Our Weekly Paid Newsletter

Richard Cluver Predicts

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

Volume: 34
Issue: 17

29 April 2021

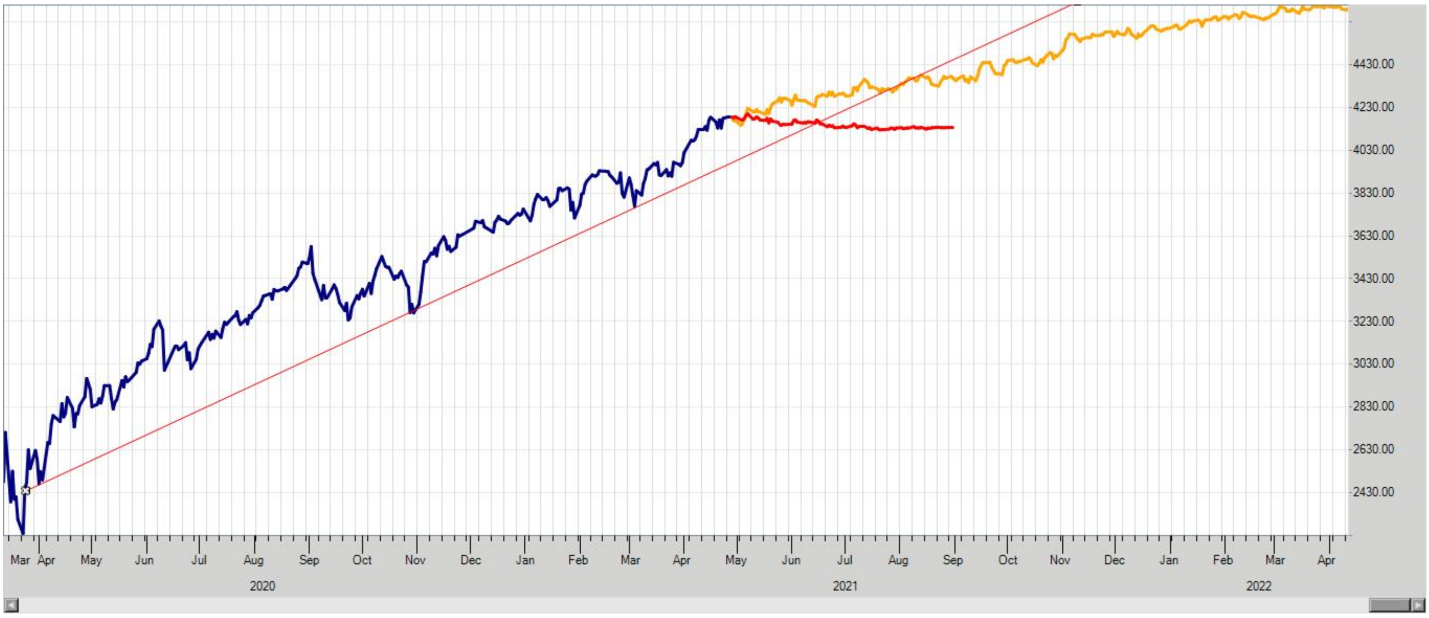
Regular followers of this column will know my conviction that, taking every bull market of the past 121 years into account, Wall Street shares have only once in history been more expensive than they are now. I accordingly conclude that a "correction" is overdue and is only looking for the trigger event that will set it into motion.

Now, new US President Joe Biden might have signaled it in the shape of his proposed steep capital gains taxes. Currently US residents pay CGT of 23.8 percent but if the Biden proposals come into effect and state capital gains taxation is added in, the total rate will go to 58.2 percent in New York. New York City levies a local capital gains rate of 3.876 percent, which means an investor would pay an all-in rate of nearly 58.2 percent. Residents of Oregon would face a top capital gains rate of 57.3 percent while folk living in California the combined effect will take the top capital gains rate to 56.7 percent, in Washington it will rise to 52.4 while in Vermont it will rise to 52.2 and in Minnesota to 53.3.

The taxes are merely proposals which will still have to fight their way through Congress and the Senate before they become law and so there is time for US investors to re-position themselves in the interim. Typically, wealthy investors might opt to migrate their investment capital into a family trust located in an offshore tax haven like Bermuda, the Bahamas or any one of a number of Caribbean islands.

Add in Biden's proposed corporate tax increase from 21 percent to 29 percent which is likely to clip as much as nine percent off the dividend income of investors and it is clear the Wall Street is likely to come in for a lot of selling pressure in the coming months. Add in the possibility of an escalation of the problems with China and there is the potential for an explosive cocktail which could well end the longest-enduring bull market in living history; already 13 years long and counting.

For the present, ShareFinder remains optimistic about the outlook for the S&P500 Index which it sees continuing to rise for at least the next 12 months as its projection graph illustrates:

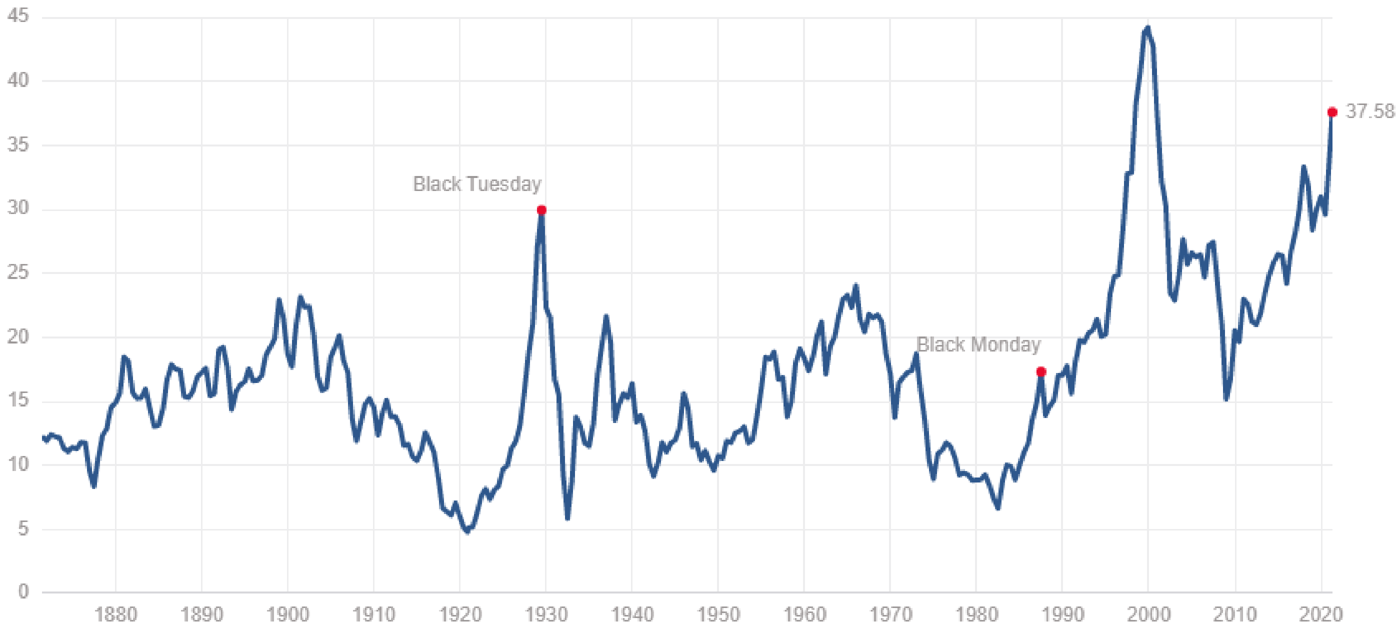


Note, however, that from mid-July the projection suggests a slowing down of gains such that the projection (in orange) is intersected by my red trend line.

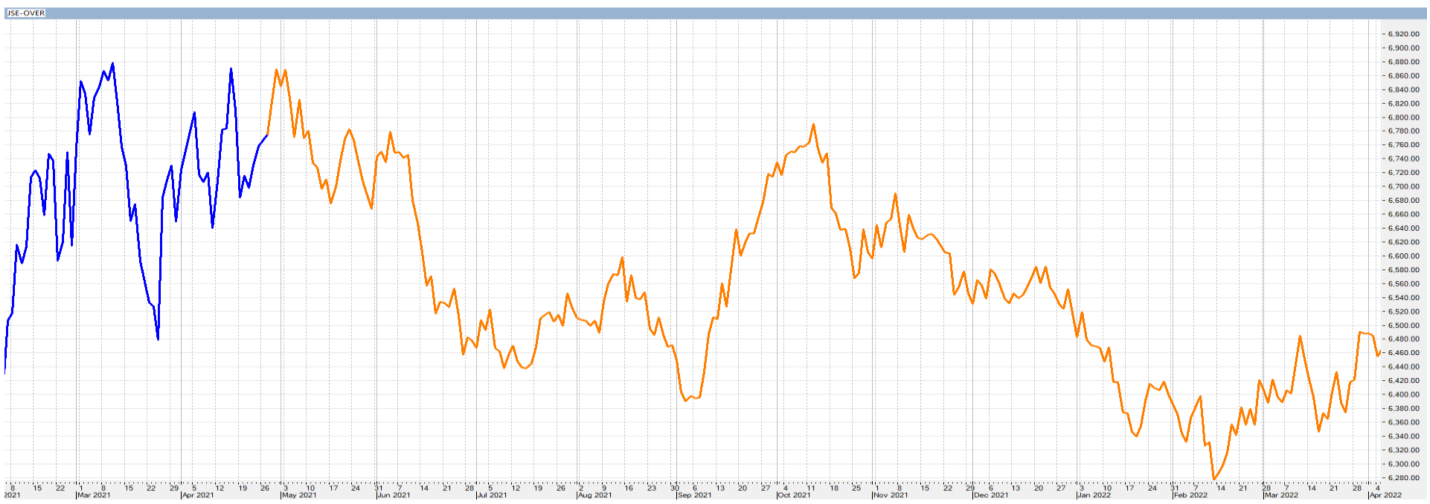
Now it is not that wealthy investors are likely to get much sympathy from the average American. Critics of the current capital gains system say, "So you're telling me this rich investor is paying less in taxes on their stock sales than a middle-class worker pays on his income? That doesn't sound right." Wealthy people with a majority of their net worth tied up in investments *do* benefit from the current system—Warren Buffett once said he's the lowest-paying taxpayer in his office.

But people who oppose raising capital gains taxes argue that the ripple effects would be way worse, disincentivising risk-taking, holding back economic growth, and discouraging investors from selling their assets, which is seen as keeping the market healthy.

Meanwhile, the Shiller PE Ratio, which I have frequently displayed to readers, continues to inch its way to the 44.19 peak last reached in December 1999 when the 'Dot Com Bubble' peaked. Last week it stood at 37.46. This week it reached 37.58.



Clearly the latest bubble is not yet ready to burst, but it cannot endure for a whole lot longer. Here in South Africa, ShareFinder suggests the JSE Overall Index is likely to peak today (Friday) and head downhill until the first week of September ahead of a six-week recovery and then further declines until February:



Do enjoy your weekend

The month ahead:

New York's SP500: I correctly forecast gains until late May and then a longer decline to early August followed by another recovery well into 2022.

Nasdaq: I correctly predicted a recovery for most of May and then declines until early September and I continue to hold that view.

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

Germany's Dax: I correctly predicted declines well into the New Year.

France's Cac 40: I correctly predicted 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 to continue until mid-June followed by gains until the end of October.

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

JSE Top 40 Index: I correctly predicted another recovery until the end of the month ahead of a long volatile slide until early September.

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

Rand/Dollar: I correctly forecast losses until the first week of June and then further gains until mid-October.

Rand/Euro: I correctly forecast weakness that is likely until early May followed by gains until September.

***The Predicts accuracy rate on a running average basis since January 2001 has been 86.17 percent. For the past 12 months it has been 93.04 percent*.**

Published by Sharefinder International
http://www.sharefinderpro.com
richard@rcis.co.za