Richard Cluver **Predicts**

In our 32nd year of service to the investing public

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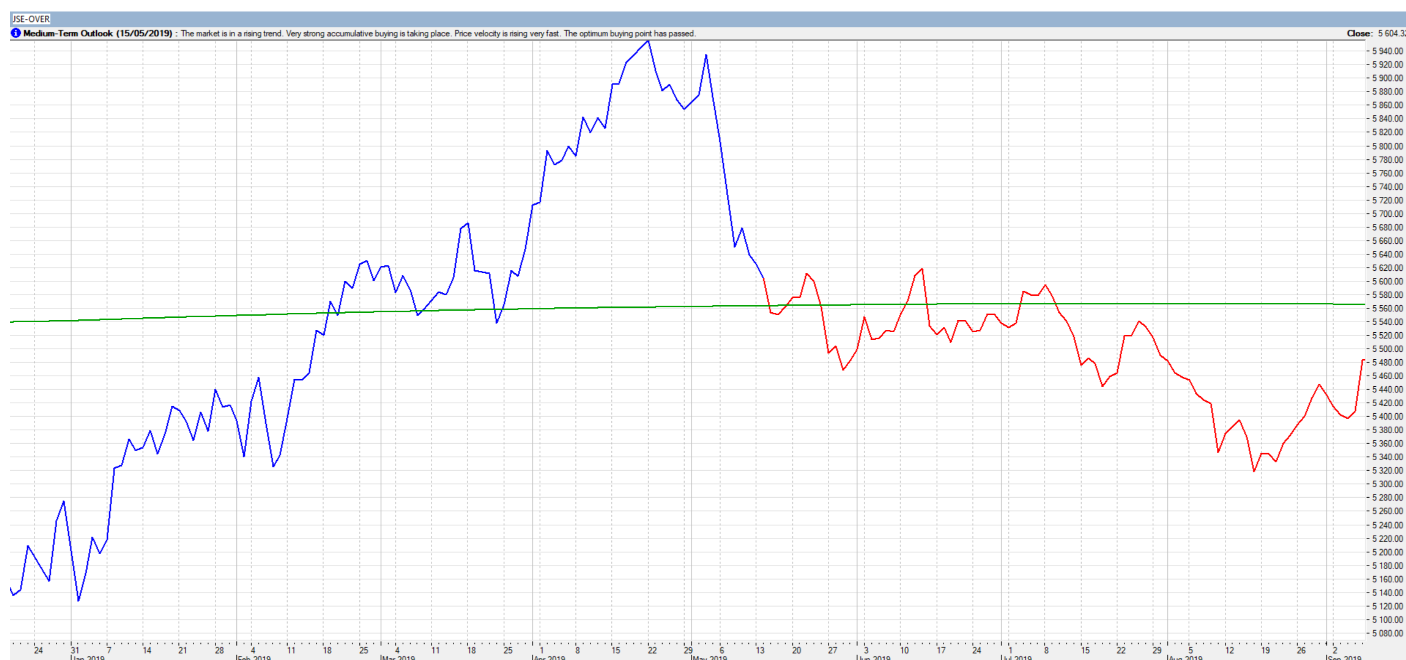
Unless you are one of the fortunate ones who has chosen to closely follow the Prospects Portfolio, the chances are that you are currently gripped by that sinking feeling of loss as the value of your portfolio seems to crash further each day.

Looking at the rate at which the JSE Overall Index is falling at present, it is understandable that many readers will be starting to panic. Consider the following graph:



The ever-present danger in times like these are that investors do panic and decide to sell their shareholdings in a bid to avoid further losses, only to see the market turn upwards once more, forcing them to buy back in at a higher price. Worse, many retire bruised to the sidelines and vow never again to risk their money on shares with the obvious consequence that, sitting in a money market account they earn, after tax, far less than the inflation rate. This latter course is a sure-fire route to ultimate poverty.

Given some of the truly scary political options South Africa faces if the wrong people gain control of ANC decision-making, I have at the end of this column provided a detailed view of global risks as well as our own and offered my suggested solution. If it resonates with you, perhaps you might pass it on to others!

Personally I remain confident in the ability of the share market to continue to insure my personal wealth once the ANC has steered its way through the next few tricky weeks. President Ramaphosa is well aware that in the interests of all citizens he now must make tactical decisions that put the economy first. Nothing else will turn around our appalling unemployment rate. He is

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also on notice by the ratings agencies that he must now pay more than lip service to eradicating crooks from his administration or SA Pty Ltd will be junked before the end of the year.

Seeing a few prominent people in orange overalls is what both the agencies and overseas investors are now demanding and if Ramaphosa and his team fail to deliver within acceptable time limits, the economic cost is likely to be crippling both for the country and for the ANC. It is, for example, completely unacceptable that the mayor of Durban is out on bail on a serious series of corruption charges and is allowed to remain in office.

Little wonder then that the JSE has been plunging. Investors have no stomach for indecision.

Readers should accordingly take comfort from the fact that from as far off as a year ago I began warning readers of ShareFinder's prediction that a market crash would commence in May. That it happened on the button should now give you confidence in the programme's artificial intelligence prediction that the bear market will be over in mid-August and that by year-end you should have recovered most of your current losses.

If, furthermore, you have chosen to mirror the ShareFinder portfolio you might reasonably expect that by late July your portfolio will be worth more than it was before the end of April and that by April next year it will have increased in value by a further 18 percent as predicted by ShareFinder in my following graph projection:

Here, the point to take to heart is that the ONLY shares to invest in for the long term are those that I define as Blue Chips: the shares of companies which have delivered constantly-rising dividends for a minimum of five consecutive years. These are the only shares I select for the Prospects Portfolio and, furthermore, I have been able to demonstrate over very extended periods in many global markets that these shares are the consistent long-term price-gain winners.

The month ahead:

New York's SP500: I correctly warned of sharp declines in May. Now I see a brief gain, another decline on May 20 and then recovery from May 28 to June 11 before the decline resumes until mid-August with a probable double bottom in mid-September before a recovery begins till the end of the year.

London's Footsie: I correctly predicted a final recovery to peak around May 16th before sliding until mid-September with a second bottom around the end of January.

Hong Kong's Hangsen: I correctly predicted that Hong Kong would lead the pack down. The decline is likely to continue down until the end of June. Thereafter I see gains until mid-December.

JSE Industrial Index: I correctly predicted a sharp decline. Now I see a brief recovery until May 24 before the next decline begins running down to a bottom around August 12.

Top 40 Index: I correctly predicted a decline until mid-August. Now I see a brief recovery beginning around May 30 until July 8 before the final run to the bottom around August 19.

ShareFinder Blue Chip Index: I correctly predicted a volatile sideways trend which is likely to establish a ceiling around the 945 000 level with a brief sting in the tail between July 26 and August 12 before a fresh bull market is established to a November peak followed by declines until mid-April.

Gold shares: I correctly predicted the decline that began on February 20 would last until late May. Now I see an imminent recovery beginning between May 24th and 28th with a recovery until a peak in December.

Gold Bullion: I correctly predicted a long declining trend that I continue to predict will last until the first quarter of 2020. However, I now see a brief interim recovery beginning and possibly lasting until mid-July.

The Rand/US Dollar: I correctly predicted *a* recovery which I continue to see lasting at least until September with a final peak likely to occur around mid-December.

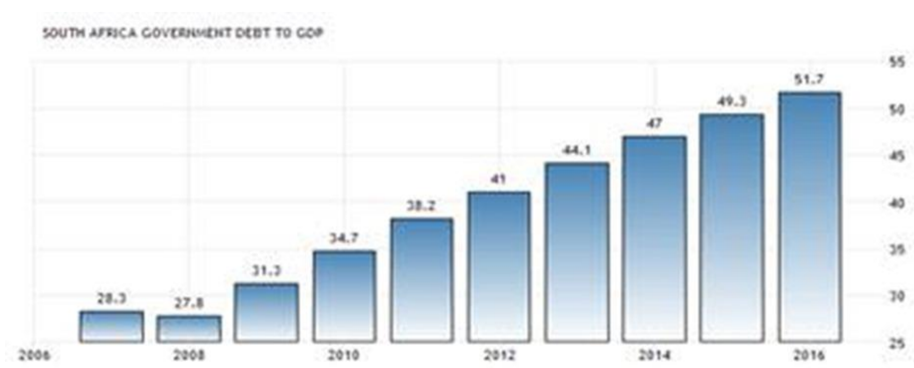
The Rand/Euro: I correctly predicted that the Rand would continue strengthening relative to the Euro until mid October with a phase of weakness between mid-July and mid-August.

The Predicts accuracy rate on a running average basis over the past 707 weeks has been 85.11%. For the past 12 months it has been 93.44%.

Richard Cluver

Post-election economic solution

The major nations of the world are swimming in debt. They are in fact mortgaging the future earnings of their children to meet present costs. Taking South Africa as an example, the Government currently spends 60 percent of its tax income on the "Social Wage"; that is on social grants and health services and 40 percent on the public service wage bill.



For everything else it does, the South African Government has to resort to borrowing....and every year the social wage rises at a faster rate than tax revenue which guarantees that our indebtedness will continue growing and already, as my graph shows, our Government debt will reach 60 percent sometime this year 2019. Above that level it becomes increasingly impossible because the interest alone on the debt is likely to be greater than government's tax revenue in an era of rising interest rates. And South Africa is one of the world's least-indebted governments!

Next, I have listed the 16 governments with debt of over 100 percent of their Gross National Product.

Country	Public debt as % of GDP (CIA)[1]	Date	Total (Gross) government debt as % of GDP (IMF)
Japan	234.7	2016	237.918
Greece	181.6	2016	158.546
Jamaica	130.1	2016	146.591
Lebanon	132.5	2016	139.527
Italy	132.5	2016	126.978
Eritrea	119.8	2016	125.785
Portugal	126.2	2016	122.985
Ireland	77.9	2016	117.122
Grenada	110.0	2012	112.567
Cape Verde	116.8	2016	112.199
Singapore	110.5	2016	111.017
Bhutan	30.0	2016	107.511
Cyprus	104.6	2016	107.106
United States	73.8	2016	106.71
Belgium	106.7	2016	105.600
Barbados	108.9	2016	100.351

To understand what this means, a nation's Gross National Product is the sum of all the earnings of all of the people and all of the companies at work in that country. Thus, for example, if every citizen of Barbados and every business operating there sacrificed their entire income for a year, they would nearly be able to pay off that debt. Similarly Japan, whose indebtedness is 237.918 percent of GDP, would need all of its citizens and all of its businesses to sacrifice their entire income for two and a third years just to settle their Government's debts.

Well that is just not going to happen is it? Part of the problem is that there are a lot of people out there with their hands out and very few with enough to share. In South Africa 3.3 million people pay 99 percent of all the income taxes. Meanwhile, out of a total population of 55-million, 30 million are recipients of grants. And it is not particularly different elsewhere in the world.

Rank	Country	US$
1	Luxembourg	103,199
2	Switzerland	79,242
3	Norway	70,392
—	*Macau*	67,079
4	Ireland	62,562
5	Qatar	60,787
6	Iceland	59,629
7	United States	57,436
8	Denmark	53,744
9	Singapore	52,961
10	Australia	51,850
11	Sweden	51,165
12	San Marino	46,447
13	Netherlands	45,283
14	Austria	44,498
—	*Hong Kong*	43,528
15	Finland	43,169
16	Canada	42,210
17	Germany	41,902
18	Belgium	41,283
19	United Kingdom	40,096

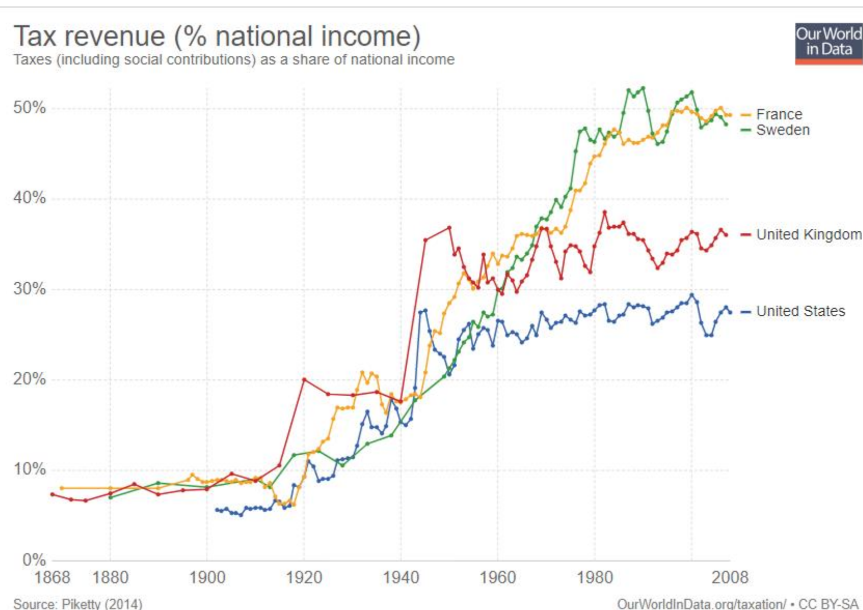
My next list lists the 21 nations of the world which arguably can afford social grants with the mean per capita annual income of their citizens expressed in US Dollars. And already most are buckling under the pressure.

Almost all of their governments are operating in deficit, providing social services by borrowing in the sovereign debt market. That is why, in the United States, President Donald Trump was, during 2017, trying to repeal "Obama Care" because he had recognised that US taxpayers could not afford the burden.

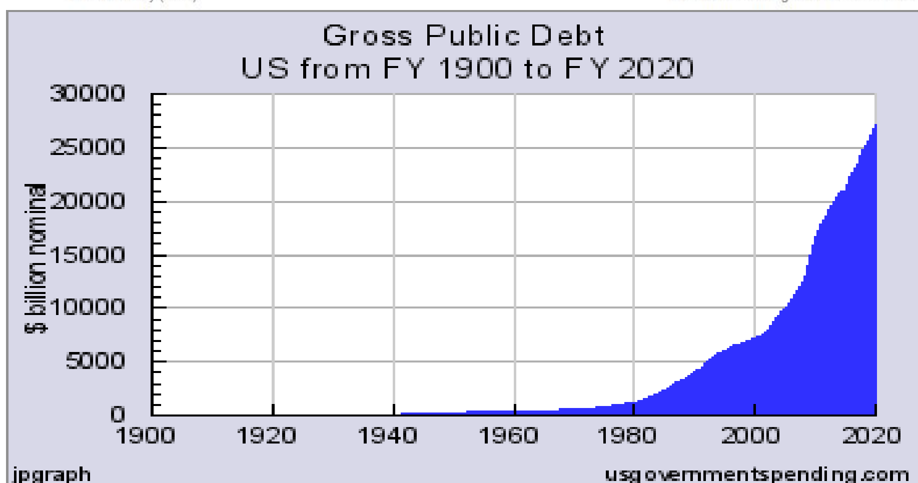
Meanwhile in Britain the Government had just announced that all people in their twenties would expect to work until the age of 70 as the state pension rose to cope with an ageing population and longer life spans.

Democracy, as a concept which believes the state should guarantee that every citizen is equal and entitled to certain basic rights such as a roof over his head and an adequate supply of food, simply will not be able to sustain such numbers. As a concept it will have collapsed, long before our grandchildren retire. But what will replace it; dictatorships, and totalitarian states? Your guess is as good as mine but it is likely that the gated estates we now live in will have become walled-off skyscraper cities with private armies to protect those wealthy enough to afford to live within them.

Lest there be any doubt about that, consider the following graph:



Year after year Governments of the world have steadily increased the taxes they have gathered from their people to the extent that most studies show that it is impossible to collect more. The graph vividly illustrates how, over the past two centuries, governments the world over have squeezed their citizenry with ever-higher tax demands to the extent that the point of taxpayer exhaustion was reached sometime in the 1980s when the graph traces flatten out at approximately the 40 percent level in Britain, 60 percent in France and Sweden and 30 percent in the USA.



Thereafter they had to resort to borrowing as my next graph illustrates. Here I depict how US government debt soared from 1980 onwards once taxpayer

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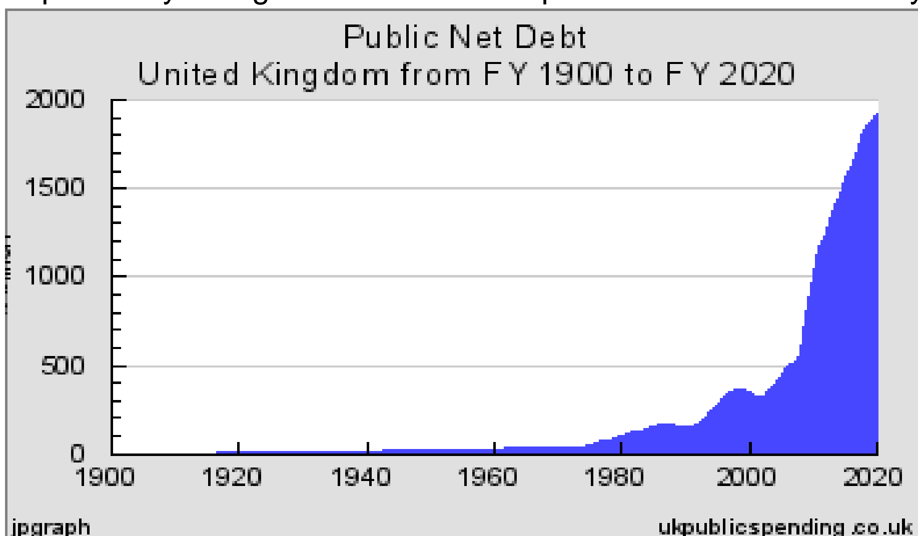
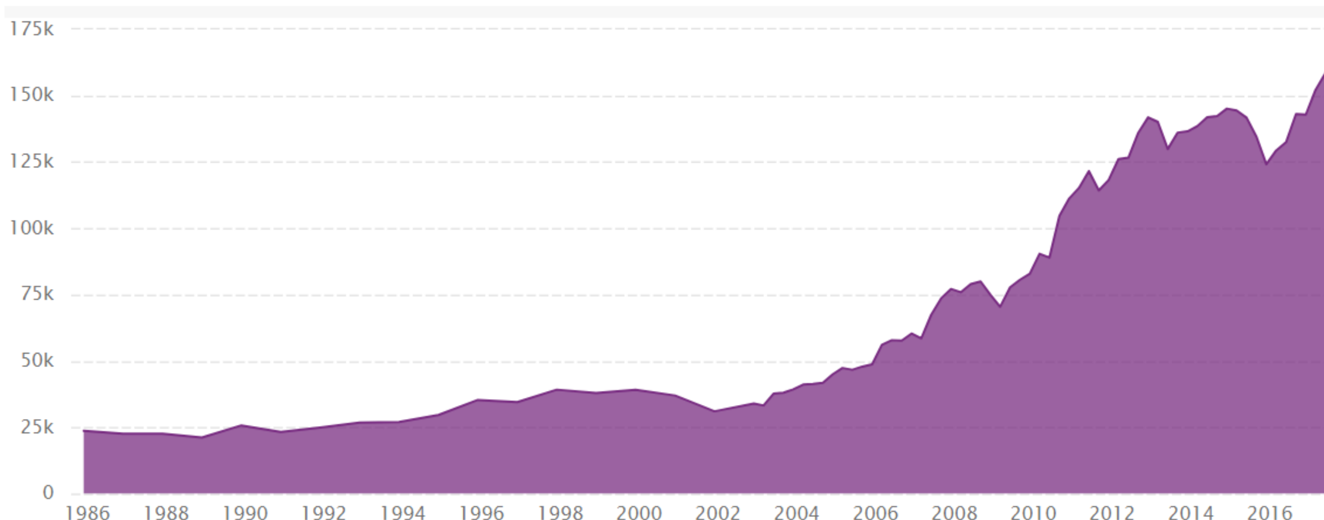
exhaustion had occurred when the taxes collected there reached just less than 30 percent of national income.

In my next graph I offer you the case of Britain where you will see exactly the same pattern with the national debt running at comparatively benign levels for three quarters of the last century and then exploding upwards from 1980 onwards.



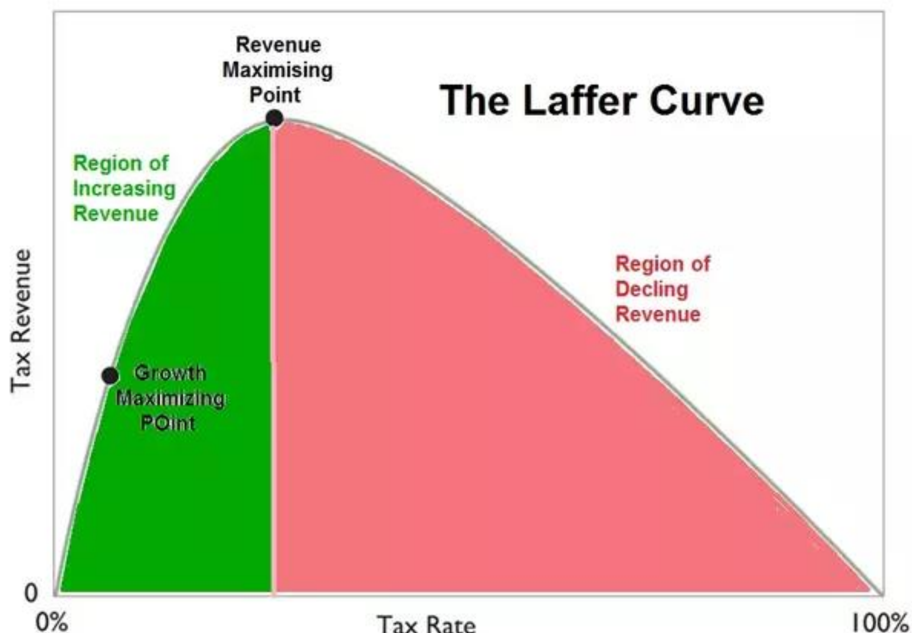
The graphs offer frightening examples of this phenomenon, and it is no different wherever you look throughout the world. The fact is that governments have never learned the lessons of good household budgeting; of living within their means.

And South Africa has been no different. My next graph illustrates how our foreign debt has grown seven-fold since the 1980s.



To understand the concept of tax payer exhaustion I need to turn to the work of economist Arthur Laffer which suggests that as tax rates increase from low levels the revenues collected will increase until at some point further tax rate increases will actually lead to lower tax revenues as the disincentive effects of higher taxes begin to dominate.

While Laffer's primary objective was to illustrate the relationship between taxes and production (i.e. that taxing any economic activity results in less of that economic activity and resultantly lower tax revenues), the Laffer curve also illustrates that higher tax rates result in a greater incentive for tax avoidance and evasion which could also cause tax revenues to fall.



Tax systems do not operate in a vacuum. They are impacted by the social, economic, and political environment in which they operate. Where taxpayers perceive a government to be corrupt, inefficient and wasteful, not delivering benefits to taxpayers or the broader citizenry or a country is in tough economic times, this will result in the Laffer curve shifting downwards and to the left.

The evidence emanating from South Africa's 2018 Budget suggests South Africa was a relatively late comer to this phenomenon but it has now maximised the tax revenues that it can extract from its citizens and has possibly even gone past that point and is now on the downward slope of the curve. That is why there was a R51-billion shortfall in the budget.

So how did we get there? Tax revenue doubled in the ten years to 2018, according to data from the South African Revenue Service (SARS). According to SARS's head of revenue and research, Randall Carolissen, personal income tax had been the biggest contributor since the 2008-09 financial crisis.

Revenue increased from R572.8bn in 2007-08 to R1.144-trillion in 2016-17, up R571.3bn. In this period, the total revenue collected was R8.13-trillion while revenue from personal income tax increased from 29.6% in 2007-08 to 37.2% in 2016-17.

In the 2017 medium-term budget policy statement, then Finance Minister Malusi Gigaba estimated the tax revenue deficit to be R50.8bn in 2017-18; that is the highest deficit since the 2009 recession. The budget deficit was also projected to widen from 3.1% to 4.3% of GDP.

So it was crunch time for South Africa. The latest tax increases, if the widely accepted Laffer studies are correct, would NOT produce the required revenue and we had exhausted our borrowing capacity.

Like governments all over the world, South Africa had to face up to the fact that in future it would have to live within its budget. But did it intend doing so? Ominously, Parliament had just passed a new law allowing the government to expropriate without compensation any property of its citizens.

Furthermore, the Institute of Race Relations had warned that because the "property clause" was so often discussed in relation to land reform and the agricultural sector it was often mistakenly assumed that a move on property rights would be limited to farming and agricultural landholdings.

It is important to understand that Section 25 of the South African constitution referred not to land alone, but to all property. It acknowledged that redistributive measures would feature strongly in state policy and allowed for this, for both a "public purpose" and "in the public interest".

The public interest referred essentially to broadly agreed-on policy goals, including – but not limited to – land reform and providing access to the country's natural resources. It stated unambiguously that expropriation in the public interest could be carried out in respect of property other than land.

Over the decade prior to 2018 the government had sought on several occasions to expand its powers to intrude onto the property rights of individuals and businesses alike – most notably, these had included various Expropriation Bills. None of these were limited to land.

Government policy, in general, had been chasing a larger and more assertive role for the state in pushing its transformation agenda – in fields ranging from intellectual property to mining. The Parliamentary expropriation decision thus fitted squarely within this overall trajectory.

There was nothing to suggest that any move to open the way for expropriation without compensation would be limited to land, and still less to agricultural landholdings. Rather, the institute believed it would be designed to provide the state with vastly increased latitude to seize property in a wide variety of contexts.

With the constitutional requirement for compensation abolished (and the possibility of a constitutional challenge removed or vastly diminished), enabling legislation for expropriation without compensation could now be enacted.

Once actual acts of compensation-free expropriation had been undertaken – probably targeting landholdings – pressure was likely to build from interest groups within the State and the ruling party to apply this model to other sectors of the economy.

This might take the form of expropriation of shares in companies to satisfy empowerment goals or in the interests of national security (the Private Security Industry Regulation Amendment Bill and the limitations it proposed on foreign ownership of the private security industry was instructive here). It was not inconceivable that culturally-significant artworks or artefacts in private ownership might also be targeted.

Interestingly, such action would not necessarily imply the redistribution of property between South African citizens, but from South Africa's property owners to the State. This was clearly evident in the current land-redistribution policy, which emphasised tenancy rather than a title for its beneficiaries.

This would raise the question of how efficiently, transparently and honestly the state would be able to manage its growing portfolio of property holdings. The opportunities for corruption and "capture" would be real and extensive.

The likely impact of this proposal would be deeply damaging and would be felt far beyond the agricultural sector. It would stand to degrade the entire system of property protection in South Africa.

The institute concluded its statement with the plea that "… both business and ordinary South Africans (should) regard this as a real threat to the country's economic prospects, and (should) use all available space to express their concerns about it."

Furthermore, such actions by governments had not been limited to South Africa. Not long before the island government of Cyprus targeted the bank accounts of its citizens and the government of Canada passed enabling legislation allowing it to do the same.

Where might it end? Unable to tax their people further and having exhausted their borrowing capacity, has the world beginning to enter a new phase in which it arbitrarily confiscates the assets of its citizens in order to continue pursuing policies which do not necessarily accord with the best interests of everyone?

Is there an alternative to all this?

Might I humbly suggest that South Africa could be a role model for the world in charting a way out of this seeming economic impasse. It would involve nations, in the first instance, committing themselves constitutionally to living within their budgets.

In my career as a financial journalist I have shown over and over again that people who can commit to saving a tenth of their income and investing the proceeds wisely can guarantee themselves freedom from financial worries in the short-term and comparative wealth in their retirement. Furthermore, while I cannot claim the credit for it, I was a confidant of the then City Treasurer of Durban, Ossie Gorven in the 1980s when that municipality used this process to turn itself into a debt-free city. In this latter instance the City Council entered into a compact with its ratepayers that an initial additional levy upon their rates would result in a reduction of further rates increases and subsequently to real reductions. Durban, in those years, became an example of how municipalities could emancipate themselves.

There is, furthermore, no reason why governments could not emulate this example. It would involve, as I have said, an initial compact with the taxpayers of this country in the form of a constitutional guarantee that Government would never spend more than 90 percent of its income and would employ the balance to, in the first instance, redeem its debts and later to both reduce taxes and build up an investment portfolio towards a hoped for eventual day when South Africa might become a tax-free country.

But how to live within their means? Well, noting that South Africa currently expects to pay at least R180-billion each year to service its debt, getting rid of that would amply enable us to live within our means as a country.

But how to get rid of it? I suggested in a letter to President Cyril Ramaphosa that if the Government were to mount an effective publicity campaign beginning with the constitutional compact I have already outlined, our citizenry could be persuaded to come to the party to buy a new form of government bond featuring a tax-free interest coupon. In the hands of a high-income earner such a tax-free bond would be worth 38 percent which implies that whereas the government currently had to pay a yield average of 8.15 percent on its sovereign debt, a yield of

anything north of 5 percent would be very attractive to South Africans and this would in turn help to dramatically reduce the government's debt servicing costs.

Furthermore, such a bond would be very attractive to pension and insurance funds if the tax-free element could trickle down to their recipients to enhance their tax-free income levels. Thus, for example, in 2018 a pensioner over the age of 75 could receive an annual income of R135 300 and pay absolutely no tax at all. Assume his pension fund were allowed to invest in such a tax-free bond providing a five percent tax-free yield which could trickle down to give him an additional R50 000 a year for every R1-million so invested., thus increasing his monthly tax-free income from R11 275 by R416.67 per million invested.

It would not have been too difficult in such circumstances for the Government to replace, initially, its foreign borrowings and, ultimately all its local borrowings by this means, thus opening up an era of economic certainty in which low and steadily diminishing tax rates could lead to massive foreign investment in local manufacturers which could go a very long way towards both increasing our tax base and eliminating unemployment which could in turn lead to a drastic reduction of the State's poverty relief costs.

Obviously these things could not be done in isolation for such an industrialisation programme would imply the need for drastic improvements to our education system in order to create a suitable supply of skilled workers while greater flexibility in our labour laws would be an imperative to attract foreign industrialists. But that is beyond the scope of this discussion.

And finally, turning to both our grandchildren and to future governments, true financial emancipation of individuals, governments and all other administrative structures depends upon firstly getting debt-free and subsequently investing wisely. And so, while I am glad that I will not personally have to face the massive challenges that the future holds for the generations to come, there is, as I have illustrated, no other way forward than to systematically replace debt with effective monetary savings and then, in the second phase, by mounting an effective investment programme.

Thus, noting that the one way to guarantee the advancement of a society is to create a savings culture that leads to the build up of a healthy source of loan capital with which to facilitate industrialisation. Thus, we need to teach our people to save and to invest wisely. Let me thus introduce a category of Johannesburg Stock Exchange shares which, in order to meet my definition of Blue Chips, have paid consistently-rising dividends for not less than ten years up to the present.

If you count my list you will see that there are just 33 of them. Next, ignore those in which the ten-year dividend growth rate is depicted in red for these growth rates are below the average for this category of shares. Thus we are left with just 16 shares.

Had you invested equal sums adding up to a total of R1 000 in all of those 16 companies and held them for the past ten years your portfolio would have grown in value annually at compound 38.8 percent and would have delivered an annual dividend of 3.5 percent.

Thus, had you re-invested the dividends paid by these companies you would have received a Total Return of 43.2 percent. Had you invested exactly R1 000 at the start, that sum would today be worth R36 260. And, now in respect of our grandchildren who have just turned 18 and half of whom have been predicted to live for 150 years, let's illustrate the massive power of compounding numbers by assuming that they do indeed live to the age of 150, that's 132 years from now. By then that number would have grown to.... wait for it:

R 384 130 129 152 589 000 000 000

They would be the richest people on the planet!

I'm not saying it will make them any more comfortable than they are today. It probably won't. But at least they will not be among the starving masses! Neither, if governments of the world were to accept my solution for their finances, will the lot of their people be so bad even though, for example, the population of South Africa is likely to have grown, at its current annual growth rate of 1.9 percent (slowed from the average of 2.2 of my lifetime by the twin influences of urbanisation and AIDS) to 734-million; equal to half India's current total of 1.32-billion.

By the same growth rate it will pass India's current number 163 years from now; in the year 2181 and double the Indian total just 200 years from now.

Name	DY	10YrDiv
Grand Old Favourites		
Group Avg.	3.7	21.86
ITALTILE LTD	2.4	44.85
COMPAGNIE FIN RICHEMONT	1.9	28.04
ASSORE LTD	4.9	26.59
RMB HOLDINGS LTD	3.4	18.11
STANDARD BANK GROUP LTD	3.9	8.93
REUNERT ORD	5.3	4.66
Mid-Cap Companies		
Group Avg.	3.5	0.73
HUDACO INDUSTRIES LTD	3.5	0.73
Tightly Held Mid-Cap Companies		
Group Avg.	1.8	13.59
AFRIMAT LTD.	1.6	13.79
ZEDER INVESTMENTS LIMITED	2.0	13.40
Blue Chips		
Group Avg.	4.2	20.18
MONDI PLC.	3.2	45.39
MONDI LTD.	3.1	45.39
SABVEST LTD	1.1	43.02
PEREGRINE HOLDINGS LTD	10.8	39.89
AECI LTD.	4.3	31.85
CAPITEC BANK HLDGS LTD	1.0	30.24
AVI LTD	3.6	29.52
CLICKS GROUP LIMITED	1.6	26.06
JSE LTD	3.6	25.23
FIRSTRAND LTD	3.3	23.49
ADAPTIT HOLDINGS LIMITED	2.3	20.69
BRITISH AMERICAN TOBACC...	5.2	19.96
MR PRICE GROUP LTD	2.8	19.72
TRANSPACO LTD	4.8	18.49
DISCOVERY LTD	1.2	17.67
OCTODEC INVEST LTD	10.5	17.08
SHOPRITE HLDGS LTD ORD	2.0	16.11
WILSON BAYLY HLM-OVC ORD	2.2	15.72
NEDCOR LTD	4.2	14.07
NASPERS LTD N-SH	0.1	13.91
THE SPAR GROUP LTD	2.9	13.69
REMGRO LTD	2.3	12.83
SANLAM LTD	3.2	12.74
THE FOSCHINI GROUP LTD	3.3	10.02

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