



If you have any doubt that we live in unusual times, pay close attention to the graph comparison on the right which indicates that of all the major share market crashes in history, the one we have just experienced was the quickest and most brutal.

That shares all over the world have been sold down even after, in some cases, the share price fell below that of an already announced imminent dividend payout, makes it clear that these were sales of desperation: to sell at any cost in order to raise cash. Rumours are accordingly rife that some major global hedge funds are about to be liquidated taking with them the personal fortunes of possibly millions of investors.

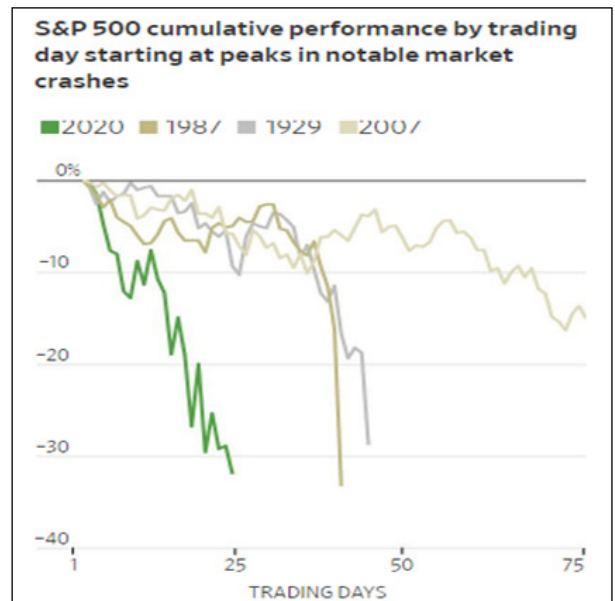
Canny investors who initially began buying at what they perceived to be rock-bottom prices learned this week that even rock bottom could still be penetrated. Take the case of Hyprop which, after Growthpoint is generally acknowledged as the bluest of the property sector blue chips. JSE records show that just a year ago it was standing at R79.49 and this week it traded at R17.80. That's a 77.6 percent decline.

Then there is the well documented case of Sasol which within the past year stood at R489.50 and this week fell to R24, a decline of 95.09 percent.

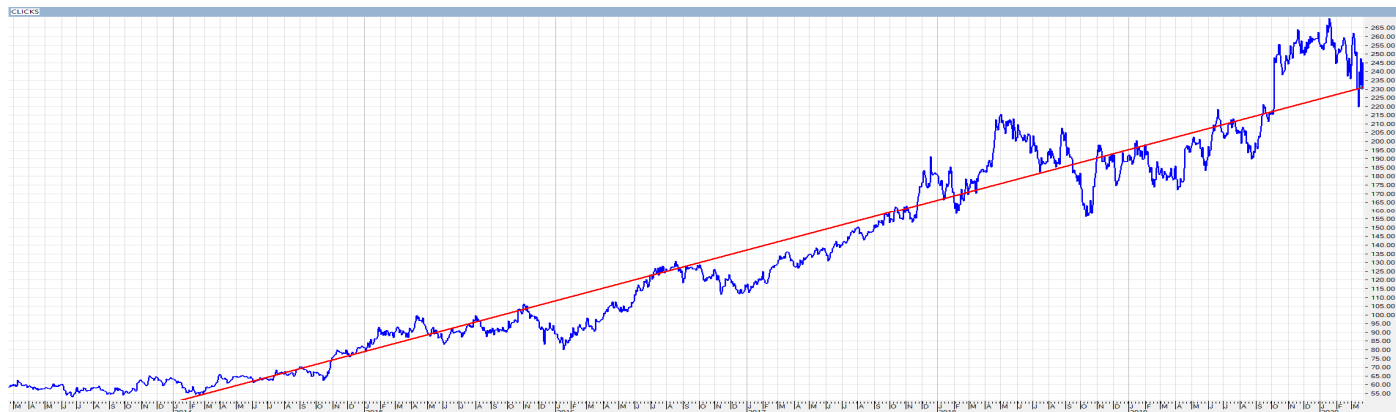
Such price collapses have not been seen since the great share market crash of 1929 when stock brokers were jumping out of the windows of Wall Street skyscrapers as witness to the total annihilation of some to the world's great fortunes.

But then there have been cases of companies likely to profit from the present Covid-19 health crisis, like pharmaceutical chain Clicks. I have reproduced a graph of Clicks' price behaviour over the past six years with a least square fit line overlain. That line is one which intersects the greatest number of prices turning points of the past six years and is thus a mathematically-derived mean which, if you measure it, will show you that the price has risen constantly at compound 33.1 percent annually.

Now the trick about such lines is that whenever the price falls below the line, the share is underpriced and represents a buy and, of course, when it is above the line, it is a sell.



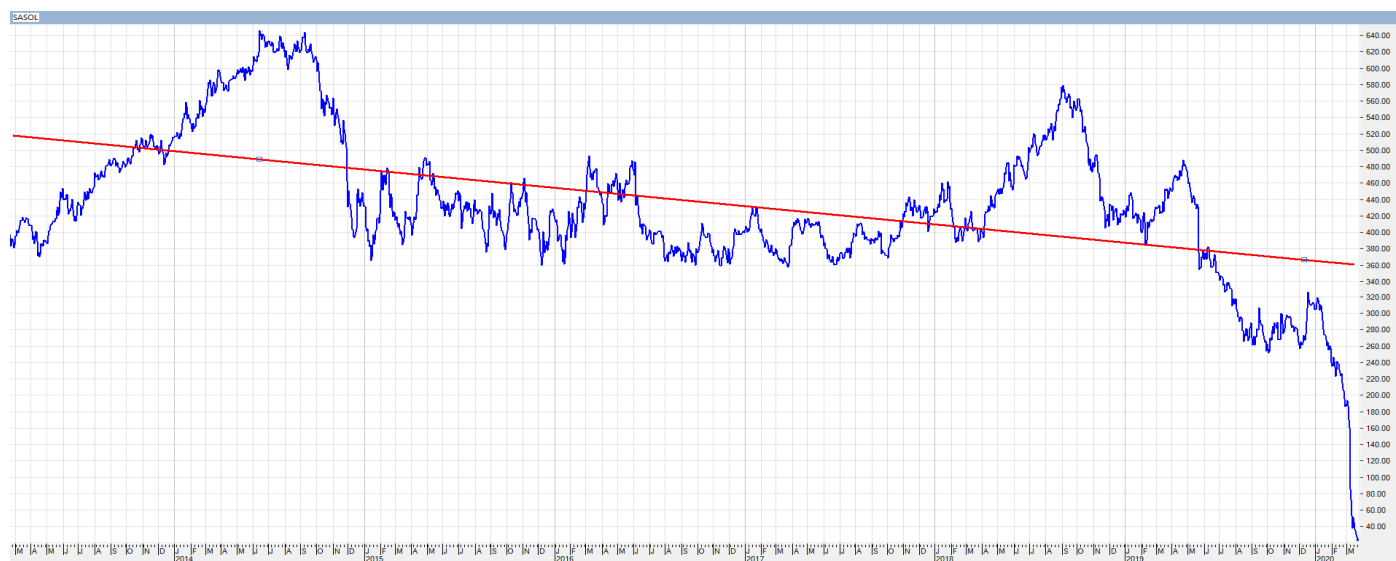
So, in January this year at a price of R271.11 the shares were very overpriced and last week at R171.62 the shares were cheap. And smart investors were quick to recognise this for, whereas Hyprop and Sasol face somewhat daunting futures as the entire world of commerce unravels around us, one can be reasonably certain that the Clicks of this world will prosper, both because, in order to have achieved a consistent growth figure of better than 33 percent...a figure three times higher than the Blue Chip average for the same period ...speaks of great management and a well-placed business model.



That is why shares like Clicks are anchor pieces in my Prospects Portfolio representing, this week, 16.2 percent of the portfolio value.

Now both the Sasol and Hyprop cases make for interesting study right now. Sasol overspent on its Lake Charles refinery in the US and incurred excessive debt which resulted in this traditional Blue Chip being punished. But the debt is manageable and the CEO says that, in the midst of an oil price war that threatens to bankrupt many oil producers (particularly those in the shale extraction business, that has so massively increased US production such that it has become the world's greatest oil exporter by volume in recent years) Sasol remains profitable above \$25 a barrel. Sasol's bankers have also indicated that they will come to the party in these exceptional times.

In the circumstances I see very little chance of Sasol going under unless the Corona Virus pandemic continues for years and drastically cuts the global population, in which case all bets are in any case off the table. So, if you consider the same red trend line in respect of Sasol, you can also see that a massive buying opportunity exists.



Similar arguments apply to Hyprop. The shares came under pressure a year ago when the market perceived problems beginning for mall owners because of a global switch to on-line shopping, but that is a comparatively slow process and should not damage companies like Hyprop which own some of the premier malls in the country. But the wheels really fell off when the virus scare began posing questions about mall closures during the lock-in. Prudently then, Hyprop, along with most other property companies, elected to suspend its dividend.

I have little doubt that, like Sasol, Hyprop will prosper again in the future and so I view the current price as a steal.

That said, should I buy Sasols and Hyprops for the Prospects Portfolio given the probability that both will recover dramatically over time once the virus is just an ugly memory? The answer is a resounding NO because the Prospects Portfolio is a conservative one followed by scores of readers of the newsletter, the majority of whom cannot afford to take risks.

On the other hand, I have been a heavy buyer of both counters for my personal portfolio because I am prepared to take some risk. However, my personal rule for portfolio risk-taking is that I would never expose myself to more than a 10 percent risk inclusion. And in fact, my total purchases of the two shares represent five percent of the current value of the portfolio which is equal to less than the historic dividend yield of the portfolio. In other words, in a worst-case scenario in which both shares never recovered, my dividend income would repay the loss in less than a year.

Also, in my own financial planning, I always try to have at least six months of living costs in cash or near cash so that, for example, had I to forfeit dividend income for a protracted period, my family would not suffer from my speculative buying.

I hope this helps those of you who are staring at the mouth-watering value now being uncovered in the marketplace but are nevertheless nervous that the market could fall further.

Here, a final word: the unprecedented levels of stimulation now being created by the world's central banks appear to have sent markets the necessary word of assurance for this week saw the sharpest recovery the JSE has ever seen in its history. But whether that represents, in market parlance, a "dead cat bounce" is impossible to judge at this stage. We are in uncharted territory right now.

However, as I have just explained, should a ten to twenty-fold increase in the value of my Sasol and Hyprop purchases subsequently result, it would represent a handsome return for a very manageable risk!

Understanding Exponentiation

The rapid rise in Covid-19 infections is bewildering the public and striking fear in everyone. Arguably, however, they are not fearful enough, for with the infection rate doubling nearly every day globally we are staring down on an apocalypse.

It is time for you to forget what you thought you knew about compounding numbers and get to really UNDERSTAND what they mean.

Albert Einstein, the father of nuclear energy, proclaimed that there was one power on earth that far exceeded that of the H bomb. It was compound numbers. You should know about it. It is taught in most school curricula. But I wonder how many really understand its power?

Let me start by telling you the legend of the man who invented the game of Chess. When he showed it to the emperor of India, the latter was so impressed that he invited the man to name his reward. The man responded, *"Oh emperor, my wishes are simple. Give me one grain of rice for the first square of the chessboard, two grains for the next square, four for the next, eight for the next and so on for all 64 squares."*

So the king ordered a bag of rice to be brought to the chess board and started placing rice grains according to the arrangement and quickly realized that he was unable to fulfill his promise because by only the twentieth square the king would have had to put 1,000,000 grains of rice on just that one square.

On the fortieth square the king would have had to put 1,000,000,000 grains of rice. And, finally on the sixty fourth square the king would have had to put more than 18,000,000,000,000,000,000 grains of rice which is equal to about 210 billion tons; sufficient to cover the whole of India to a depth of one meter.

At three grains per square centimeter it would require rice fields covering twice the surface area of the Earth, oceans included, to grow this quantity.

So compounding is pretty important! Moreover, the most startling thing about this doubling is that you barely see it for most of the exercise which explains why swimming pools seem to go green overnight.

Again, resorting to our chess board and assuming that an algae cell reproduces itself once every day in good sunny weather, the chess board exercise will show you that, notwithstanding this growth, it is not until you get to the 58th square that the concentration of algae cells makes up more than one percent of the total water volume.

In the table on the right I have depicted only what happens from the point when half the squares on the chess board have been covered and there are 2.147-billion algae cells in the pool because they would represent significantly less than one percent by volume and you would not see it at this concentration. You would probably not even detect a slight greenish tinge until it reaches the 59th square when the concentration level reaches 3.13 percent, and maybe not even until it reaches 6.25 percent at square 60. But by square 61 the concentration is 12.5 percent and you will definitely see it.

By square 62 it is at 25 percent and at square 63 it is at 50 percent when you would be swimming in a thick soup. Finally, and quite dramatically, in the next 24 hours it goes to 100 percent at which stage you could probably walk on water...and that is what is happening to Covid-19 right now. That is why a global lock-down is so essential!

32	2 147 483 648	0.00
33	4 294 967 296	0.00
34	8 589 934 592	0.00
35	17 179 869 184	0.00
36	34 359 738 368	0.00
37	68 719 476 736	0.00
38	137 438 953 472	0.00
39	274 877 906 944	0.00
40	549 755 813 888	0.00
41	1 099 511 627 776	0.00
42	2 199 023 255 552	0.00
43	4 398 046 511 104	0.00
44	8 796 093 022 208	0.00
45	17 592 186 044 416	0.00
46	35 184 372 088 832	0.00
47	70 368 744 177 664	0.00
48	140 737 488 355 328	0.00
49	281 474 976 710 656	0.00
50	562 949 953 421 312	0.01
51	1 125 899 906 842 620	0.01
52	2 251 799 813 685 250	0.02
53	4 503 599 627 370 500	0.05
54	9 007 199 254 740 990	0.10
55	18 014 398 509 482 000	0.20
56	36 028 797 018 964 000	0.39
57	72 057 594 037 927 900	0.78
58	144 115 188 075 856 000	1.56
59	288 230 376 151 712 000	3.13
60	576 460 752 303 424 000	6.25
61	1 152 921 504 606 850 000	12.50
62	2 305 843 009 213 690 000	25.00
63	4 611 686 018 427 390 000	50.00
64	9 223 372 036 854 780 000	100.00

If it infects 80 percent of South Africans as some official estimates suggest, that implies 47.034 million people will be infected and, on the current Italian statistics, 4.7-million will die. (However, the global figure for deaths is currently 4.48 percent) That represents something over eleven times our current national annual death rate of 0.952 percent which, though very high, suggests it would not unduly strain our systems. But then realize that all these deaths are likely to occur within something like a three to four-week period rather than over 52 weeks, and you can grasp the magnitude of the crisis.... that's a 143 times greater death rate during a very short period.

Now recognize that approximately one in six victims of the disease becomes seriously ill...so ill that they require hospital intensive care, that's 7.8-million people requiring hospitalization in the short-term...and South Africa has a total of 3 000 critical care beds.

If you develop critical illness you thus have a one in 26 000 chance of receiving treatment.

That's why you need to isolate yourself!

The month ahead:

New York's SP500: I correctly predicted the first signs of a bottoming and a gradual recovery until mid-July.

London's Footsie: I correctly the start of a bottoming followed by recovery until the end of May, downhill from then until early July and then another recovery until early October ahead of the next big down-turn.

Hong Kong's Hangsen: I correctly predicted 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: I correctly predicted the start of a recovery in the new week but still expect it to be short-lived with a new down-trend until August beginning in mid-April.

Australia's All Ordinaries: I wrongly predicted that a recovery was under way but was likely to take the shape of a sideways trend for most of this year. Now I see a worsening situation with the down-trend continuing until mid-August before the first hint of recovery.

JSE Industrial Index: I correctly predicted that a modest recovery had begun but still do not see it lasting much longer than early April before a down-turn until June begins.

Top 40 Index: I correctly predicted a recovery which I now see lasting until late April followed by a decline until late June.

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 but only lasting until the first week of April before there is another short decline to mid-April...and then another brief gain and another retraction in a volatile recovery continuing until at least late July.

The Rand/US Dollar: I correctly predicted a volatile recovery would get under way and I now see it lasting until late May.

The Rand/Euro: I correctly predicted weakness which I still expect to last until July with some volatility along the way. Now, however, I see a chance of at least a sideways trend.

The Predicts accuracy rate on a running average basis over the past 732 weeks has been 85.6%. For the past 12 months it has been 96.14%.

Richard Cluver