



Our Weekly Paid Newsletter

# Richard Cluver Predicts

In our 34th year of service to the investing public of South Africa



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**Lately I have been warning that share markets everywhere are in a bubble which is the consequence of something like \$14-trillion which the world's central banks have pumped into the global marketplace to try and fend off the worst recessionary effects of the pandemic.**

Without moving in too deeply into the arcane semi-science of monetary economics, it has long been recognised that it can take many months for such stimulation to filter all the way through to the real economy because this is a function of a variable known as the velocity of money. The concept of the latter is easily understood but measuring it is another thing which has much to do with public confidence.

Thus, for example, when the world is booming and demand for services is accordingly very high, then Joe Soap the artisan might be earning large sums in overtime money but not as a consequence seeing much of his wife and family. To make amends, he accordingly spends freely on items like bunches of flowers, boxes of chocolates and family outings whenever he has some precious leisure time to spend with them.

He feels free to spend because a lot of extra money is jingling in his pocket and he also knows there will be a lot more tomorrow. But then something like Covid-19 happens and the overtime dries up. Worse, several of his fellow workers are retrenched and he knows he is likely to be the next. So suddenly he becomes very careful with his money. Anything extra left over from buying the necessities understandably goes into clearing away debt and, once that is out of the way, into savings.

So, savings accumulate and then, suddenly there is a cure for Covid-19 when everyone has become very tired of austerity. Suddenly the dam bursts and money flows freely once again as everyone starts celebrating once more.

The concept is, as I have said, easily understood. But it is extremely difficult to plan for in advance: for example, if you are an economist advising a major bank on how to place its highly-g geared future positions when you have, at best, to make an educated guess in order to anticipate when a vaccine will actually roll out, particularly so at a time when the scientists are still trying to work out how to develop a vaccine. But huge money depends upon your getting it right!

And of course, if you are a central banker trying to stabilise the money supply of a nation, it gets even more tricky. If you print too much money you over-stimulate things anything like a year or so later and the nation then ends up with runaway inflation. But print too little and millions of people lose their jobs in the consequent recession which can take many more months to correct. Meanwhile the public is screaming that the Government is incompetent and you.... well maybe it costs you your job!

Now what we do know is that money velocity is hugely variable so economists and central bankers usually over-compensate.

But to explain velocity consider the not so long-ago time of sailing ships when your grandmother ordered a roll of Damask from a merchant in Durban, it might have taken 18 months for the order to reach the mill in Manchester, be manufactured and shipped back to Durban...and another month or two before it reached Grannie's farm somewhere on the Platteland.

Today, with internet banking, rapid supply chains, and sophisticated systems of derivatives trading, the world of finance is a very different thing than in Grannie's time. How different is best illustrated by the dramatic Wall Street experience at the hands of the 'Reddit Crowd' who, a few weeks ago caused an explosion in the share price of a failing business known as GameStop. Millions of small investors, acting in internet concert, were buying and then within minutes selling again leveraged positions while, simultaneously, automated trading platforms employed by some of the mechanised hedge funds were making billions of dollar transactions in micro seconds and hedge funds were betting on a GameStop bankruptcy. It did not end well!

So how do you measure these dramatically different changes? Enter lightning-fast computers and the increasing intrusion into our everyday lives of artificial intelligence; what many people call 'Machine Learning' which is at the heart of the ShareFinder market prediction system.

When I built the first rudimentary ShareFinder system I used computers to apply rational fundamental tests to the balance sheet histories of stock-exchange-listed companies in order to achieve a quality ordering system and a method of determining when such shares were cyclically under or over-priced.

It made millions of Rands for early users of the system who used it on a 'buy and hold' basis. But to complete the system I needed to develop a means of timing when best to buy and sell these quality shares. Initially it posed a significant problem for, when I submitted all the then known charting systems to the systematic testing that the then newly-arrived desktop computers had made possible, I discovered that NONE of them really worked reliably. The most popular technical tests, if applied consistently were, I discovered, GUARANTEED to lose you money.

But there was some good and well-thought-out theory in technical analysis; only the application was invariably flawed. Computers, however, allowed me to batch-test millions of trades until I was able to derive three complementary tests of my own creation, each drawing on different types of data, which allowed me to start identifying trading points with growing accuracy and so, in the mid 1990s I began making the predictions which you see at the end of this weekly column and, back then, I would have been content to get two out of three right.

As I regularly pointed out to readers at that time, if you consistently get two out of three trades right, you are guaranteed to make good profits from trading the market. But then came Capital Gains Tax and the Government began collecting **ALL** of the profits that both long-term investors and short-term share traders made. Fortunately, however, ShareFinder was getting steadily better as our machine learning algorithms learned from each mistake they made. The result, as the vast majority of our users now attest, is that everyone who has used the system over the long term has, despite taxation, made huge gains.

Thus, in 2002 when I first felt confident enough to start a highly visible weekly audit of the Predicts accuracy rate, we achieved the then extraordinarily high rate of 82.36 percent for that full year. By December 2003 we had achieved 84.38 percent, by December 2004 I was making eight predictions each week compared with my original four and the accuracy rate had climbed to 86.51 percent.

But there it stuck. The programme seemed to have hit a 'Glass Ceiling.' In fact, in 2005 the rate FELL to 85.53 percent and in 2006 it worsened to 83.03 percent and in 2007 the average was even worse at 81.66 percent, in 2008 worse still at 80.36 percent and in 2009 it fell to 80.23 percent which proved to be the bottom of the declining cycle.

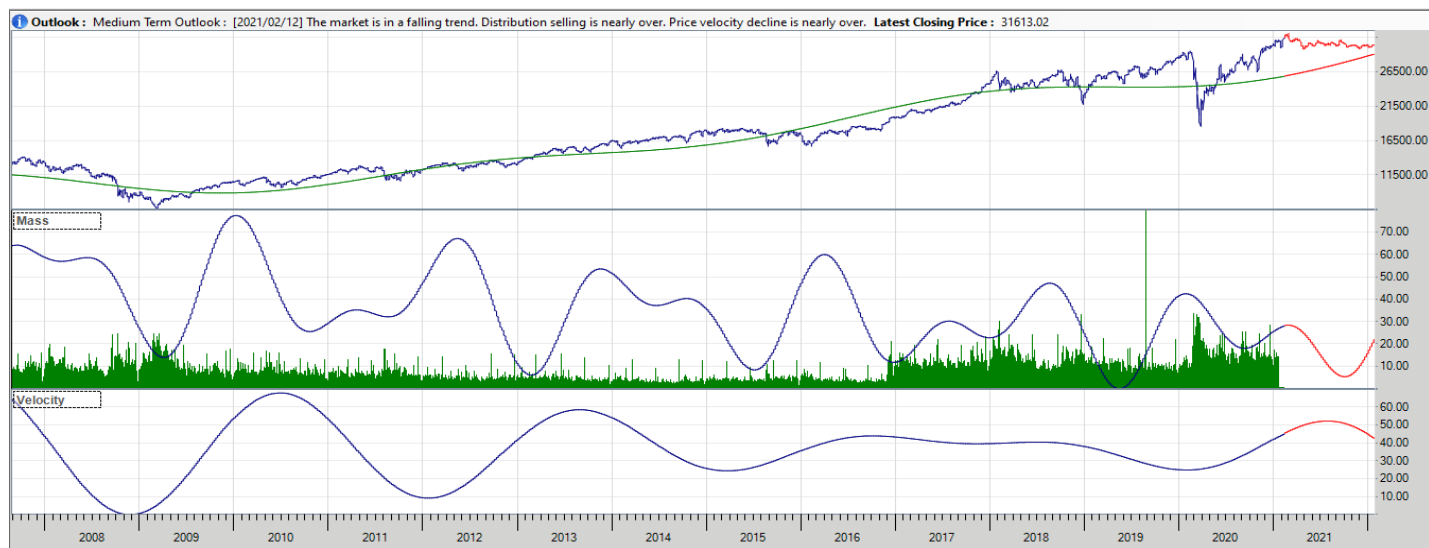
Now I need to stress that I was at that time becoming increasingly worried by the steady decline. However, though I devoted considerable research to try to improve the system, I could not fault my original equations nor the process of machine-learning which I had hoped would lead to a steady increment.

Really I should not have worried because from 2010 onwards the program began eliminating its earlier errors and the numbers began steadily improving. That year the rate climbed marginally to 80.52 percent and thereafter the programme has never looked back, climbing steadily since then to reach its highest ever rate of 96.75 percent last April.

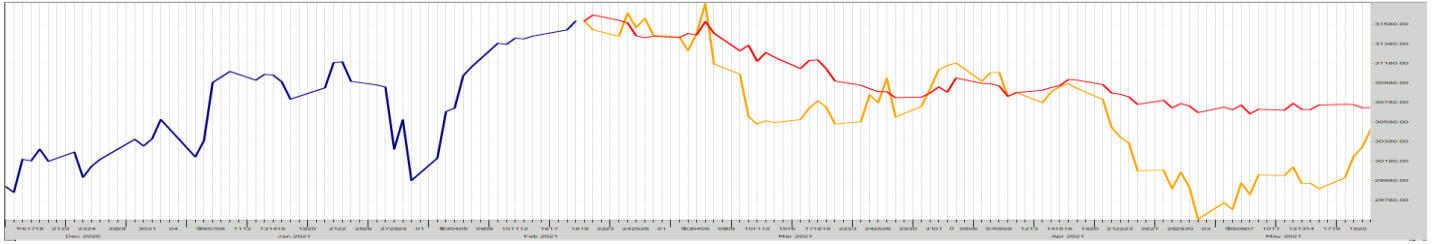
In passing, since a few systems have tried to emulate us on a global predictions basis and have all failed, we only began to understand why this was so when our overseas principles, ShareFinder International, first began re-building the system as SF6. Using the latest coding languages, they used the original predictive coding instructions that we had laid down in SF5 but were unable to replicate anything like the SF5 accuracy rates.

The reality of that exercise is, to put the analogy into layman's terminology, the original system had constantly mutated as it learned from its mistakes. To get the new Sf6 to match the old SF5 ShareFinder International eventually did the coding equivalent of a heart transplant. The beating heart of the new system is in fact a genetically cloned version of the old one. And that is why its predictions continue – on a worldwide basis now – to forecast market direction with an accuracy rate that most hedge funds can only dream of.

Now I won't bore you with a detailed explanation of why, but the most incomparably accurate prediction SF6 can make is its forecast of Wall Street's Dow Jones Industrial Index which has reflected the health, or otherwise, of the New York Stock Exchange for the past 121 years. So below I have reproduced what it expects, now with an accuracy rate average of 93.37 percent, lies immediately ahead for Wall Street:



Note that **ALL** three indicators are predicting the end of the current 12-year long bull market though the Velocity indicator only peaks in mid-August. Expanding just the projection graph so you can see it in detail, the red trace of the short-term projection is seen to peak on Monday. But market froth is likely to last until March 5 when the medium-term projection peaks. The decline is likely to be in three phases bottoming in mid-August and it will vary from market to market as I explain at the end of this column.



Now most readers understand that when Wall Street catches a cold the rest of the world usually gets pneumonia so you would obviously like to know that ShareFinder sees our own JSE All Share Index peaking between next Wednesday (ominously that is Budget day) and March 4....but there is a one in ten chance ShareFinder is wrong!

Meanwhile markets are likely to be somewhat disconnected in the next few months so for the fine detail do read my predictions below with care!

## Do enjoy your weekend

### The month ahead:

**New York's SP500:** I correctly forecast gains until late May and I continue to hold that view. However, in the short-term I see declines until mid-March followed by a recovery until mid-April and then a further decline, another recovery until late May and then a long decline until mid-August.

**Nasdaq:** I correctly predicted that the recovery had begun and continue to see gains until the first week of April with brief weakness in early March.

**London's Footsie:** I correctly predicted gains which I still see lasting until the end of April. However, in the interim I also saw a short downturn which has now begun and is likely to last until the 24<sup>th</sup>.

**Germany's Dax:** I correctly predicted gains until early April and I still hold that view. However, brace yourselves for some bumps along the rise.

**France's Cac 40:** I correctly predicted a slight weakening which could last until late-March ahead of the next gain to mid-April.

**Hong Kong's Hangsen:** I correctly predicted medium-term gains until mid-March which are now under way. The next down-spike should begin in mid-March but be over by the first week of April ahead of gains until mid-May and then a long slide down.

**Japan's Nikkei:** I correctly predicted the beginning of the next up-phase which should last until late-March before turning down till the end of April.

**Australia's All Ordinaries:** I correctly predicted the market was peaking ahead of a long volatile decline which I still expect to last until late March followed by a strong up-tick to mid-May and thereafter a fresh bear phase until mid-September... and my views remain unchanged.

**JSE Top 40 Index:** I correctly predicted the imminence of a long declining phase until late-August. The market is now bumping its head as it tries to make a triple-top resistance level.

**ShareFinder JSE Blue Chip Index:** I correctly predicted the probability of the market topping out in mid-week followed by a volatile decline which has now begun and is likely to last until the end of September.

**Gold Bullion:** I correctly predicted a short-term decline until mid-February followed by gains which could begin today and rise in considerable volatility to peak in late October.

**The Rand/US Dollar:** I correctly predicted volatile gains until mid-October and continue to hold that view.

**Rand/Euro:** I correctly predicted resumed gains until October and I still hold that view. Short-term weakness between now and the end of March is, however likely for this is a volatile market!

***The Predicts accuracy rate on a running average basis since January 2001 has been 86.06 percent. For the past 12 months it has been 93.37 percent.***