RichardCluverPredicts
In our 33rd year of service to the investing public

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Since it bottomed on March 18 the JSE had been roaring upwards like most other global share markets as investors shrugged off all the gloom and doom of the Covid-19 pessimists and gleefully pointed out that the pandemic was less a catastrophe that might forever change the world and more a golden opportunity to scoop up gilt-edged assets at bargain basement prices...... until this week!

Not surprisingly though, there are always some whose caution keeps them from taking advantage of these events until the best of the recovery is all but over and then need to blame someone else for the missed opportunity. Such folk need to recognise both that they probably represent the majority and, furthermore, that they also failed to listen when people like myself were warning that a crash was coming and that they should accordingly have created a cash reserve in order to be able to take advantage of it. Now another crash is under way so I should ask you whether you listened last Friday when I warned it was coming again?

I am not criticising the cautious folk. After all, innumerable studies have shown that those who resisted the temptation to regularly buy and sell win hands down in the long run because it is nearly impossible to successfully time the market every time while those who try to do so usually end up benefitting the tax man and their stockbrokers more than they do themselves. Of course, these studies have largely represented unit trust investments which have generally performed badly for investors in South Africa, but that is another story!

I would, however, beg to differ in part with this latter viewpoint because, in theory anyway, the incredible predictive accuracy of the ShareFinder computer programme is clearly a game changer. Nevertheless, I have to admit that although I designed the programme and have used it consistently to guide my own investments for over 30 years, I have NEVER been able to consistently buy at the bottom and sell at the top. I have usually managed to average my way in at the bottom but capital gains taxation has prevented me from selling out completely whenever I have seen markets peaking ...as they arguably were doing last Friday.

But let us take the theoretical position of an investor who saw that the JSE was bottoming all the way back in February 1988 following the great 1987 market crash. It happened on February 29 when the JSE Overall Index stood at 151.80 and thereafter it rose with leaps and bounds until it peaked at 6177.67 on January 26 2018....the most impressive market climb in the world! Since then, under pressure from recent recessionary conditions, it had been falling fairly steadily until the world was hit by the pandemic when it went into a seeming death spiral. Then it turned again and by this week it had recovered to a peak value of 5491.25 on Monday.

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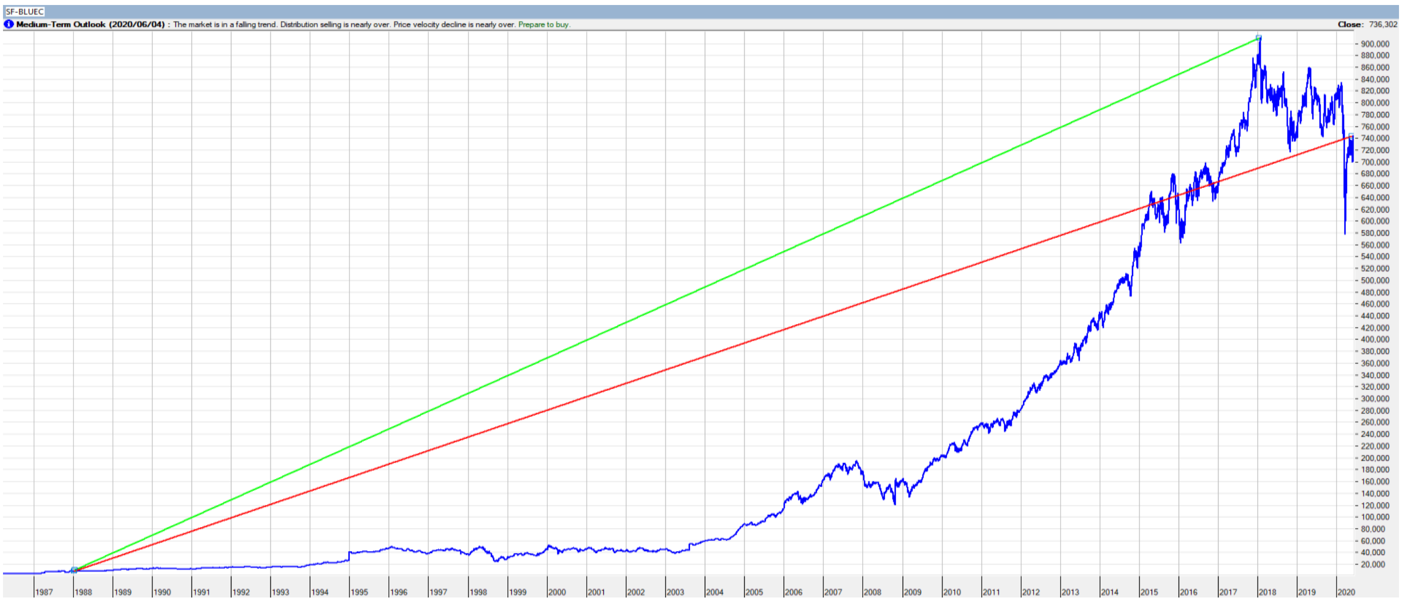
My graph below indicates that any investor lucky enough to have bought the index at its precise bottom in 1988 and held it unchanged until the January 2018 peak, as highlighted by my green trend line would have, every year since, enjoyed a compound annual average gain of 13 percent while, if he had continued holding until this week his annual average gain would have been 11.6 percent as represented by my red line.

If you care to work that out for yourself, you will see that had our investor put in R1 000 back in 1988 his investment would have been worth R40 696.11 at the 2018 peak and R36 174.24 on Monday. You can compare this type of investment to a tracker unit trust which seeks to replicate the index.

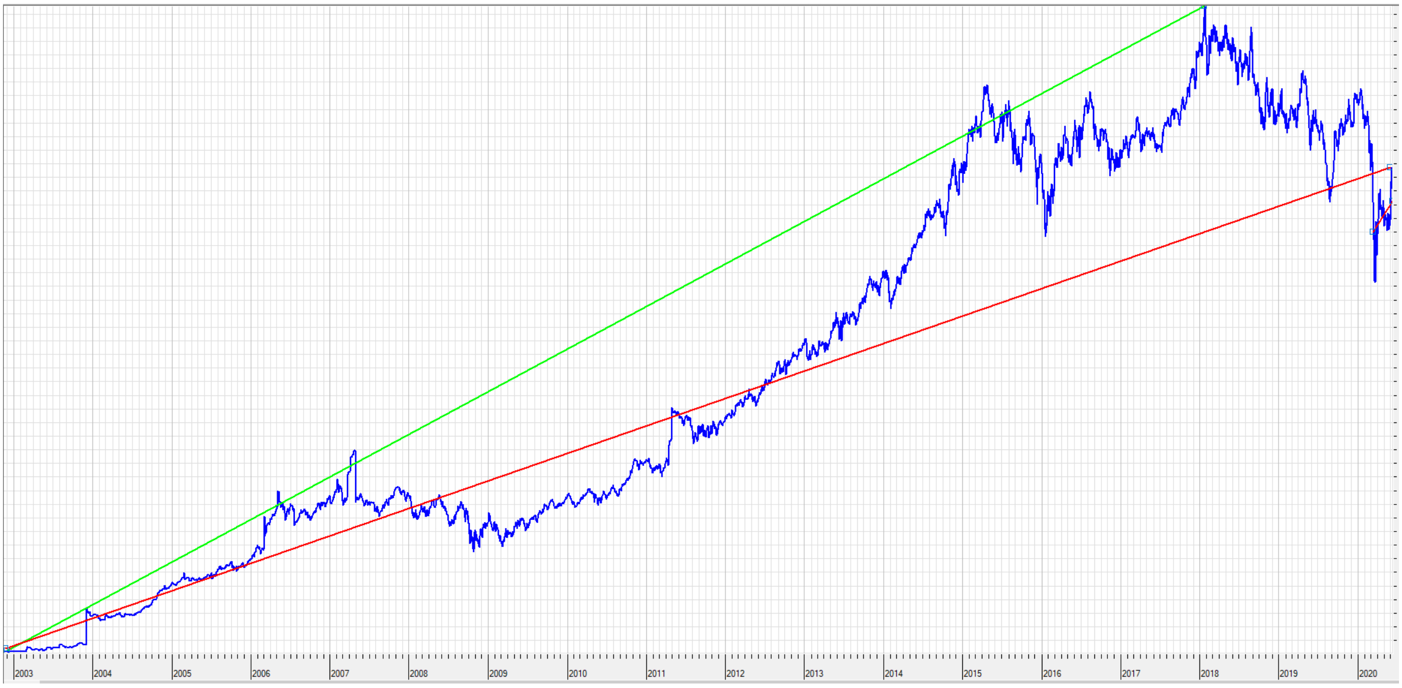
But remember, that was the share market **average** and, of course, quality really does make a difference when you choose your investments which is why I set about building the ShareFinder system in the first place. By sorting out the companies that had paid constant or rising dividends for a minimum of ten years and applying a few other tests relating to tradability, return on capital and so forth, I derived a “Quality List” and within the ShareFinder system we have tracked the value of a portfolio of such shares since that Blue Chip Index bottomed on November 6 1987 at an index value of 4597. The index subsequently peaked on January 26 2018 at a value of 920 390 which represents a compound annual average gain of 16.2 percent while, had our investor continued holding such an investment it would have given him a compound annual average gain to date of 15.1 percent with an index value this week of 749 543.



The difference in capital gain between the two approaches is dramatic. If you care to work that out, you might see for yourself that by applying the quality test, you could massively enhance your investment. In monetary terms, R1 000 invested back in 1987 would by this method have grown to R200 215.36 which clearly illustrates that by matching superior quality to the power of compound you can dramatically improve your results. That sum is a massive five times the gain that would have been achieved by someone who simply followed the JSE Overall Index itself...or bought a tracker fund!

Furthermore, it really is possible, by using the tools that the ShareFinder system provides, to improve upon those averages without having to incur massive capital gains penalties. To justify this claim I have to use the real live example of my own portfolio and here I should add that my stockbroker recently commented to me that, “You NEVER sell.” It was fair comment since I am absolutely not prepared to pay our outrageous levels of capital gains tax and furthermore, after paying the also outrageous obligatory 20 percent dividend tax, I draw down all dividend income. Thus, the only way I am able to create cash within my own portfolio ahead of an impending crash is to sell off loss-makers to balance selling a portion of my gainers in order to create a capital gains neutral position and simultaneously allow me to periodically re-balance my portfolio.

I trust readers will thus forgive me for, in the interests of modesty, removing the right-hand scale of my personal portfolio performance graph depicted below. What is important for readers is, after all the percentage movement of the portfolio rather than its actual value. Reading off the best case green trend line shows that during the lifetime of this portfolio it had grown at an annual average rate of 22.8 percent until it peaked in January 2018 while at this week’s value it had achieved a compound annual average growth rate of 17.1 percent as denoted by the red trend line. So, in contrast with the Blue-Chip Index, I have achieved a 41 percent better return.



How is this possible? Well you need to recognise that, once again, the Blue-Chip Index is an average of the performance of, at the current count, 43 different shares which, while offering one a very comfortable investment spread, also offers a spread of share price average growth rates.

By contrast, my personal portfolio consists of, the best-performing half; a very diverse 21 shares which, with few exceptions, are all enjoying much higher than average share price growth rates than our Blue-Chip Index.

Inevitably then many readers will ask why, if it is possible to use the superior selection tools offered by the ShareFinder system to choose the shares in my portfolio, I still have underperformers to sell off whenever I need to create cash ahead of an anticipated crash? And the answer to that is, of course, that yesterdays' long-term top performers do not always remain top performers. Take the example of former super Blue-Chip Sasol which I bought back in March 2003 at the then price of R85.68 and continued buying periodically up until February 2006 so that my average cost was R261.

When Sasol dropped its dividend in 2008, the shares crashed but soon began recovering with good fundamentals until mid-2014 when problems with their Lake Charles project began to surface. They were already on my radar to sell by then because their fundaments had begun to deteriorate but, at R636 a share, the capital gains implications for a share that had cost me on average R261 were too great to contemplate. But when they began to fall like a stone this year, it was clear that bad was turning to worse and I cut my losses, in the process providing me with a very useful lump sum with which to re-enter the market at the end of March.

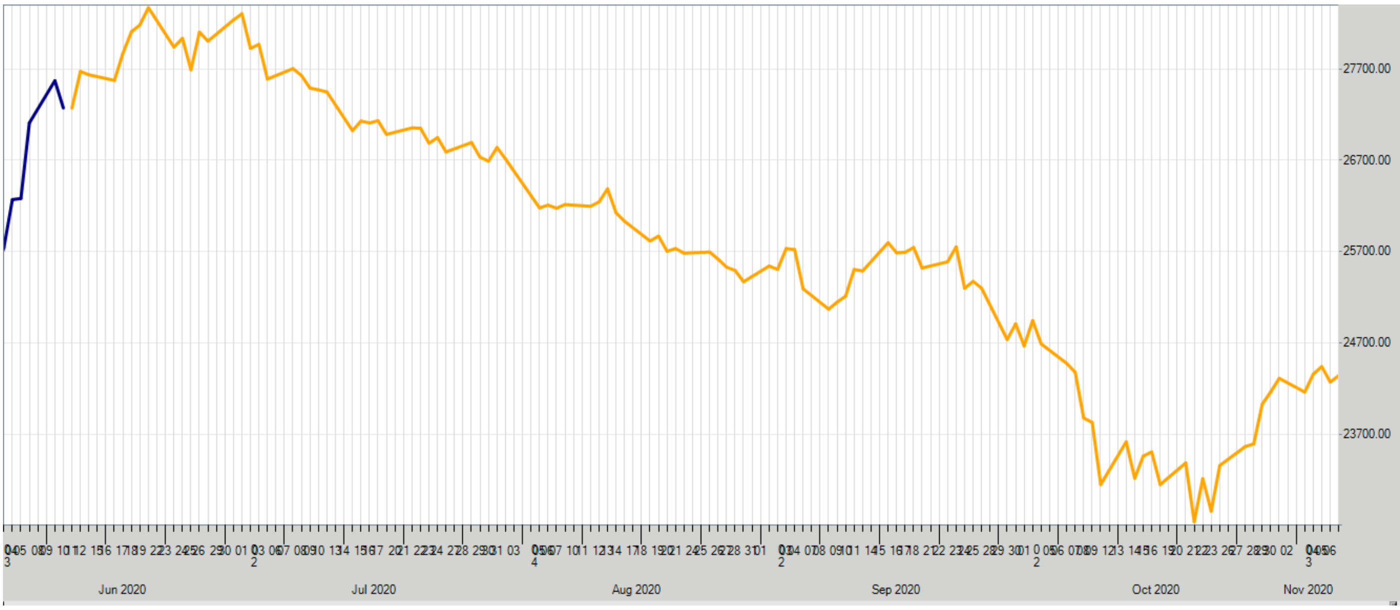
Over the years I have learned that with some inevitability that yesterday's winners do not necessarily remain tomorrow's gainers. But the major single enemy of the long-term investor is capital gains taxation which hinders rational portfolio management. Ironically it makes so little for the tax man that I frequently wonder why this tax is maintained, particularly when it so severely deters South Africa's desperate need to attract foreign investment

Below I have reproduced the Sasol graph since then. The green line describes its ultra Blue Chip era when it was gaining at compound 23.2 percent annually from 1999 to 2014, a sideways trend until mid 2019 and then the death spiral to R20.77 and equally dramatic recovery to R183.88 which I was fortunate to catch and which has, ironically, left me with more Sasol shares than I previously owned and a likely even bigger capital gains problem as they recover further in the future to, if technical analysis is correct, around R350.

As a footnote, however I should add that, happily the proceeds of the Sasol sale allowed me to also buy a good spread of other better-quality shares so my entire portfolio became much more robust in the process.

Meanwhile, global market sentiment abruptly turned negative this week upon triple fears of a second wave of Covid-19, oil prices retreating on reports of another US surplus and a cautionary note from the US Federal Reserve coupled with a growing number of listed companies worldwide reporting severely reduced profits as a result of the pandemic.

Furthermore, as my last graph illustrates, ShareFinder has again advanced the date of its predicted next Dow Jones down-wave which is now likely to begin on June 22 and last until October 21 in its first of several down phases which will all subsequently end around March 7.



Sadly then, all the doom and gloom are far from over and, for South Africa with nowhere else to turn for more cash to keep on running a spendthrift state, the International Monetary Fund is about to put us into the monetary world's equivalent of Business Rescue. That is not necessarily a bad thing though. They can hardly do worse than the Command Council which is promising us more of their tried and failed Soviet era command economics in which apparatchiks with no business experience whatsoever believe they can tell our corporates how to do things!

Meanwhile:

The RMB/BER Business Confidence index has dropped to single digits for the first time since it was created in 1975. Those surveyed put their confidence at just 5 on an index where 50 is ambivalence and optimism maxes out at 100. RMB's chief economist Ettienne le Roux said the 1800 executives who participate expect conditions to be dire for at least a couple more quarters. He reckons it will take the SA economy four long years to get back to the already depressed level of 2019.

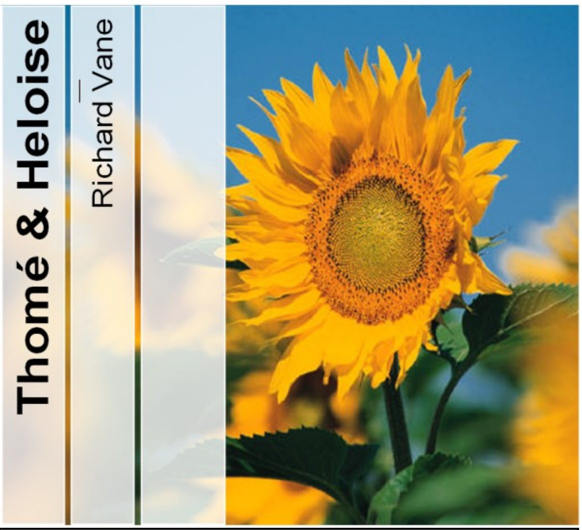
At the lowest level in 45 years, with companies even more pessimistic now than when disinvestment from the country over its apartheid policies started gaining momentum more than three decades ago. Covid-19 has drastically changed the already-weak economic landscape and perhaps, in some cases, permanently," he said.

Furthermore, Western Cape Department of Health research this week confirmed that people with HIV are almost three times more likely to die if they contract the coronavirus than those with no co-morbidities, irrespective of whether they are taking anti-AIDS drugs.

An analysis of South African data by the department which oversees medical services in the province where two thirds of South Africa's almost 53,000 confirmed coronavirus infections have occurred, considered almost 13,000 cases, including 435 deaths, to produce what it says is the first analysis of the interplay between HIV and Covid-19.

About 7.8 million people in South Africa are infected with HIV, which causes AIDS, while about 300,000 have TB

Have a good weekend!



The month ahead:

New York's SP500: I correctly predicted a brief down-turn which I expect to be followed by another brief recovery and then it is likely to be down-hill until early August with a double bottom around the end of October.

London's Footsie: I correctly predicted the decline which is likely to last until mid-July followed by a recovery trend lasting until mid-October.

Germany's Dax: I correctly predicted a decline until mid-August followed by gains which I see lasting until the second week of October.

France's Cac 40: I correctly predicted a decline which I still see lasting until the first week of July ahead of recovery until mid-July and then another decline until mid-August all forming part of a falling trend until; late November.

Hong Kong's Hangsen: I correctly predicted the start of a long but volatile recovery until the end of December when the next down-turn is likely with some interim weakness likely to begin about now until the end of June.

Japan's Nikkei: I correctly predicted the gains would last until the first week of June after which it would be downhill until August before the next short up-surge until mid-September and then down-hill again until December. I also correctly saw brief weakness this week followed by a brief up-tick until the 18th and then a fresh down-turn until early August.

Australia's All Ordinaries: I correctly called the end of the recovery followed by declines which I still see until the end of June followed by a brief two week up-surge until mid-July and then downhill again until the second week of August before the last up-surge until mid-September.

JSE Industrial Index: I correctly predicted a decline which I still expect to last until June 19 followed by a recovery until late July and then a decline until the end of August followed by another gain until late October when a down-hill phase is likely.

JSE Top 40 Index: I correctly predicted a decline which I still see lasting until the first week of July followed by a recovery until the first week of August when a decline is due until the end of August followed by volatile gains until mid-September.

ShareFinder JSE Blue Chip Index: I correctly predicted the end of the recovery and I still see declines until the first week of July followed by gains until nearly the end of July following which it is likely to be down-hill until mid-January.

JSE Gold shares: I correctly predicted declines followed by an attempt to consolidate which could lead to temporary gains until the first week of July before the down-turn resumes continuing into the new year.

Gold Bullion: I correctly predicted the start of a long recovery likely to continue well into 2021.

The Rand/US Dollar: I correctly predicted gains which I still see continuing until the end of June when a bottoming out phase is likely until late August followed by a volatile weakening trend until late February.

The Rand/Euro: I correctly predicted a volatile recovery which I still see lasting until mid-June followed by weakness beginning in the middle of the new week and lasting until mid-July before the next strengthening phase until late October.

The Predicts accuracy rate on a running average basis since January 2002 has been 85.82%. For the past 12 months it has been 96.67%.

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