff concerns, have dogged the broader stock market since the start of the fourth quarter. Those issues have particularly dented the appeal of small caps, which often struggle for traction as economic expansions have neared their end, partially because they get hit hard by pressures like rising wages and borrowing costs.

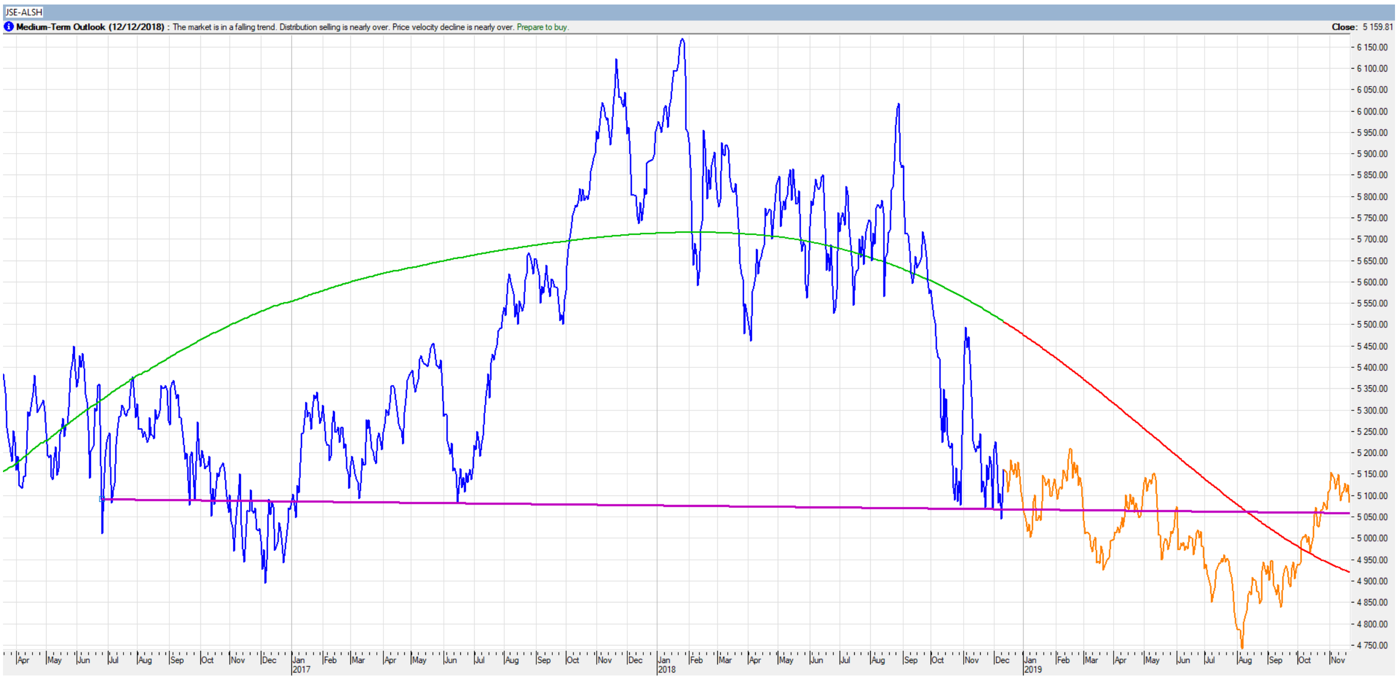
The Russell 2000 index of small-capitalization stocks has slumped 17% from its Aug. 31 all-time high and closed Tuesday at its lowest level since September 2017. After a nearly 10-year bull run, the index is the only one of the major U.S. stock benchmarks teetering on the brink of a bear market—typically defined as a fall of at least 20% from a recent high. In comparison, the S&P 500 is off 10% from its September record, while the Dow industrials have tumbled 9.2% from its October high.

One major reason why smaller cap companies are more volatile is because they tend to be more reliant upon borrowed capital than the big cap companies. The Russell 2000's debt burden is more than double that of the S&P 500 and the US Federal Reserve is widely expected to boost interest rates next week and continue raising them in 2019 though officials have recently signaled a more patient approach to policy in the coming year.

A more dovish Fed would likely put pressure on the dollar, as higher borrowing costs make the U.S. currency more attractive to yield-seeking investors.

Here in South Africa, there is of course a growing realization that if the Government is obliged to take on R100-billion of Eskom debt it will likely trigger a final ratings agency downgrade which would ensure a sell-off of SA securities and significantly force up our borrowing rates; a potential double blow to the JSE which could push our already bearish share market into a shattering decline.

In that light, the current outlook for the JSE All Share Index does not look at all promising. In my graph below, note that the index has been testing a very long-established support line (purple line) which was cut on the downside on Monday before the current rebound began. Should it cut it again as ShareFinder predicts it will on or about the end of this month then significant further losses are on the cards.



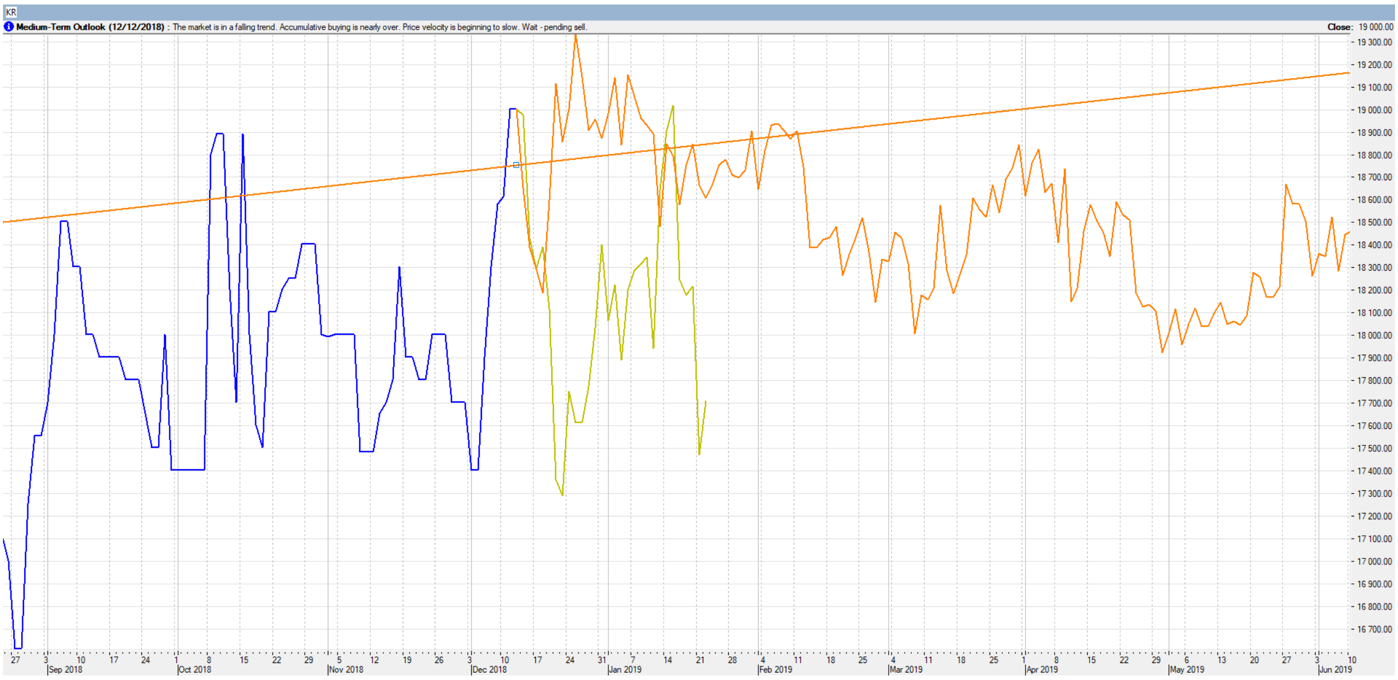
Here I should add that all of ShareFinder's major indicators are pointing towards further market weakness and that is precisely in line with public sentiment about the state of our economy and the seeming inability of the ANC government to come up with anything resembling a credible plan to restore growth and job-creation.

Is this then a case where investors should be preparing to run for the hills? Should one be selling one's share portfolio and buying Kruger Rands?

I would be very cautious about advocating such a step since gold has been a poor performer for a long time when measured in its usual Dollar terms. However, the following graph which tracks the metal in Rand terms makes interesting viewing:

The orange trend line shows that over the past 20 years the metal has been gaining at compound 5.3 percent a year and since February this year (purple trend line) it has been gaining at 20.8 percent compound. Interestingly, however, ShareFinder predicts that the graph will peak in the next few weeks before plunging until the end of March.

So, if ShareFinder is correct, the time to be buying gold could be several months away. Kruger Rands offer a slightly different outlook with a short-term projection (in yellow) sensing a price low on December 21:



The next month:

New York's SP500: I correctly predicted a brief retreat. Now I see an equally brief rise which could be over by mid-week in increased volatility.

London's Footsie: I correctly predicted a recovery lasting into January.

JSE Industrial Index: I correctly predicted a recovery beginning early in the new week, but it is now almost over and a sharp decline appears imminent.

Top 40 Index: I correctly predicted an imminent decline. Now I see a day or two of gains followed by another decline until the end of December.

ShareFinder Blue Chip Index: I correctly predicted weakness which I now see lasting until early January and I continue to hold that view though the upward turning point is very close.

Gold shares: I correctly predicted a brief up-tick which I see lasting until early in the new week followed by declines which I still see lasting until the end of December.

Gold Bullion: I correctly predicted another brief gain Now I see declines well into the new year.

The Rand: I correctly predicted gains but the overall trend is towards weakness amid considerable volatility.

The Predicts accuracy rate on a running average basis over the past 685 weeks has been 84.93%. For the past 12 months it has been 94.06%.

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