Richard Cluver Predicts

In our 32nd year of service to the investing public

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This is one of those occasions when I sincerely hope that ShareFinder's artificial intelligence system proves wrong. After all it is wrong 6.65 times in every hundred predictions in makes about the likely direction of the JSE.

For several months ShareFinder has been telegraphing the likelihood of another JSE down-turn starting on May 10, the first trading day after we will know the results of the next general election.

Here is what the projection looks like:

As you can see, ShareFinder projects in red that the Blue Chip Index will peak on Friday May 10 and then go into free fall until it bottoms on August 5.

Now that we know the date of the next election, the only assumption one can make about the ShareFinder projection is that the election result will not be to the liking of the investment community. And given the generally warm welcome that has been given to the Ramaphosa era, one might speculate that perhaps the ANC might do worse at the polls than most people expect and as a result might be forced to form a coalition with the EFF or worse, the Zuma faction in the ANC might again gain ascendancy. In passing, might a tentative pre-election agreement in that direction be the reason why the EFF did not disrupt last night's State of the Nation address?

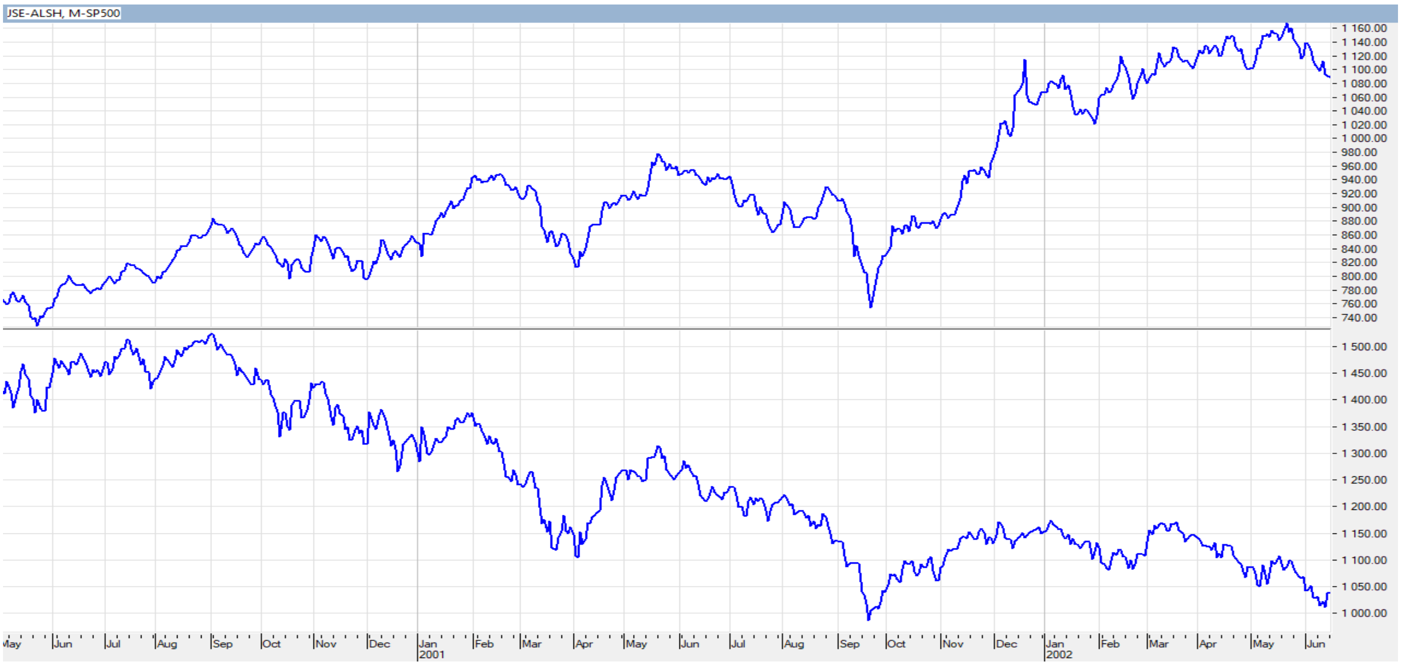
Meanwhile, a steady stream of better than expected results from Blue Chip companies have yielded surprisingly pessimistic market responses lately lending strength to the general mood of pessimism among investors worldwide.

Not without reason, economists have been predicting bad outcomes as a consequence of the Trump trade wars, remembering that just such a move towards trade isolationism in the shape of the Smoot Hawley Act instituted by the US Congress in June 1930 is generally recognised as the cause of the Great Depression. It facilitated the collapse of a number of US Eastern Seaboard banks associated with industries trading with Europe at the time and quickly led to a ripple of systemic collapses throughout the US and the consequent depression.

Thus the Trump standoff with China, coming at a time when Wall Street is in the last extended phase of the longest bull market in US history, could be precisely the trigger that worsens an already anticipated cycle end. Already the bond market has been signalling a yield inversion, when short-term rates rise higher than long-term lending rates, a long-observed precursor of a recession which has generally prompted observers to comment that the current short-term share market upswing is probably an "Indian Summer" event.

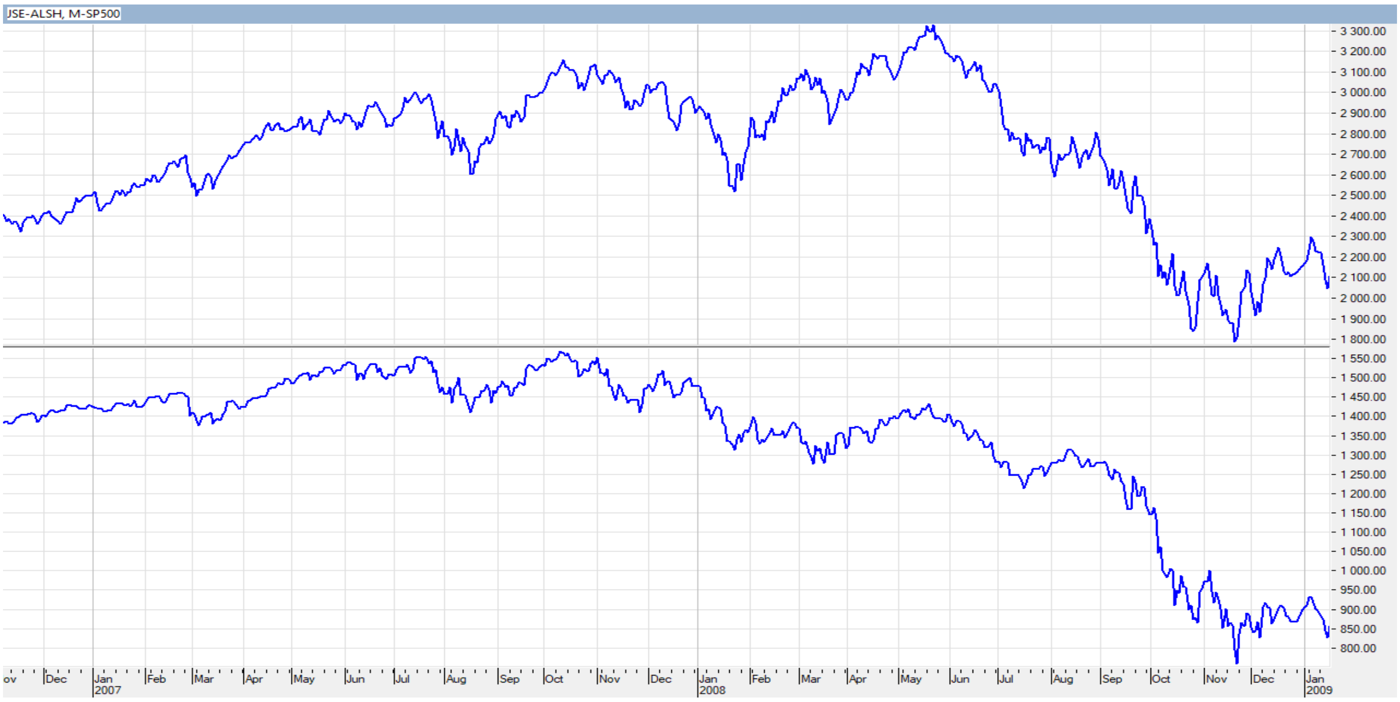
Then there is, of course the catastrophe for Europe of the seeming intractable Brexit debate with the clock ticking towards the end of March and likely to plunge all of already economically weak Europe into recession. And one should not forget the greatest global growth engine, China, which is stuttering into a significant slow-down. Add in chaos in Latin America over Venezuela and problems in Mexico and it is clear overall that the world is not economically confident right now.

Now it is widely held axiom that "…when Wall Street sneezes, the rest of the world gets pneumonia." Happily, however, it is not always true in so far as South Africa's relationship with Wall Street. Consider my following graph composite comparing the JSE All Share Index with Wall Street's S&P500 Index. Note that in September 2000 both markets peaked but by the end of November that year the JSE All Share Index was on its way back up again and it continued rising until late May 2002 while Wall Street's S&P500 headed steadily downwards throughout:

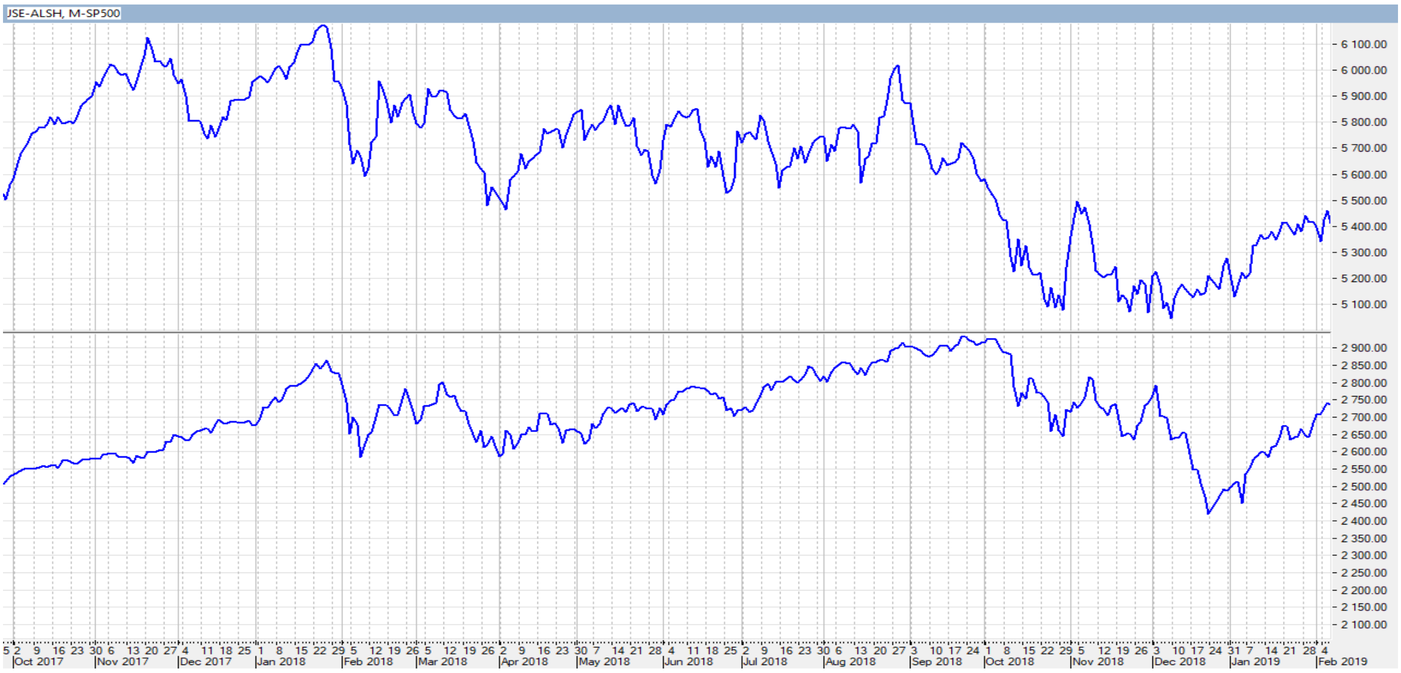


Next, consider the 2007 Sub-prime crisis in the US that led to the collapse of Lehmann Brothers and shook Wall Street to the core. The S&P500 peaked on October 8 2007 while the JSE briefly responded but then continued on upwards until May 20 of the following year before finally succumbing to the worldwide recession that followed:

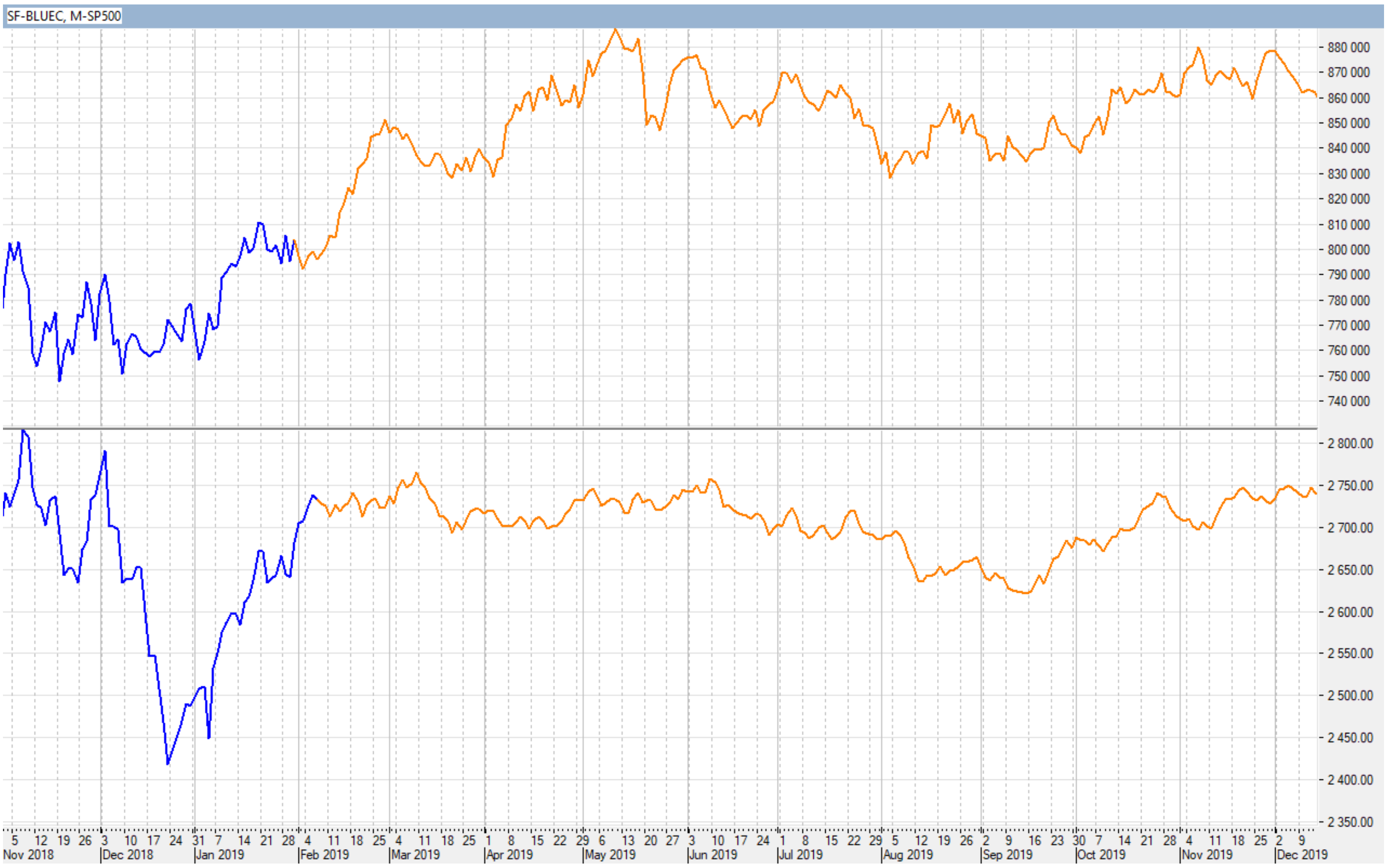
Now, consider that when the JSE topped out on January 25 last year, Wall Street similarly hesitated. But at the end of March it was on its way back up again in a continuation of the bull run that began back in March 2009. And it continued until September 29 last year when Wall Street fell out of bed in a move that had been anticipated by the JSE which actually began its last death rattle on August 30.



Then again the JSE began recovering on December 11 while Wall Street waited until December 24 before beginning its latest rally:



Turning now to ShareFinder's projections for the local Blue Chip index relative to Wall Street we see that ShareFinder senses the post election downturn I have already discussed starting on May 10 while Wall Street is seen ending its current rally on March 11 and continuing on down until mid-September while our Blue Chips should be over their worries by August 5.



So, our market is are not really in step with Wall Street and the worst is probably already behind us…unless there is an election result that fills the market with dread!

What we need to recognise is that South Africa is already recovering from one of its worst periods economically when vast amounts of our tax money were removed from circulation and, presumably, shipped out of the country by a corrupt few. Undoubtedly corruption is continuing though probably on a far lesser scale and, more importantly, less money is leaving the country. Already the things are pointing in the right direction and, hopefully could get significantly better…or worse depending on the coming elections.

So it is necessary to recognise that while the South African economy has the capacity to "turn on a tickey" as the motoring enthusiasts used to say, the developed world's problems are far more intractable and the global investing community is well aware of it.

I am banking on events once again swinging in our favour resulting in a dramatic stock exchange recovery later this year…but NOT if the Zuma contingent once more gains control of what remains of our finances.

The next month:

New York's SP500: I correctly predicted gains which I now see lasting until February 13 followed by a decline until March 4 before the next sharp recovery until March 19.

London's Footsie: I correctly predicted the recovery would continue ahead of declines which I now see beginning around February 15 which should be the beginning of a bear market lasting until at least late September.

JSE Industrial Index: I correctly predicted a short6-term recovery though it has ended sooner than I expected. Now I see declines until the end of the month though there is medium-term pressure for a recovery during the same period.

Top 40 Index: I correctly predicted the recovery would be short-lived and be heading downwards by Wednesday. I now see further weakness until the 14^{th}.

ShareFinder Blue Chip Index: I correctly predicted gains until the second week of February before the next decline which began yesterday and is likely to continue until the 27^{th}.

Gold shares: I prematurely predicted the start of a long decline which I now expect to begin around March 6 with gains until then.

Gold Bullion: I correctly predicted a whip-saw immediate future with possible gains followed by weakness which began with the new month. Now I see a brief recovery but it is likely to be over by mid-week. Long term, however, the trend should be down until November.

The Rand: I correctly forecast some weakness which I now see lasting until February 19 before a recovery until late March...

The Predicts accuracy rate on a running average basis over the past 693 weeks has been 85%. For the past 12 months it has been 93.44%.

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