



Our Weekly Paid Newsletter

Richard Cluver Predicts

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



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Rapacious governments and their taxation attitudes towards their peoples have taken on a whole new dimension this week both in the US where there is uproar over the Biden administrations' proposed corporate tax increases and here in South Africa where new legislation could send you to jail if you forget to tell the tax man every time you change your address.

Back in the bad old days of National Party rule in South Africa, I well remember the Receiver of Revenue massively fining a businessman for spending his travel allowance in a French casino. The official retort which implied that citizens were "owned" by the government rather than the latter being a servant of the people was that "We do not give you money to squander on gambling."

Now the probable truth was that the gentleman concerned was "schlepping" his travel allowance into a foreign investment account as did practically everyone travelling overseas at that time.... for the simple reason that most feared for their future under Nat Party rule...But it was his own money after all! It did not belong to the Government.

It's a point to remember since South Africa once again faces unprecedented levels of high net worth people emigrating while business has long shown little interest in investing locally. That is why our economy is stagnant and unemployment is at record levels. People need a reason to believe South Africa has a credible future!

The big issue in South Africa is, of course, tax delinquency. One of the major reasons why there is now such a focus upon corruption is that government coffers are bare. To put that bluntly, there is practically nothing left for the comrades to steal!

According to Judge Dennis Davis in a webinar this week, it has got so bad that businesses are deliberately withholding payroll PAYE deductions on the grounds that if ANC cadres are allowed to get away with stealing vast sums of public money, why should they be unwilling partners in such crimes.

Well you can go to jail for things like that, but at a time when former State Presidents pour contempt upon such ideas on the grounds that a time behind bars might earn you brownie points, it gives you something of an idea about the mood of the people regarding governments as a whole.

In the US, Treasury Secretary Janet Yellen is proposing raising corporate taxes from 21 percent to 28 percent with the hope of collecting around \$2.5-trillion over the next 15 years which would pay for Biden's proposed eight-year government spending initiative.... which tells you something about US debt expectations.

So the Democrats' idea is to soak the life out of their businesses and their entrepreneurial class which is, of course, absolutely the worst thing to do if you want to grow yourself out of debt.

But says Janet Yellen, "Our tax revenues are already at their lowest levels in generations, and as they continue to drop lower we will have less money to invest in roads, bridges, broadband and R&D," she reportedly told a press conference. Actually, they have been spending it on an inflated public service and the Welfare State and US businesses have now calculated that the tax increases will strip as much as nine percent from their annual earnings per share...with massive implications for pensioners living on their invested life savings.

Well, as I previously wrote, the American people chose Biden knowing the Democratic Party's capacity for spending other people's money.

The problem for the rest of the world is that Ms Yellen has this week been trying to persuade the 140-nation Organisation for Economic Co-operation and Development (OECD) to establish a 21 percent worldwide levy on corporate profits which has been falling upon fertile ground because so many nations have debt levels that are tantamount to technical bankruptcy which is in turn putting the global monetary system at considerable risk.

Though the global rate has yet to be decided, prior proposals had suggested rates at roughly 12.5 percent. Yellen's plan for 21 percent would arguably sap the last vitality out of a global economy in which governments are already draining too big a portion of global GDP which is, in turn, the principal cause of increasing economic stagnation everywhere. I have frequently pointed out that the principal cause of the Industrial Revolution was that governments of the time extracted less than 10 percent of GDP in TOTAL TAXATION.

In fact, if you want an object lesson in how to guarantee economic stagnation in your country, Google a list of those countries which levy high corporate tax levels. Brazil at 34 percent and France at 32.02 are the biggest nations in a long list of banana republics whose principal exports are high net worth citizens and business corporates.... Sound familiar?

Though he is reportedly facing fierce opposition from those in the ANC who learned what little they understand about economics in exile in the bankrupt old Soviet Union, our Finance Minister Tito Mboweni seems to have grasped the point. So, it should not surprise South African readers at all that at his latest budget, Finance Minister Tito Mboweni lowered corporate tax to 27 percent from April next year.

He will, however, have to do a whole lot better. In order to compete to attract business investment, because Britain only levies a 19 percent corporate tax, Switzerland 18 percent, Portugal 21 percent, Norway 22 percent, the European Union 20.9 percent while France has just lowered its corporate rate to 32.02 percent and hopes to progressively reduce it to 25.83 percent next year. In the Netherlands, Covid 19 has prevented a planned reduction to 22.55 while Sweden will cut the statutory corporate tax rate from 21.4 percent to 20.6 percent this year.

All of which takes me to what the markets are saying about the US economy. My first graph tracks the Dow Jones Industrial Index with a green trend line showing that Wall Street shares are collectively rising at an annualised rate of 76 percent. That, however, is in large measure a reflection of the unprecedented sums of money the Biden administration is pouring into the US in the shape of "Helicopter money"money showered upon ordinary citizens which has demonstrably failed to filter through to the kind of investments which create long-term employment. Where such money is reaching corporates, it has been used in share buy-backs and dividend distribution rather than to buy new plant and machinery.



The point has not been lost on investors who expect galloping inflation to result which will erode the value of the US Dollar. That is why, despite our own economic stagnation and the mounting risk of a sovereign debt default – our cost of international borrowing is only exceeded by countries like Venezuela which are in complete melt down – our Rand has been gaining in value at, as my second graph illustrates, an annual rate of compound 25 percent.



More to the point, investors clearly do not believe the official US rate of inflation is either correct or stable. Furthermore, comments by the US Federal Reserve Governor Jay Powell that "regardless of inflationary

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trends” the Fed will hold interest rates at negative levels for the next two years are obviously stoking panic among

investors who clearly expect explosive inflation increases in the future.

My third graph illustrates the extent of this concern in the fact that US ten-year Treasury bond yields have been rising since last August at an unprecedented annualized rate of 450 percent.

But the Yellen/OECD project was not the only major economic event of the week. Coinbase, a cryptocurrency exchange, went public on the Nasdaq stock exchange; the first major crypto company to go public in the US.

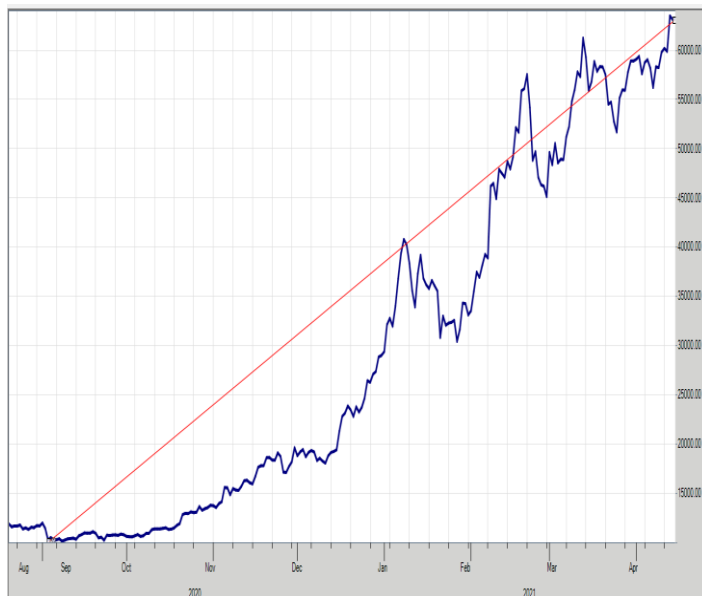
With a valuation of around \$86-billion when trading closed yesterday, it was bigger than exchanges like the New York Stock Exchange and Nasdaq, reflecting the rise of cryptocurrency from the murkier regions of the internet to *potentially* an asset class that is adopted across traditional finance.

The company was founded in 2012 by former Airbnb engineer Brian Armstrong (now Coinbase’s CEO) and former Goldman Sachs trader Fred Ehrsam. It allows you to buy and sell bitcoin, ethereum, and many other cryptocurrencies not named dogecoin.

As the price of bitcoin shot up, so did Coinbase’s fortunes. Just three years ago it was valued at \$8 billion, but in the most recent quarter posted some Big League stats: \$730–\$800 million in net income on \$1.8 billion in revenue. It has 56-million users.

Bitcoin itself has gained about 820 percent over the last year as my next graph illustrates. Much of this is speculative echoing the activities of the “Reddit” group of market newcomers who have been electrifying US markets recently, but one also cannot ignore it as a defensive strategy by the big Wall Street investment banks which have recently begun to look upon crypto as “the other gold!”

Like bitcoin, Coinbase is in many ways non-traditional. It is a remote-first company with no formal headquarters and, at a time when more companies are speaking up in political debates, said it won’t be involved in “broader societal issues.” Even its public market debut was unconventional—it opted for a direct listing instead of an IPO, sidestepping intermediaries that typically offer a more stable first day of trading.



Do enjoy your weekend!

The month ahead:

New York's SP500: I correctly forecast a recovery which I now see lasting mid-week with a decline to the end of the month, a recovery to late May and then a longer decline to early August followed by another recovery well into 2022.

Nasdaq: I correctly predicted a short-term decline which is now under way and should last for most of April followed by a recovery for most of May.

London's Footsie: I correctly predicted volatile gains which I still see lasting until early May and then a steep decline until mid-October.

Germany's Dax: I correctly predicted gains which I saw peaking last week. The gains have been slowing and now look to reverse into losses until late June.

France's Cac 40: I correctly predicted the recovery was peaking. Now I see volatile declines for the rest of the year.

Hong Kong's Hangsen: I correctly predicted a recovery until mid-May ahead of a long slide down to mid-July.

Japan's Nikkei: I correctly predicted the start of declines likely until the end of the month followed by a short recovery though the overall trend should be up until September.

Australia's All Ordinaries: I correctly predicted a strong up-trend to mid-May and thereafter a fresh bear phase until mid-September.

JSE Top 40 Index: I correctly predicted a brief recovery which should be over by the end of the month ahead of a long declining phase until July.

ShareFinder JSE Blue Chip Index: I correctly predicted the beginning of a volatile decline likely to last until mid September.

Rand/Dollar: I correctly forecast gains until late June followed by three months of weakness.

Rand/Euro: I correctly forecast gains likely to last until late-April when a week of weakness is likely until early May followed by gains until September.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.14 percent. For the past 12 months it has been 93.04 percent.
