



The share sell-off on global markets is now reaching ridiculous proportions uncovering yield rates never before seen in my lifetime and, judging from SENS reports of investors upping their shareholdings in Blue Chips above the notifiable levels, it is clear that the “bottom fishers” are hard at work.

More fool you than if you have been a seller during this period because you will very likely live to regret your actions. Whether, however, people like myself who have been unable to resist buying will later be made to look foolish, will only be revealed if the sell-off goes from ridiculous to just plain stupid. What, for instance, will current prices look like if what last happened in 1929 is repeated again this time? Below I have reproduced a graph of the Dow Jones Industrial average during the 1929 period:



Note that the Dow fell steeply between September 9 1929 and November 18, before mounting a significant recovery until April 21 1930. But then it plunged again until July 1932. In the first leg down the market lost 40 percent of its value. But overall, it lost nearly 99 percent.

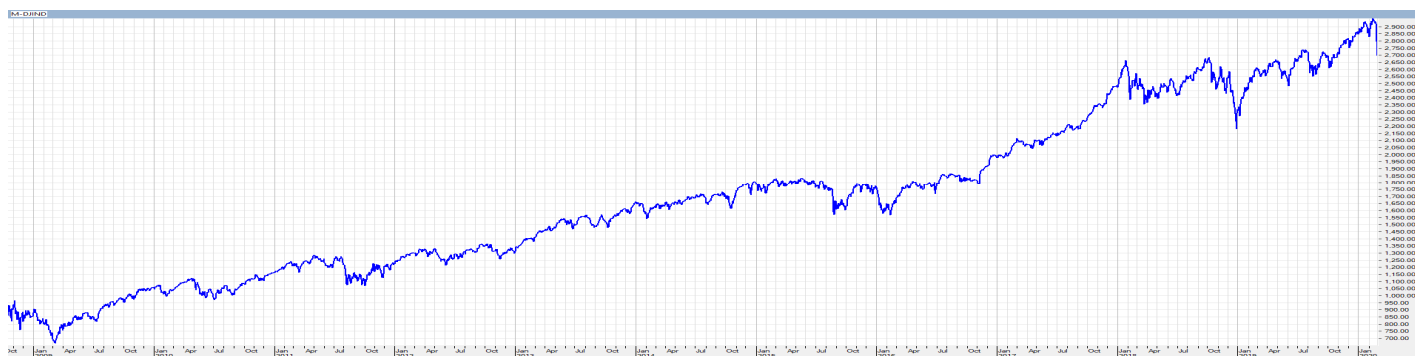
Its recovery from 1932, though volatile, was fairly constant. Nevertheless, it took 22 years to recover to its 1929 peak. Of course, in 1929 the market was grossly over-extended as a consequence of the then newly-created US Federal Reserve increasing the US money supply fourfold over the preceding years. So, if you go back to the bottom of the previous market cycle, to August 1921 when the Dow stood at 64.5, then by March 1933 the Dow had already recovered to equal that level and, until March 1937 when the Dow stood at 189.4, the recovery had been rapid, representing a three-fold increase from the 1932 bottom.

Market theorists currently argue that economists today far better understand monetary theory and that the current situation does not in any way resemble the 1929 case so I am in a minority in thinking that it is very much a similar situation. Back in the 1920s the newly-created Fed allowed an irresponsible fourfold increase in US money supply which the growing industrial nation was unable to absorb in the form of expanded productive capacity. The money consequently flowed into the share market.

This time around central banks have once again increased the money supply approximately four-fold in a futile attempt to stimulate a sluggish world economy. The reason it is sluggish is that the world has accumulated unprecedented levels of debt which can only be unraveled by runaway inflation like South Africa experienced in the 1980s. Nevertheless, the new money had to go somewhere and so it once again flowed into the share markets of the world which have risen approximately fourfold in value since the trough of the 2007 financial crisis.

The only real difference in the process this time around was that in 1929, the new money flowed rapidly into the hands of ordinary working people who consequently embarked on a spending spree that resulted in a rapid expansion of industry and a consequent speculative boom among investors spurred on by an easy credit policy.

This time around, governments sought to punish the private banking industry for being the perceived cause of the 2007 monetary crisis and blocked them from lending to the general public with the consequence that the increased money supply flowed directly to global share markets with the result that, as my second graph shows, the Dow rose 4.3 times from its March 2009 bottom to its recent February 14 peak. Since then, it has lost 15.34 percent of its value compared with the 39.3 percent that it lost back in the first downward phase of 1929.



This time around, governments are determined not to allow a 1929 style full blown depression to result and have started pouring money into the marketplace using many measures designed to ensure that it flows directly to the man in the street whose consumer spending, in most First World countries, is responsible for better than 70 percent of GDP growth. However, in the absence of goods to purchase because the corona virus has shut down factories and supply chains, the probable outcome of such action could be runaway inflation...which would help to solve the global debt problem.

Inflation, however, does more than erode the value of money and consequently can make bonds relatively valueless. It also tends to trigger soaring stock exchange prices. So, from the vantage point of share market investors, it all comes down to whether or not the world's supply chains are restored in time...i.e. that the corona virus outbreak does not keep nations in lock down for too long.

If they are not restored soon and the world faces a situation of too much money chasing too few goods, then inflation is inevitable and with it the destruction of money held in savings accounts.

Similarly, money invested in bonds which provide the bulk of pensioners with their incomes, will rapidly lose its buying power, impoverishing the elderly. So, cynically, perhaps the fact that the corona virus is killing the elderly is the better option than slow starvation though the families of the victims probably won't see it that way.

I am betting the virus will take longer to eradicate than most expect, resulting in inflation and a rapid recovery of share markets! And that is why I have been selectively buying Blue Chips as the current market carnage exposes once in a lifetime value.

Note, for example, Sasol was trading at R581 back in September 2018 before the troubles at its Lake Charles refinery project in the USA became publicly known. Yesterday it traded at R24 having shed 96 percent of its market capitalization. Cost over-runs at the US project have forced it to suspend dividends in order to conserve cash and service its loans, but the company states that it is profitable at a crude oil price of \$25 a barrel which implies that it is still making money at the height of an oil war that is likely to be short-lived.

So, WHO in their right minds would be a seller at R24 a share? At that price, once the company is able to resume dividends, assuming the last dividend payout is equaled, the implication would be a dividend yield of 57.5 percent...for one of South Africa's long-standing Blue Chips...against a market average of less than 3 percent in recent years! It's just plain STUPID!

The month ahead:

New York's SP500: I correctly predicted a down-hill phase which should see the market bouncing along the bottom until early May. Now I see the first signs of a bottoming and a gradual recovery until late September before the next down-turn.

London's Footsie: I correctly predicted weakness. Now, as in New York, I see the start of a bottoming followed by recovery until the end of May, downhill from then until late July and then another recovery until early October ahead of the next big down-turn.

Hong Kong's Hangsen: I correctly predicted declines. Now I see the bottom around the end of this month ahead of a long recovery until January when the next down-turn is likely.

Japan's Nikkei: The recovery I predicted short start in the new week but it is likely to be short-lived with a new down-trend until August following.

Australia's All Ordinaries: I correctly predicted declines. Now the recovery is under way but it is likely to take the shape of a sideways trend for most of this year.

JSE Industrial Index: I correctly warned of the decline but, hopefully, a modest recovery has now begun though it is unlikely to last much longer than early April before a down-turn until June begins,

Top 40 Index: I correctly predicted that the declines would last until around March 23 followed by recovery which I now see lasting until the end of May before the next decline begins.

ShareFinder Blue Chip Index: I wrongly predicted the beginning of a volatile recovery which I now see beginning around March 23 and lasting until mid-July.

Gold shares: I correctly predicted further declines which I still see lasting until early August.

Gold Bullion: I wrongly predicted modest gains beginning this week. Now I see them beginning at the end of the month but only lasting a fortnight before plunging once more and recovery unlikely until well into June.

The Rand/US Dollar: I wrongly predicted a volatile recovery would get under way today last Friday. Now I do not expect it until after April 6.

The Rand/Euro: I correctly predicted weakness which I still expect to last until July with some volatility along the way.

The Predicts accuracy rate on a running average basis over the past 731 weeks has been 85.58%. For the past 12 months it has been 95.03%.

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