Richard Cluver **Predicts**

In our 32nd year of service to the investing public

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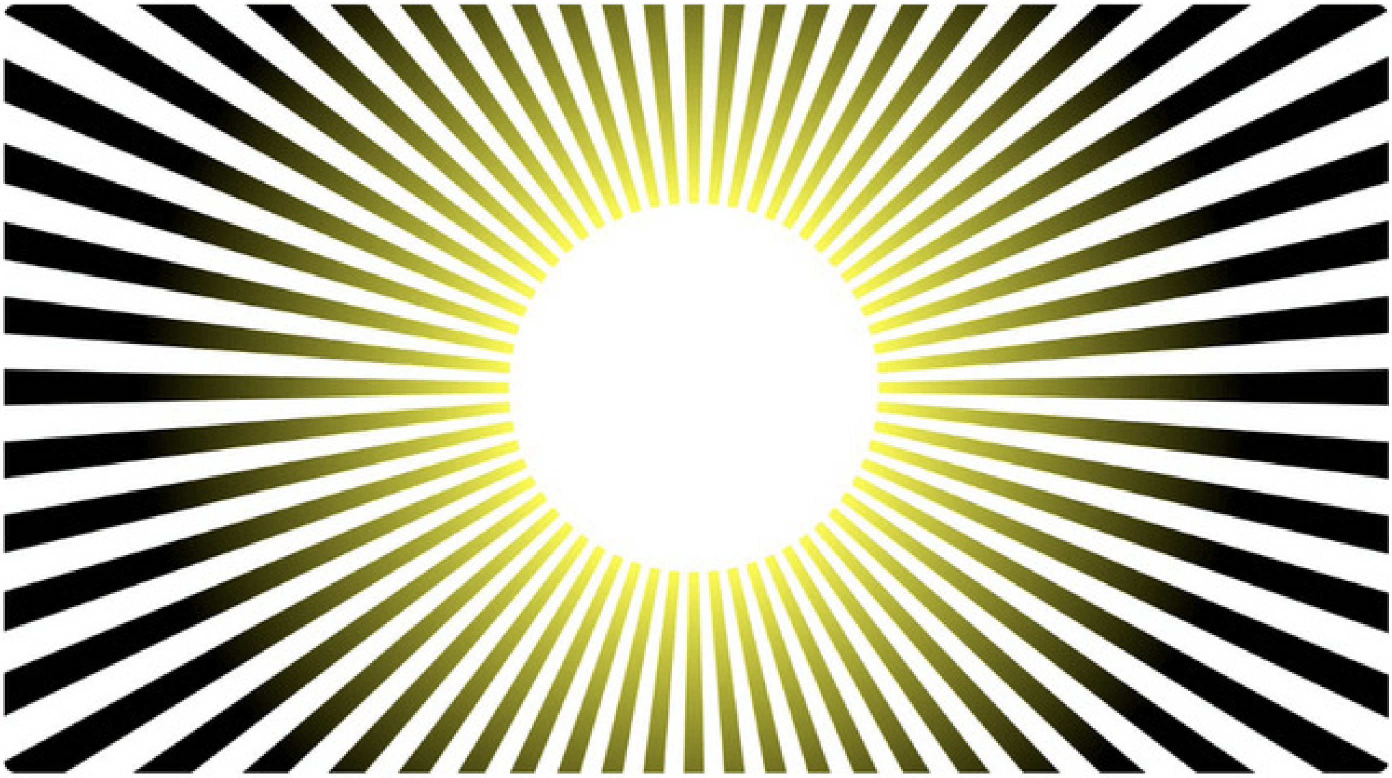
I suggest you put on sun glasses before you look at the following image which will trick your irises into contracting as if you are looking at the sun:



Just thought I would offer you that before I raise a question about whether we are being tricked about our latest inflation rate data which has shown that, at 3.7 percent, the CPI has slowed to its lowest level in the past nine months. Furthermore, as you can see from the graph on the right, the official CPI has been falling steadily for the past decade.

Year-on-year, prices are reported to have eased for food & non-alcoholic beverages (3.6 percent from 3.9 percent in September); transport (0.3 percent from 2.4 percent), mainly due to fuels (-4.9 percent from 0.2 percent) and purchase of vehicles (3.4 percent from 3.7 percent); recreation & culture (1.1 percent from 1.4 percent);

alcoholic beverages & tobacco (5.7 percent from 6.2 percent); household contents and services (3 percent from 3.2 percent); and restaurants & hotels (3.1 percent from 3.3 percent).

Meanwhile, inflation was steady for housing & utilities (at 4.8 percent); miscellaneous goods & services (at 5.7 percent); clothing & footwear (at 2.2 percent); and education (at 6.7 percent). In addition, cost of health rose further (4.8 percent from 4.6 percent).

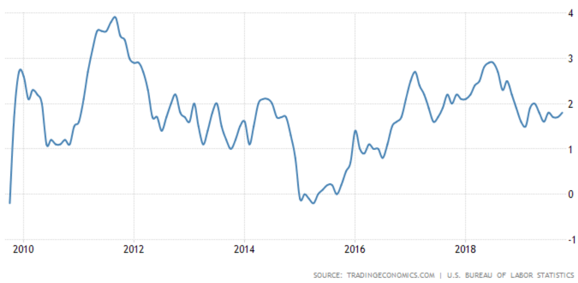
Annual core inflation rate, which excludes cost of food, non-alcoholic beverages, fuel and energy, was at 4 percent in October, unchanged from the previous month and matching market forecasts. It remained the lowest rate since December 2011.

The problem I have with these observations is that all my friends tell me that their own observation is that prices are rising at far higher rates. Ask any housewife what is happening to her shopping basket at the local supermarket!

Now inflation is a measure of the buying power of a nation's currency relative to core commodities of which gold is considered the sovereign element. So, let us consider in my graph below what has happened to the Rand relative to gold in the past decade. As the red trend line makes clear, the Rand has lost value relative to the price of gold at a compound annual average rate of 11.4 percent a year since October 2009 whereas if you go back to the CPI graph you can see that CPI has hovered well below 6 percent for most of the past decade.

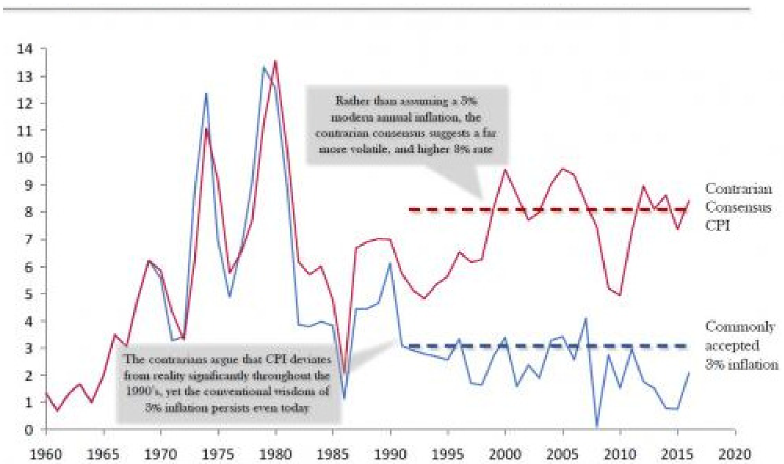
Another way of measuring things might be to compare the Rand with the US Dollar and here you can see that relative to the latter the Rand has lost (red line) value at 3.9 percent annually over the past decade and (green line) at 7.1 percent annually against the US Dollar over the past five years. One might thus argue that, had there been zero inflation in the USA, our local loss of buying power has been only a tad more than the official inflation rate as measured by the CPI:

But, in fact the official US inflation rate currently 1.8 percent and, as my graph on the right illustrates, it has averaged around 1.5 percent throughout the past five years. So, if you add that figure to the five-year Rand/Dollar exchange rate average you might conclude that South African inflation has averaged around 8.6 percent over the past five years.



Furthermore, if you measure the US Dollar against the price of gold you get the following graph which indicates that over the past decade the dollar has lost value against gold at a compound annual average rate of 3.7 percent a year (red trend line) and 5.3 percent compound (green line).

So, in very rough terms you might conclude from the foregoing that US inflation is actually twice their official rate and that ours is roughly three times the official rate. Here it is worth noting that a recent US study by the Devonshire Research Group found that there was a consensus among research groups that the real rate of US inflation was actually 8 percent compared with an official accepted "post modern" rate of three percent. They produced the following graph:



So, how is inflation actually calculated? Statistics SA currently uses a weighted basket of commodities and services using the following weightings: Food 59,42, housing 23,02 Transport 20,70 Services 13,72 and medical care 40,58.

As you can see, food and medical care are the highest ingredients and most folk I speak to say these items are rising at cripplingly high rates. That is particularly worrying for older folks living on

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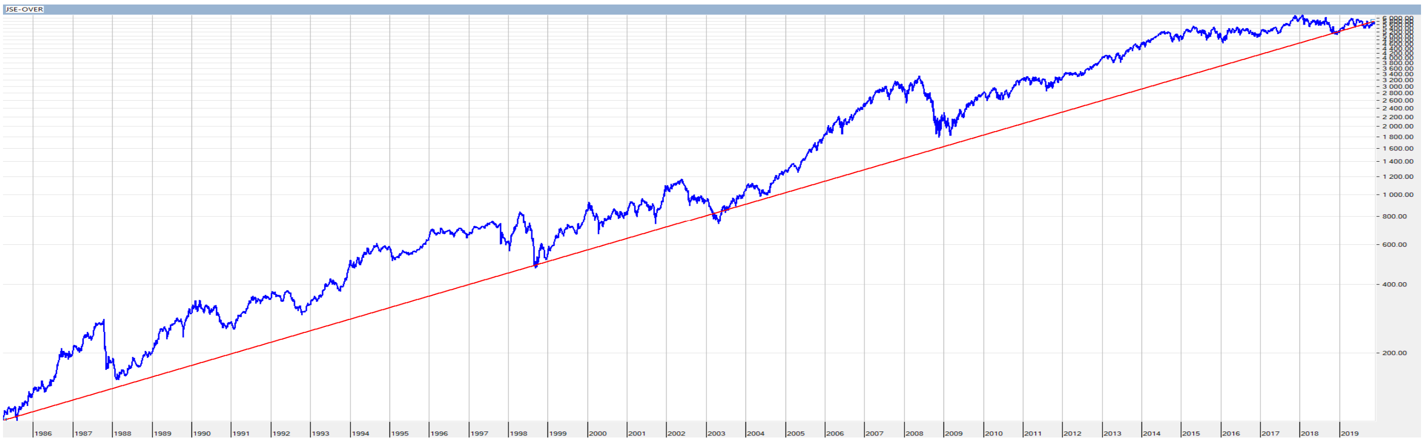
fixed incomes. If the rand is truly losing value at 11.4 percent compound, then the net effect is that the buying power of your income will be **halving** every 6.3 years.

One way of ensuring that you beat that decline is to ensure that you derive the bulk of your income off JSE listed shares. My graph below shows that over the past 34 years the JSE Overall Index has risen at compound 12.4 percent and since dividend growth is the primary fundamental underpinning that growth, a representative spread of JSE shares will obviously ensure that you remain ahead of the game.



Of course, if you are a regular reader of this column and by inference my Prospects newsletter, you will know that Blue Chip shares which by definition have seen their dividends rise constantly over a minimum of a decade, will have done even better for you. My next graph illustrates that since April 1986, the Blue Chips have risen in value at a compound annual average of 19.7 percent; a figure that would have put you well ahead of the race.

And you could have done even better had you chosen the ten top performers of the past ten years. My list on the right is of the shares which have delivered the highest compound average dividend growth rates over the past decade. Had you confined your investments to the top ten you would have seen your income grow at 33.57 percent a year.

Grand Old Favourites	
Group Avg.	14.18
ASSORE LTD	28.93
KAP INDUSTRIAL HLDG LTD	17.49
INVESTEC LTD.	10.87
STANDARD BANK GROUP LTD	8.93
REUNERT ORD	4.66
Mid-Cap Companies	
Group Avg.	4.70
EMIRA PROPERTY FUND LTD	4.70
Tightly Held Mid-Cap Companies	
Group Avg.	9.82
AFRIMAT LTD.	15.32
ZEDER INVESTMENTS LIMITED	13.40
HUDACO INDUSTRIES LTD	0.73
Blue Chips	
Group Avg.	19.08
ITALTILE LTD	54.31
MONDI PLC.	45.39
SABVEST LTD	43.02
AECI LTD.	31.85
CAPITEC BANK HLDGS LTD	30.24
AVI LTD	27.92
CLICKS GROUP LIMITED	26.06
JSE LTD	25.23
COMPAGNIE FIN RICHEMONT	22.78

The month ahead:

New York's SP500: I correctly predicted a continuing recovery which I still see lasting until early-December, with another weak phase from then until the end of January before a long growth period, and I continue to hold that view.

London's Footsie: I correctly predicted that the Footsie would decline until the end of January followed by a brief recovery until mid-March further declines take it down to a late-July low.

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Hong Kong's Hangsen: I correctly predicted gains will last until early January. Thereafter I still see declines all the way until April before the next bull phase sets in.

JSE Industrial Index: I correctly anticipated a brief decline until the 21st, followed by a short recovery until December 2 and then down-hill until early June.

Top 40 Index: I correctly predicted a brief decline which should end today followed by a short recovery until early December and then a decline until mid-January and another recovery until mid-February.

ShareFinder Blue Chip Index: I correctly predicted gains would become volatile although the overall upward trend would continue until mid-February when a brief correction into early March will precede a bull phase until October 5 ahead of the crash of 2020…the subject of my latest book which I am serialising in ***The Investor***.

Gold shares: I correctly predicted an upward surge which I see lasting until mid-December followed by a weaker trend for most of the New Year.

Gold Bullion: I correctly predicted brief gains until early December followed by weakness until early March.

The Rand/US Dollar: I correctly predicted a recovery lasting until now followed by a volatile weakening phase until late March.

The Rand/Euro: I correctly predicted gains until now followed by brief weakness until December 9 followed by gains until Christmas and continuing weakness well into the new year.

The Predicts accuracy rate on a running average basis over the past 720 weeks has been 85.34%. For the past 12 months it has been 93.15%.

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