Our Weekly Paid Newsletter

Richard Cluver Predicts

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

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So the election is over bar the small problem of 65 'Hung' municipalities which could imply further paralysis across a huge swathe of South Africa. Thus we could have, at worst, a 36-month wait while the economy continues its systematic collapse with the distinct possibility that by then we could be living within a harsh era of austerity imposed upon us by the International Monetary Fund.

Optimists have continued to try a paint a picture of how a now thoroughly chastened ANC could mend its spendthrift ways and put us back on a path to rolled-back debt but, with an eye on the July riots and our crippling levels of unemployment, the realistic assessment must surely be that Cyril Ramaphosa and his Cabinet will buckle under trade union pressure and powerful luddites like Gwede Mantashe will continue impeding our transition to a reliable power grid while the ranks of the hungry will continue swelling.

By the end of 2024 the social pressures facing anyone trying to create a new government out of that chaos might be so daunting that only a dictatorial option might prevail. Recognising, for example, that Eskom has been at risk since October 2007 when load-shedding began, and in crisis mode for nearly three years since the first 'Stage 4' event of March 2019, the fact that not a single gigawatt of additional power has been added to the grid since then hardly suggests that Cyril's cabinet understands the word URGENT.

Meanwhile, most folk of my age now have a clutch of children and grandchildren living overseas. They have all gone taking their earning power, the job-creation ability and their taxable incomes with them. As a result, without windfalls like the short-lived commodities boom, South Africa can no longer balance her books. And, with the "social wage" now representing 60 percent of everything the Treasury has after paying interest on the national debt, the writing is on the wall.

We are, short of a miracle, left with only one resort. SA Pty Ltd needs a public/private partnership to save us. We need to pave the way for business to be able to fully focus its creative ability on getting things done. It is arguably the only thing left that can save us. But for a political party still steeped in the belief that central command councils are the only way to go, that appears at face value to be one step too far. Were that not so the private energy producers who are reportedly ready to connect to the grid immediately, would already be half-way to solving our load-shedding problem.

Happily there are overseas representatives of private capital who are not as tainted as most of us are by the dark cloud of ANC-induced pessimism; Folk like the Luxembourg-based Ardagh Group who are bidding R10.1-million for Consol Glass. Undeterred by five crippling alcohol sales bans, the Dutch brewing company Heineken is offering R40-billion for Distell, the maker of brands including Klipdrift brandy, Savanna cider, and JC le Roux sparkling wines. Logistics giant Imperial is involved in a R12.7-billion takeover by Dubai-based DP World. US-based Mondelēz is bidding for parts of AVI. Technology firm Adapt IT recently accepted a buy-out offer from Canada's Volaris while Zeder last year sold its controlling shareholding in Pioneer Foods for R26-billion and is now finalising the sale of its logistic holdings.

The real truth behind these sales, however, is that our economy has been so battered by a quarter century of ANC administration that our Blue Chip companies, built up by the dedicated labours of countless South Africans for well over a century, are on offer at fire sale values. Just compare Wall Street's Nasdaq average price/earnings ratio of 40 to the 13.1 percent average for our own Blue Chips and you can easily grasp how undervalued our shares are.

Unfortunately, South Africans who have been on the receiving end of overseas takeovers also have another tale to tell. Ask people who are employed by the old SA Breweries?

My own experience as a former assistant editor of an Argus Group newspaper in the wake of an asset-stripping takeover by the Irish Independent Group left a shattered shell for Iqbal Surve's Sekunjalo Investment Holdings to subsequently pick up using funds controversially "borrowed" from Government pensioners, all in all left me severely chastened. Happily, unlike most of my colleagues of that era who have seen their invested pension and medical aid money dwindle into incipient poverty, I saw the writing on the wall and was able to extract my pension capital and grow it sustainably.

But I think it is fair to say that few South Africans have materially benefitted from the takeover of the companies to which they gave the best years their lives. That the Rand of my youth was forever set at two to the British Pound and is now R21.6 while the Rand/Dollar exchange rate of R3.5 when the ANC came to power and is now at R16.3 fittingly illustrates the price every South African both rich and poor has paid for what socialism does to economies.

We must all fervently pray that Cyril Ramaphosa uses the next three years wisely for the good of all South Africans…..not just for the good of the ANC. If he does not, as the recent elections have so vividly illustrated, he is likely to go down in history as the man who single-handedly oversaw the total collapse of a once vibrant economy and the burial of a once globally-respected 110-year old political party! What a tribute that would look like when they eventually get to write up his history!

But imagine what things might look like if confidence could be fully-restored. Imagine if JSE Blue Chips were to climb threefold over the next three years! South Africa is still the land of incredible opportunity. Just ask the average entrepreneur who, despite being bound up by red tape every way he turns, why he is still pushing to make profits and create jobs?

Cyril has three years to change the course of history and investors could be enriched beyond their wildest dreams. That's what public/private partnerships are all about!

Do enjoy your weekend!

The month ahead:

New York's SP500: I correctly predicted a brief retraction which I still see lasting until December 20 ahead of further gains until February 16 ahead of another retraction until the end of March.

Nasdaq: I correctly predicted a brief retraction ahead of a longish upward sweep but the brief recovery I anticipated until December 7/8 has so far been delayed.

London's Footsie: I correctly predicted a volatile declining trend lasting until next August. I also correctly predicted one more brief but very volatile up-spike which is now under way to mid-February.

Germany's Dax: I correctly predicted a brief decline now under way until early May.

France's Cac 40: I correctly predicted the start of a mid-month spike down until the first week of January. Thereafter it is likely to be a yo-yo somewhat downward trend for most of the coming year.

Hong Kong's Hangsen: I correctly predicted a volatile decline which I expect will continue until mid-January before a protracted recovery begins.

Japan's Nikkei: I correctly predicted the start of a decline that should last until late April.

Australia's All Ordinaries: I wrongly predicted the recovery would last until mid-December. Things have worsened considerably there and I now see at best a sideways to falling trend until mid-March before the next long decline sets in until at least next August.

JSE Top 40 Index: I correctly predicted the recovery was probably now over ahead of weakness until late March when a longish rally appears likely.

ShareFinder JSE Blue Chip Index: I was a little premature in predicting the end of a short-term up-phase but I can't see it lasting beyond the 10th.

Rand/Dollar: I correctly predicted weakness until the end of January followed by a recovery until late May.

Rand/Euro: I correctly predicted weakness until early March ahead of gains from then until early March.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.45 percent. For the past 12 months it has been 93.76 percent.

Are Governments Running Out of Candy?

by Jeff Thomas

By now, many readers will have seen the popular American YouTube video by Mark Dice in which he stands on a city sidewalk and offers passers-by a free gift. They may choose between a 10-ounce silver bar or a large Hershey's candy bar.

Each taker chooses the candy – most of them with no deliberation. The only taker who seems to hesitate *at all* soon decides on the candy, as "I don't have any way to do anything with the silver." (Behind them is a coin shop. Mister Dice offers to take the silver bar inside if she wishes, but she's uninterested and takes the candy.)

A 10-ounce silver bar is presently valued at about $230, the Hershey's bar at about $2.

(Editor's Note: If you have not seen the video, please click here)

Mister Dice doesn't comment in the video as to what lesson might be learned from this, but an obvious one would be that Americans (or at least those who reside in his home town of San Diego, California) are prone to prefer instant gratification over something of substantially greater, but delayed value.

If this is his intent, he's succeeded well in his light-hearted, but instructive video.

Since the 1950's, much of the world has perceived Americans as being on "Easy Street," and in recent decades, the U.S. government has fuelled American complacency through a consciousness of easy money and entitlement.

And so, Americans are often perceived by those outside the U.S. as being somewhat insulated, spoiled, naïve, and short-sighted. But, if this is true, Americans certainly aren't alone. Much the same exists in Europe, Canada, and quite a few other countries that have, over recent decades, followed the American socio-economic model.

Trouble is, all that easy money and entitlement exists only as long as a source for the "freebies" exists. Unfortunately, the idea that freebies are free is inaccurate. Freebies of any description must be paid for by *someone*.

In business, freebies are sometimes provided as "loss-leaders" to attract more business. They therefore become a line item on the monthly balance sheet, a cost-of-doing-business expense. The business hopes to make the loss back through sales generated by the loss-leader.

But, when governments hand out freebies, no sales will be generated, so the loss will not be recovered. When governments hand out freebies, the cost is paid with tax revenues. And when taxes have been raised to the point that further increases would be difficult without inciting rebellion, governments generally rely on borrowing.

But, of course, borrowing, too, eventually reaches the point that it has become so great that it cannot be repaid. What then?

Invariably, economic collapse is the outcome. But, why should this be so? Well, when the tipping point is reached (as in jurisdictions like the EU and U.S., where more than 50% of the public are net recipients and the other 50% must pay for both themselves *and* the other 50%), there's no turning back. Those who have been receiving the candy have been told that they're *entitled* to it and now they believe it. They will not tolerate the suggestion that the freebies must end, even though no further tax can be reasonably levied; no further funds can be borrowed. Therefore, in every case, the result is systemic collapse, not a gradual tapering off.

For thousands of years, governments have sought to appease people with freebies. In ancient Rome, a dole of grain and free entertainment (bread and circuses) helped to usher in the decline of the empire. Like all great empires, it collapsed under a weight of debt and mismanagement.

Much of the world is presently at this tipping point. Governments continue to promise benefits that they know will soon come to an end. If history repeats, they will continue repeating this promise right up until the day when the candy stops being dished out.

They will then say that no one could have seen this coming.

Amongst the public who will be the victims, there will be three general groups. First will be the *Takers*, those who have been the recipients who depended upon the freebies the most. They will be the hardest hit, as not only will they lose the freebies, they will have neither the skills nor the imagination to become self-reliant overnight.

The second group will be the *Payers*, those whose tax dollars paid for the freebies. They will be hard hit, as the system in which they live and operate has broken down, although they will fare better than the Takers. They will have the skills and imagination to rebuild their lives (having previously been productive enough to pay for themselves and others.)

Third will be the *Preparers,* those who envisioned the inevitability of the collapse of the system. They most certainly will have the skills and imagination to rebuild their lives, but, additionally, they'll have the *means* with which to rebuild quickly. They will be the very few who chose the silver bar over the candy and had the wisdom to store the silver in a jurisdiction where it was not likely to be appropriated by a dying empire.

Much of the world is now *running out of candy*. The latest version of Bread and Circuses is reaching its inevitable end.

Replaying the video, we observe Mister Dice offering chocolate or silver. Each Taker looks at him incredulously, then makes the obvious choice, the candy. Each of them gives him a smile. Each is pleased to walk away with the chocolate, but, likely as not, each will have consumed the bar before the day is out and the benefit of the freebie will be short-lived.

After giving out eight bars, Mister Dice is all out of chocolate and he presumably goes home. He has no candy, but he does have 10 ounces of silver. Perhaps he owns other silver bars as well, stored in a safer jurisdiction.

Each of us has the opportunity to make a choice as to whether we wish to be Takers, Payers, or Preparers. The choice we make may define our future.

Editor's Note: The recent global hysteria has inflicted a debilitating blow to an already fragile financial situation. It will soon cause significant economic, political, and social problems.

With a crisis brewing on multiple fronts, making the right moves right now could mean the difference between suffering crippling losses and protecting yourself and your money.