



Our Weekly Paid Newsletter

Richard Cluver Predicts

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



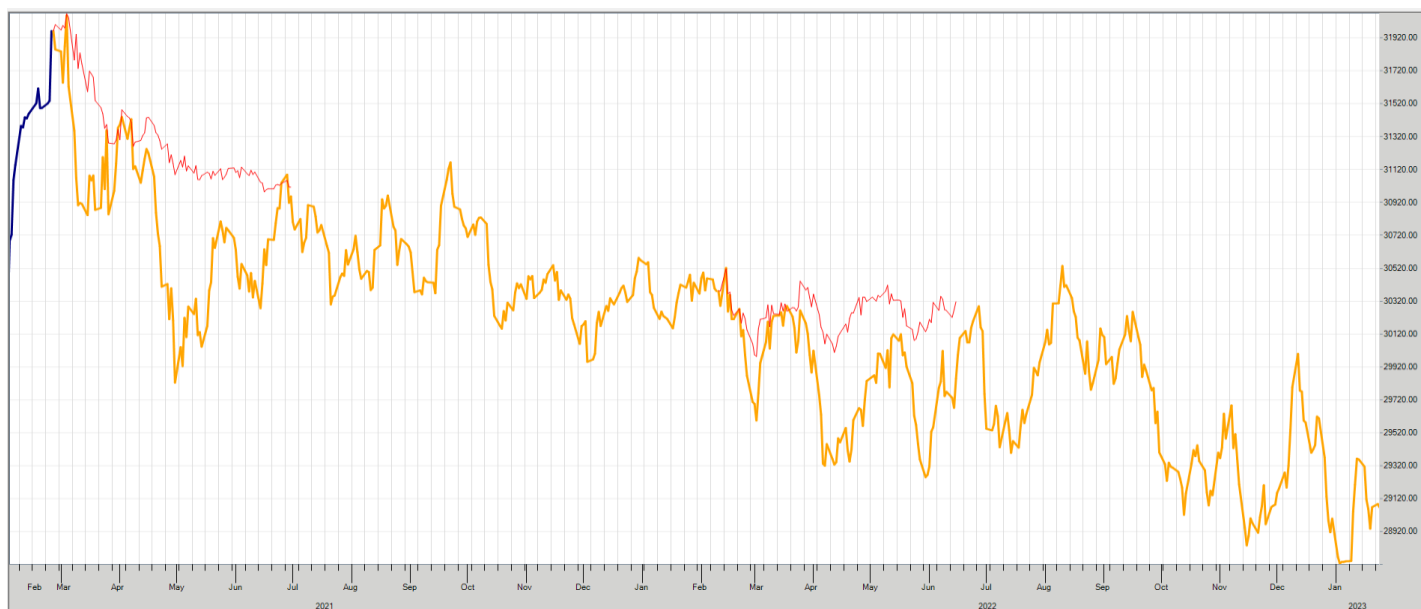
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I ended last Friday's column with the observation that Wall Street's oldest market index, the Dow Jones Industrial was likely to, "... peak on Monday but the froth would see it playing at the top until March 4."

The index peaked last Thursday, fell back as predicted and is now surging towards that last predicted peak next Thursday. Thereafter it is likely to be down throughout this year and next with the immediate bottom likely around January 2023, a long bumpy decline as my first graph illustrates:



For the JSE All Share Index I am afraid it is all over until the end of August, but an earlier recovery is indicated:



Expect a spring bounce from the end of August until early October and then another decline until at least the end of January.

That is what ShareFinder's artificial intelligence projects for our local market and, following most expert analyses of this week's budget, it is hard to imagine a scenario in which ShareFinder will be proven wrong. Worse, though in team Cyril Ramaphosa and Tito Mboweni we arguably have the best the ANC is able to offer, I am afraid that ineptitude and wholesale looting are beating this pair at every turn. It is, furthermore, not a given that the grand budget assumption of a civil service wage cut can save the day and with energy minister Gwede Mantashe keeping the brakes on fresh energy procurement, there is not much light at the end of the tunnel.

Happily, Treasury now clearly understands that international lenders are only prepared to lend us further sovereign bond money at exorbitant rates. That is why 21 cents in every Rand the Government is spending now goes to interest on borrowings. And it can only get worse! Putting that in simple language, we have been borrowing to pay some of the world's highest paid public servants and those taps are now closing.

However, despite everything the ANC has done to the economy we still have a healthy private sector and, though no serious international miner is prepared to touch South Africa until the ANC is out of the way, our minerals legacy and old order mining companies are continuing to provide windfalls that have saved us from even more taxes.

Of course, we have to recognise that the additional taxes which were contemplated at the mid-term budget have simply been consigned to the back burner and are very likely to be resurrected if Tito loses his battle with the public service unions. In that event the Minister of Finance will need to take into his future calculations the probability of increased emigration of the wealthy accompanied by a dramatic further shrinkage of the tax base. However, in that event we are unlikely, if the rumour mill is correct, to retain Mboweni whose avowed preference is for a quiet life on the farm.

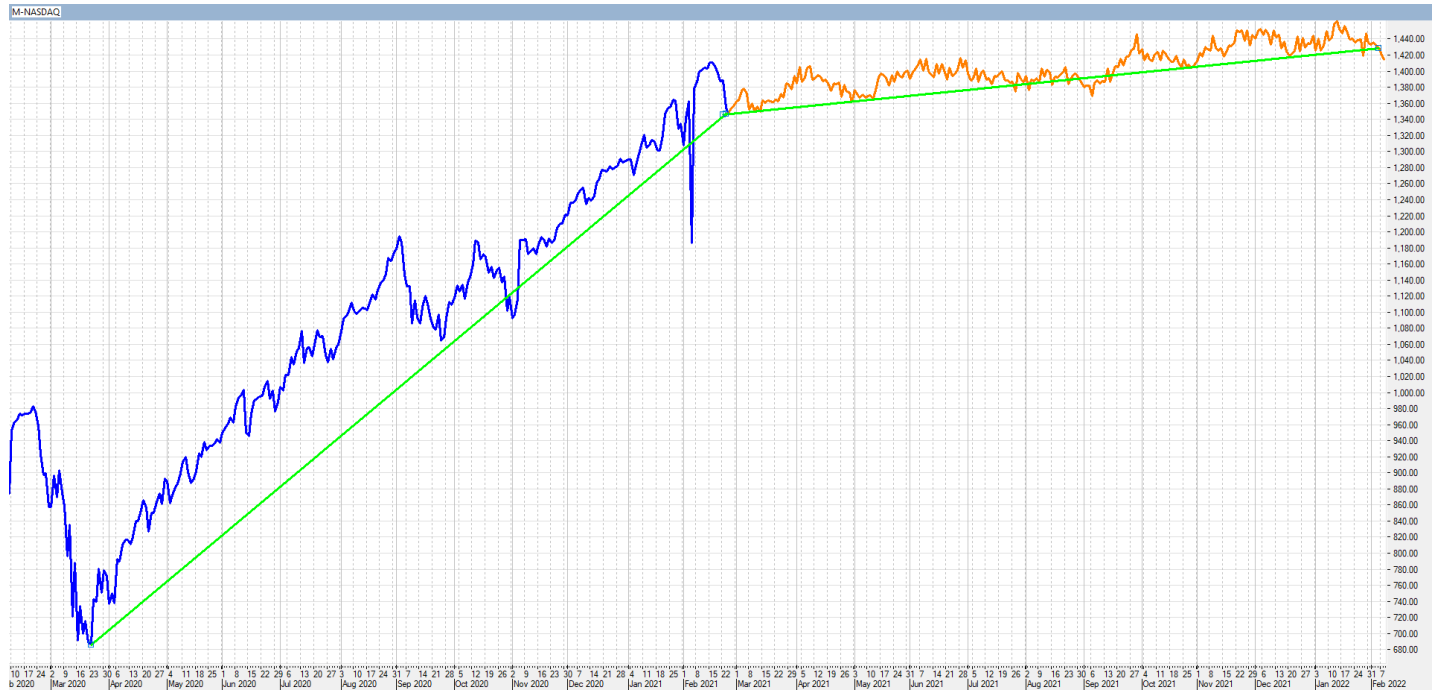
And, of course, if we are to get really gloomy, the ANC's clear inability to tidy up its public image and evict its corruption compromised leaders speaks of total stalemate at the top which could arguably even lead to the removal of Ramaphosa as well.

But I really don't want to go that far. Yet, such developments might explain why ShareFinder is sensing decline of the JSE. I am very cautious about stretching ShareFinder's projections far into the future because inaccuracies become very amplified in such examples, however, readers might find the following projection of the ShareFinder Blue Chip Index quite informative. Note the very powerful market recovery projected to begin in April next year. One can only speculate what good news might provoke such a development!



I end this week's column with a projection of Wall Street's tech-heavy Nasdaq Index which makes for some thought-provoking consideration. Many readers have, I know, taken advantage of local exchange traded funds which track the Nasdaq so you will be pleased to notice that ShareFinder does not sense any future declines here.

Importantly, however, it predicts that the explosive compound 108 percent growth which took the index from a March 2020 low to its February 15 peak, is likely from here on in to slow to a far steadier 6.5 percent compound.



Here, the important conclusion is that, at least as far as ShareFinder is concerned, the 'Great Reset' is unlikely during the next year or so. The Great Reset, for those who might have missed my many writings on the subject, is when major nations begin defaulting on their sovereign debt. The US with a current debt to GDP ratio of 136 percent is a firm contender but Japan which in December passed 237 percent could well trigger a snowball effect.

Do enjoy your weekend

The month ahead:

New York's SP500: I correctly forecast declines which I still see lasting 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 brief weakness followed by gains which should begin now until the first week of April with declines throughout April before the next bout of recovery.

London's Footsie: I correctly predicted a short downturn likely to last until the 24th followed by gains to the end of April ahead of a decline until mid-July.

Germany's Dax: I failed to call this week's brief decline but continue to predict gains until early April ahead of a big decline until mid-June.

France's Cac 40: I wrongly expected the slight weakening to last until late-March. The recovery now under way is likely to last until mid-April ahead of a long decline until late December.

Hong Kong's Hangsen: I correctly predicted medium-term gains until mid-March followed by a down-spike that is likely to be over by the end of March when a six-week recovery is likely ahead of 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 until mid-June.

Australia's All Ordinaries: I correctly predicted a decline 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 start of a long declining phase until July when I expect the market to bump along the bottom until late-August when quite a sharp recovery is possible.

ShareFinder JSE Blue Chip Index: I correctly predicted the beginning of a volatile decline which 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 did indeed begin last week and could last until the 5th followed by declines until late April.

The Rand/US Dollar: I correctly predicted volatile gains which I now see lasting until late June followed by weakness until the end of September.

Rand/Euro: I correctly predicted short-term weakness until the end of March with a brief April recovery and then further weakness until mid-June.

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 93.21 percent.

What Is Fair Value?

By John Mauldin

Many analysts contend that current stock valuations resemble the dot-com era. You can see it visually at [Current Market Valuation](#). Here are just a few of the many charts on the website.

Let's start with the classic "**Buffett Indicator.**" It certainly seems to be in nosebleed territory. Notice that the valuations in 1966, the beginning of a long-term bear market, were also high.



Source: CurrentMarketValuation.com

Then there is the ever-popular **price-to-earnings ratio**. Notice by this measure that valuations were not all that stretched in 1966. Yet there still followed a 17-year bear market, as measured from the peak back to where it started.



Source: CurrentMarketValuation.com

This next one is unusual: **valuation as measured by mean reversion**. [Mean reversion](#) is the fairly unsophisticated concept that "what goes up must come down."

While the market's day-to-day movements are chaotic, long-term stock market returns tend to follow somewhat predictable upward trends. But they can also deviate from the trend for years or even decades.

This isn't a trading strategy. But it's still a useful indicator of overall market valuation relative to the past.

Here, we see that in 1966 and early 2000, the S&P 500 was two standard deviations from the mean. As of last Friday, it is almost back to that level.



Source: CurrentMarketValuation.com

But this is not your father's or your grandfather's (if he was alive in 1929) overvalued market. There are two major differences between today and those previous periods.

First, in the dot-com era, the Federal Reserve had let loose the dogs of easy monetary policy going into the Y2K event. That was appropriate given the uncertainty, but it clearly helped send already overvalued markets to extremes.

We had day traders piling into anything that looked like an Internet stock, speculations, really easy money, and so forth. Then after January 1 passed uneventfully, Greenspan appropriately reversed the Fed's monetary policy. Oops.

And now we have enormous federal government stimulus, soon to be about 25% of GDP in less than a year. That money ends up somewhere, but its impact is still unclear. There is no historical parallel to consider.