Richard Cluver Predicts

In our 32nd year of service to the investing public

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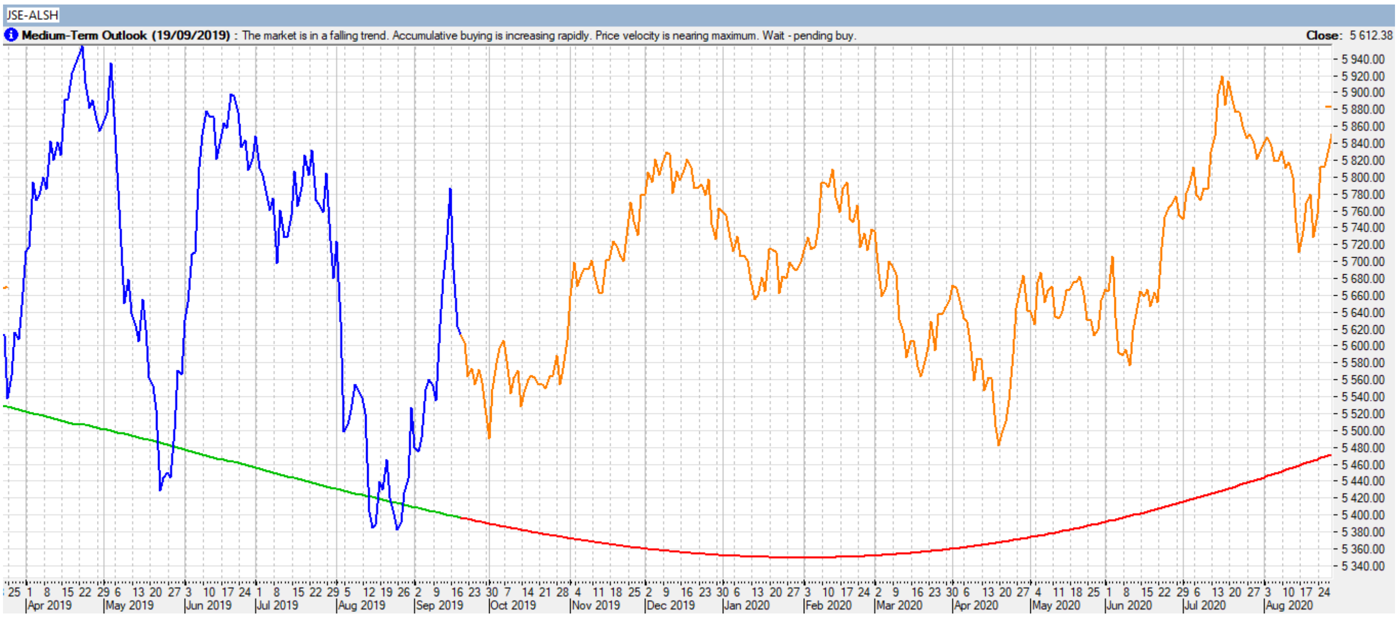
It takes a brave soul to start buying into the share market at a time when the prevailing mood of the country is one of gloom and pessimism. But that is the way great fortunes are made.

So the question every investor should be asking themselves right now is whether the time is right to enter the market when ShareFinder says falling price trends have bottomed? What are the real risks locally and internationally and what other options has one if one fails to take advantage of the situation?

Let us start today with confirmation that the JSE All Share Index is projected with 95.11 percent accuracy to have turned upward once more...that is the current accuracy rate average of the ShareFinder future system which you can see at the end of this column. Thus one might assume that it is a pretty safe bet to invest money right now. Furthermore the long-term cycle trend is very close to the bottom and will be strongly positive in the new year.



Clouding the issue is the South African Government's seeming inability to move forward on any economic restoration projects. The Government has had the advice of innumerable international experts about what needs to be done to restore economic growth and there is broad unanimity about what needs to be done. Yet political infighting seems to have paralyzed the ANC and all we get are vague promises with few actual signs of progress. Furthermore, the business sector which in the past has always evidenced a "Can Do" attitude which has tended to ignore a great extent of Government's fumbling, and has simply got on with the job, seems similarly to have lost heart for risk-taking.

Internationally too, with nations swimming in debt and the two greatest engines of GDP growth locked in a trade battle of similar proportions to the one which plunged the world into economic depression in 1929, investors are understandably nervous about taking on risk.

It is, in many respects, the investor's darkest hour; a time that separates the bold (and foolish?) from the cautious (and risk-averse).

So let's look at the positives. Though President Ramaphosa's reforms are arguably taking time to manifest, political observers are reasonably unanimous that old-order Zumarites are steadily losing ground and that the worst offenders of the bad old "Grand Corruption" era will soon be facing trial. Reform is thus under way and likely to gather momentum.

Internationally, the China/US trade war initiative was an issue that really did need to be addressed because China had for too long been getting away with actions that could not be construed as trade friendly. Furthermore, the economic consequences of a protracted trade war are so dire for the global economy that neither side really wants to see it go unresolved for much longer and, so far as US President Donald Trump is concerned, his chances of re-election for a second term will dim considerably if he fails to wrap up the issue before the end of the year and demonstrate positive outcomes for the American people.

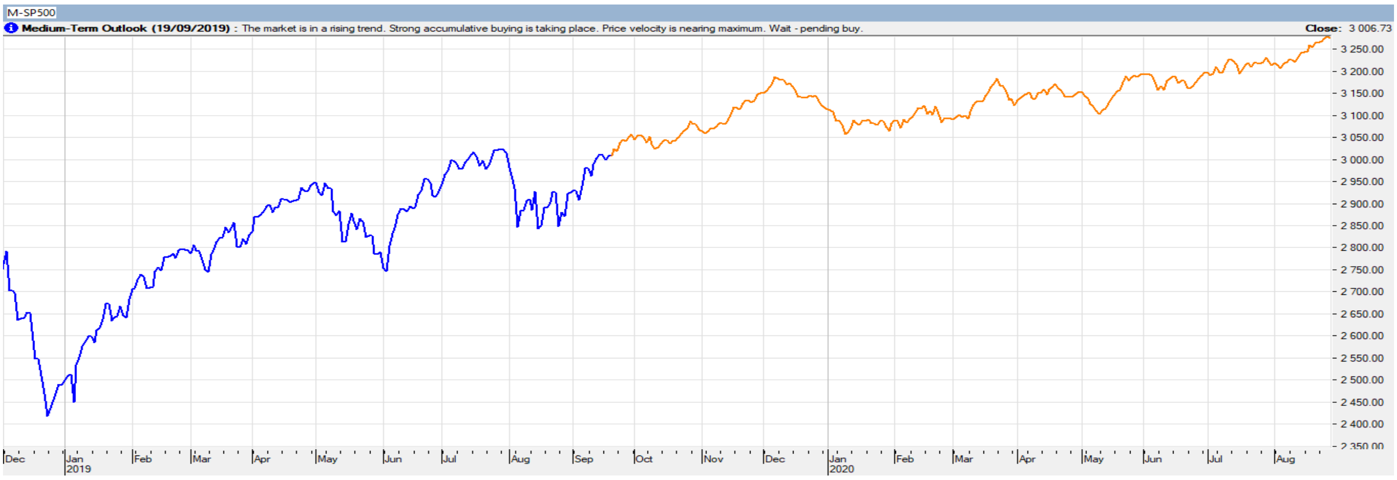
Furthermore, as the Daily Maverick noted this morning, China and the U.S. are talking trade again. Negotiators have resumed face-to-face discussions in Washington, while the Trump administration says a Chinese delegation will visit American farmlands next week.

The talks are expected to lay the ground-work for top-level negotiations between U.S. Trade Representative Robert Lighthizer, Treasury Secretary Steven Mnuchin and Vice Premier Liu He in October. The past two months have seen a ratcheting up of the trade war, after the last set of talks in late July. Since then, China's trade performance is showing signs of a bad situation becoming worse, U.S. growth has decelerated and the OECD has forecast the slowest global expansion in a decade.

In other words, both sides now have compelling reasons for coming up with positive solutions.

Other side shows like Britain's "Brexit" issue is probably at its most decisive stage under Prime Minister Boris Jonson. After years of indecision, the issue has come to a head under Johnson and now European leader Jean-Claude Juncker has thrown Johnson a lifeline. Following talks this week Juncker said that, "I had a meeting with Boris Johnson that was rather positive. I think we can have a deal". On the UK government's proposals for replacing the backstop, Mr Juncker said: "It is the basis of a deal. It is the starting and the arrival point."

The signs are, in other words, more optimistic than negative and Wall Street, which always sets the tone for the rest of the investment world, is certainly taking a positive view of things. Consider ShareFinder's projection of the S&P500 Index:



I have recently opted to be brave and gamble that things are turning for the better, putting considerable sums of my own money into two shares which I consider to be massively underpriced, Aspen and Hyprop. But you can take your pick of any number from the ShareFinder list. On the right are just a few:

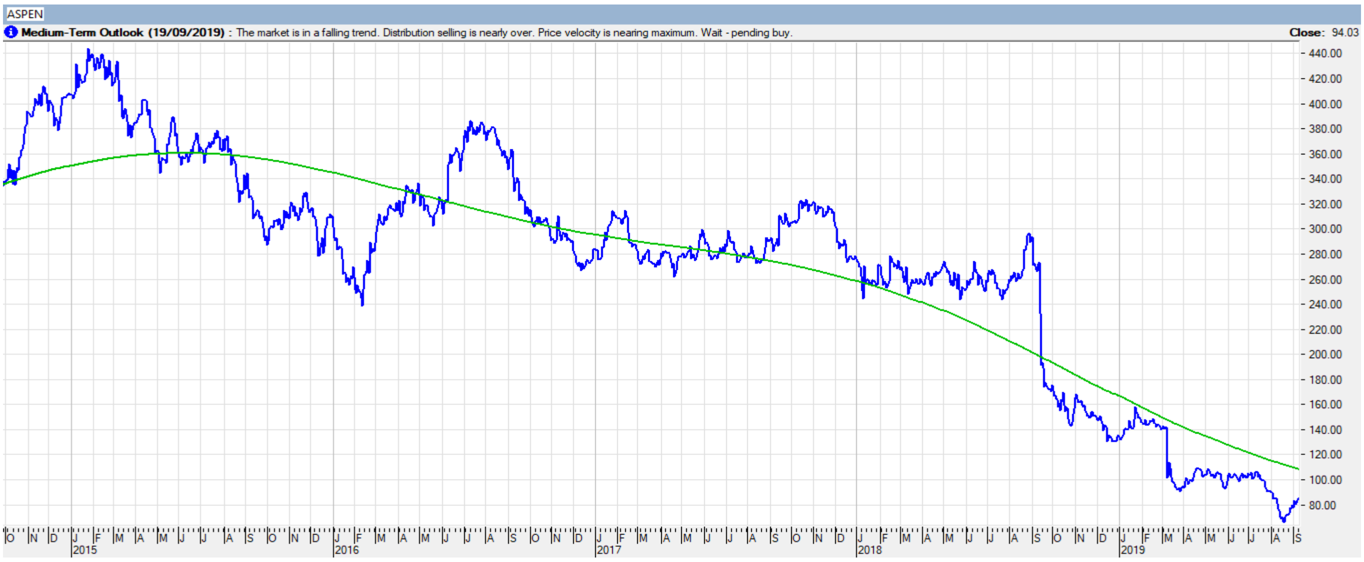
ShareFinder cannot work out an underprice valuation for Aspen because it has not declared a dividend and the calculation is based upon the dividend yield of a share.

Name	DY	F.Und/Ov	5YrDiv	5YrGro
FAMOUS BRANDS LTD	1.0	-8 235.76	-7.93	-4.46
SHOPRITE HLDGS LTD ORD	2.0	-5 409.78	0.73	-3.69
PAN AFRICAN RESOURCES PLC	0.8	-3 947.43	-20.52	-1.17
AFRICAN MEDIA ENTERTAIN	7.4	-3 343.85	0.40	-21.45
WILSON BAYLY HLM-OVC ORD	1.1	-2 646.58	-5.37	-2.96
CITY LODGE HOTELS LIMITED	3.4	-2 232.71	1.59	-7.21
SASFIN HOLDINGS LTD	2.5	-1 648.83	4.76	-9.97
SASOL LTD	3.9	-1 346.82	-4.12	-15.09
NICTUS BEPERK	4.0	-1 322.63	-16.67	-10.89
TRANSPACO LTD	4.2	-772.27	1.69	-2.22
OMNIA HOLDINGS LTD	1.6	-609.18	-15.24	-35.01
ADCORP HLDGS LTD ORD	3.6	-420.67	-31.38	-9.06
NETWORK HEALTHCARE HLDGS	5.0	-308.68	18.15	-13.21
HYPROP INVESTMENTS LTD	11.6	-289.35	9.99	-7.31
Brimstone Inv Corp Ltd	4.5	-158.84	13.13	-13.21
RESILIENT REIT LTD	8.0	-127.30	25.66	-3.24
OCEANA GROUP LIMITED	4.8	-80.14	55.13	-0.96

Why is Aspen so badly rated? Well, simply-stated, when the investment world became cautious it punished all the risk-takers who had taken advantage of an era when money could be borrowed at negative rates of interest to buy up profitable companies which could enhance their own profits. Aspen was such a company which in a few short years grew from a comparatively small South African manufacturer of generic drugs to a global giant with a debt of R53.5 billion.

That stated, it is massively cash-positive generating revenue in the year to June of R38.3-billion that resulted in EBITDA of R10.8-billion or earnings per share of 1 414.3 cents per share which, along with the sale of non-core assets, is being employed to rapidly reduce the debt which has fallen this year to R39-billion. The result of this is to put the company on an already comfortable earnings yield of 13.3 percent.

The consequence of the debt reduction is to take it to a leverage ratio of 3.6 which is very close to a market-approval rate of three times which should largely remove investor concerns and, already the market has begun cautiously responding as my graph below indicates. Since August 20th the share price has risen 56 percent from a low of R64.07 to a recent high of R101.15. But as my graph illustrates, it has a very long way to go to restore itself to its former glory when the share price reached R431.60 in January 2015.



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Hyprop has been similarly punished, falling from its peak value of R142.92 in August 2016 to a recent low of R57.83.

It has since gained 12 percent to R64.72 as my graph shows and is similarly likely to further recover in the months ahead. This Blue Chip of the property reits was punished not for anything it did but merely because it owns a series of South Africa's premier shopping centres which recently became the focus of concern when the Edgars chain faced bankruptcy raising concerns about rental income.

In the event there has been nothing to worry about. Its results for the year to June 30 this year contained the following comments in its SENS release:

Growth in distributable income from South African portfolio of 6,5%, despite the challenging economic climate

- **Growth in distributable income from the Eastern European portfolio of 13,5%**
- **Very low vacancies in the South African retail portfolio (0,8%) and in the Eastern European portfolio (smaller than 0,5%)**
- **Progress in reducing exposure to sub-Saharan Africa (excluding South Africa) - investments in this region impaired by R1,46 billion in the year based on anticipated sales proceeds**
- **Strong liquidity position and R8,5 billion of debt refinanced during the year**
- **Decrease in distribution per share of 1,5%**

Hyprop has interests in a R51 billion portfolio of shopping centres in South Africa, Eastern Europe and sub-Saharan Africa (excluding SA).

However, here the damaging results of gearing become clear when one notices that an 11 percent decline in net operating income resulted in a 65.8 percent decline in headline earnings per share illustrating why the company is selling off some of its riskier investments in order to reduce debt. Note however, that an impairment of R1,46 billion has been included in the year based on anticipated sales proceeds. The next set of accounts will very likely signal a very different situation which made this share a much more attractive situation as far as I was concerned.

This is a longer shot for investors but one which will obviously be richly rewarded once previous rates of profitability are restored. Since the sales of investments in African territories to the north of us are already far advanced, it is probably a given that profit recovery will follow and, to its credit, unlike Aspen which suspended its dividend in its efforts to rapidly reduce debt, Hyprop has merely reduced its dividend by 1.5 percent which still leaves it on a mouth-watering dividend yield of 11.73 percent which, because it is a property reit, is not subject to the usual 20% dividend tax.

These are but two of the opportunities that litter our market at present and which could massively enrich those brave enough to gamble that the night is always darkest just before dawn. It's up to you!

Turning to the Predictions which follow, reading ShareFinder's signs these point towards the Brexit crash-out happening with bad consequences for Britain and Europe.

The month ahead:

New York's SP500: I correctly predicted a recovery with a next weak phase which is likely in early December to mid-January and I still hold that view.

London's Footsie: The interim bottom which I correctly predicted for September is now over but the recovery is likely to be short-lived for another decline is likely in October lasting most of the month before a recovery phase until the end of November....and it is likely to be downhill well into 2020.

Hong Kong's Hangsen: I correctly predicted a volatile recovery. Now I see declines until the 25th before the start of the next recovery phase lasting until early January.

JSE Industrial Index: I correctly predicted the recovery would peak around the 16th of this month and precisely that happened. Now the next recovery is likely to begin lasting until mid-November.

Top 40 Index: I correctly predicted a recovery until mid-week followed by temporary weakness until October 25 ahead of the next up-phase until mid-December and I still see this scenario.

ShareFinder Blue Chip Index: With the big drop behind it, I correctly predicted gains which I still see lasting until mid- December followed by declines until early March. However a brief downward trend has begun under the influence of the Naspers share issue and that could disrupt the up-trend until the end of the month.

Gold shares: I correctly predicted an interim decline which could last until the end of this month within a recovery which I still expect to last until mid-December.

Gold Bullion: I correctly predicted a decline lasting until late November when a brief recovery appears likely followed by a protracted decline into 2020, and I still hold that view.

The Rand/US Dollar: I correctly predicted a recovery which I still see it lasting until mid-December.

The Rand/Euro: I correctly predicted that the Rand would continue strengthening relative to the Euro and I continue to expect that to continue until mid-November followed by weakness until early December when a brief recovery appears likely and then a protracted decline beginning in early January until April next year.

The Predicts accuracy rate on a running average basis over the past 713 weeks has been 85.28%. For the past 12 months it has been 95.11%.

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