Our Weekly Paid Newsletter

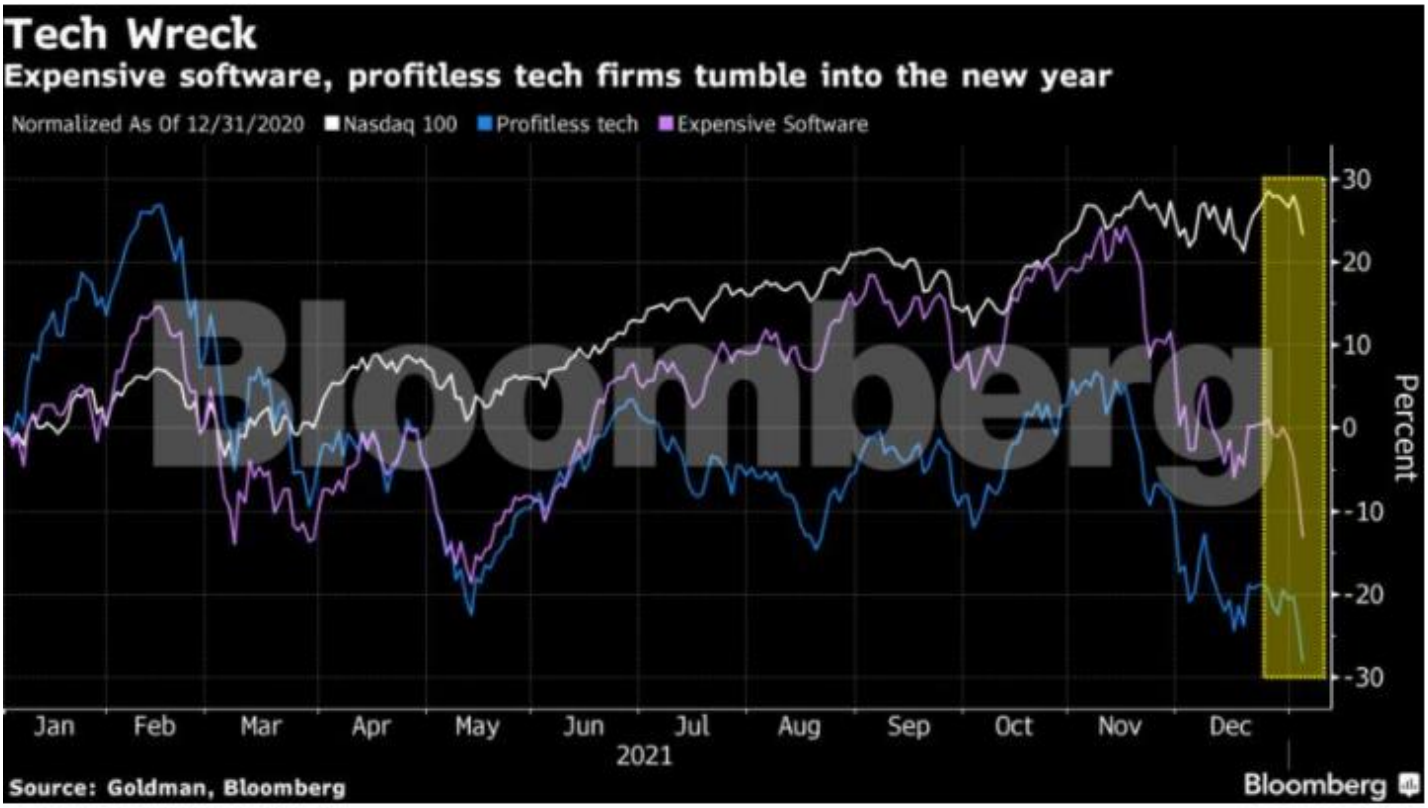
Richard Cluver Predicts

In our 35th year of service to the investing public of South Africa

Volume: 35 - Issue: 1 **07 January 2022**

ShareFinder has for over a year been predicting a significant down-turn of global share markets beginning around now and, like clockwork, it began on Wall Street during December when hedge funds started unloading high-growth, high valuation stocks.

This week it spread to the tech stocks. Bloomberg reports that, "…..During the four sessions through Tuesday, these sales reached the highest level in dollar terms in more than 10 years.



"The tech carnage worsened after minutes were released on Wednesday of the Federal Reserve's last policy meeting which pointed to earlier and faster rate hikes, uncovering "a more hawkish Fed than some may have expected," said Mike Loewengart, managing director of investment strategy at E*Trade Financial.

"The Nasdaq 100 Index dropped more than 3%, rounding out its worst two-day drop since March. Stocks boasting nose-bleed valuations bore the brunt of selling, with a Goldman basket of expensive software sinking 6.3% to the lowest level since last May.

"In Asia, the MSCI AC Asia Pacific Communications Index dropped as much as 1.5%, with South Korea's Kakao Games Corp. and Australia's Afterpay Ltd. down around 11%. Hong Kong's Hang Seng Tech Index fell 1.1%, on track for a fourth day of losses."

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

Behind the development is the issue I have written extensively about for so long, the explosion of credit issuance by the US Federal Reserve in an effort to ward off the incipient Covid-19 economic recession and, now, efforts to mop it up before an equally explosive bout of inflation engulfs the world.

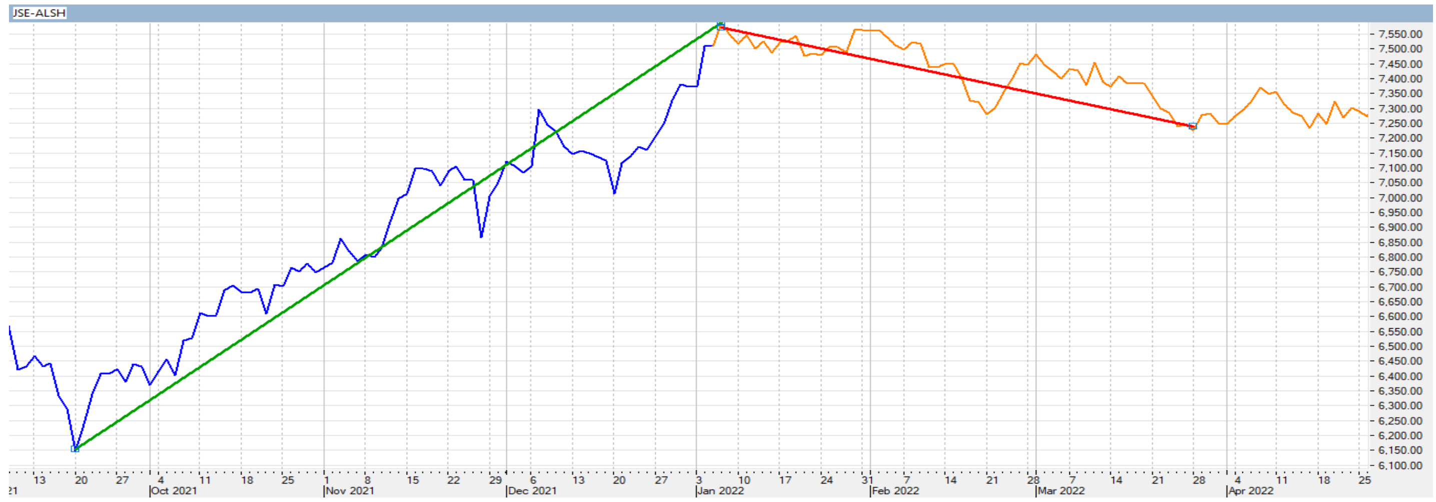
It was in anticipation of this “taper” that late last year I wound up the various global risk portfolios which I had created for readers of my Prospects newsletter service and created substantial cash balances within the remaining Blue Chip portfolios in anticipation of later this year being able to buy deeply-discounted shares once the anticipated bear market bottoms.

The Wednesday release of minutes from the Fed's December meeting showed that officials had discussed shrinking the US central bank’s overall asset holdings as well as raising interest rates sooner than expected in order to fight inflation, with “many” judging that the appropriate pace of the Fed’s balance sheet reduction would be faster this time.

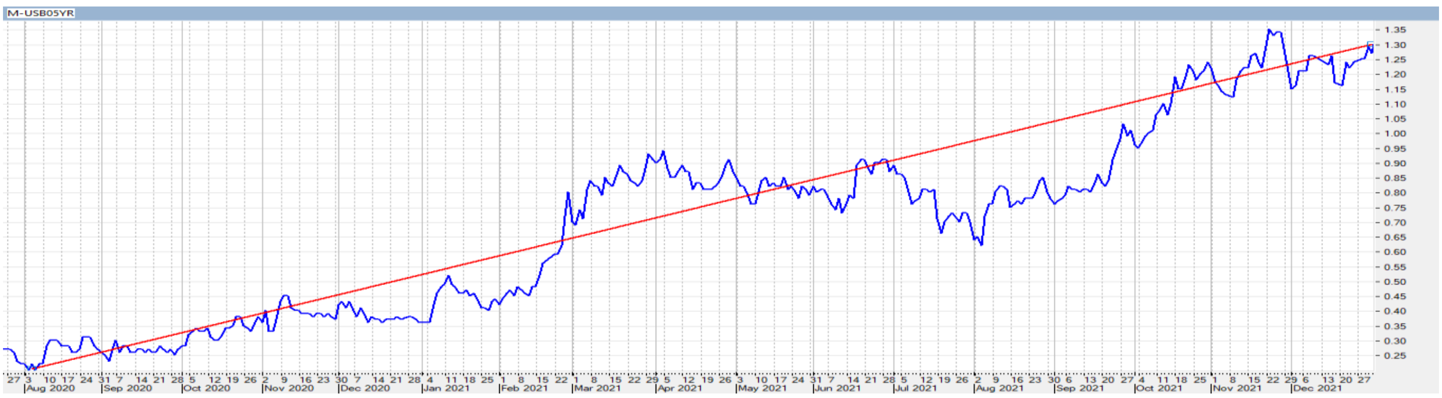
Investors accordingly concluded that the hawkish signal bolsters the case for those who believe the central bank will need to act more decisively to contain inflation, and could fuel further bets on higher yields while continuing to shake up the growth and technology shares which powered the dynamic 2021 share rally.

Following the release of the minutes, Reuters quoted Scott Kimball, co-head of US fixed income at BMO Global Asset Management as arguing that;“There’s a real risk that the Fed is being too aggressive here.” Kimball was one of many fund managers who reduced their positions in high yield corporate bonds and private debt late in 2021, believing they would underperform as rates rise.

Recognising that world markets these days are almost exclusively driven by what happens on Wall Street, the JSE was a sea of red yesterday and the decline appeared likely to continue until late March. Below is ShareFinder’s projection for the All Share Index:



In the process it was echoing what had already begun 18 months ago in the US where, as my next graph illustrates, the 5-year sovereign bond rate began unwinding in August 2020 at an incredible annualised 292 percent compound rate because of the perceived rising inflation risk:



Economics 101 teaches that if you increase the supply of any commodity, in the absence of increased demand the market value of the commodity will decrease proportionally. So it is not surprising that the official US inflation rate began soaring as soon as the Fed began its Covid accommodation measures in the first quarter of 2020.

At 6.2 percent currently it is now at its highest rate since the bad years of the 1980s when global inflation was last a serious problem which decimated bond values that in turn critically devalued pensions all over the world and created extreme hardship for millions of people all over the world

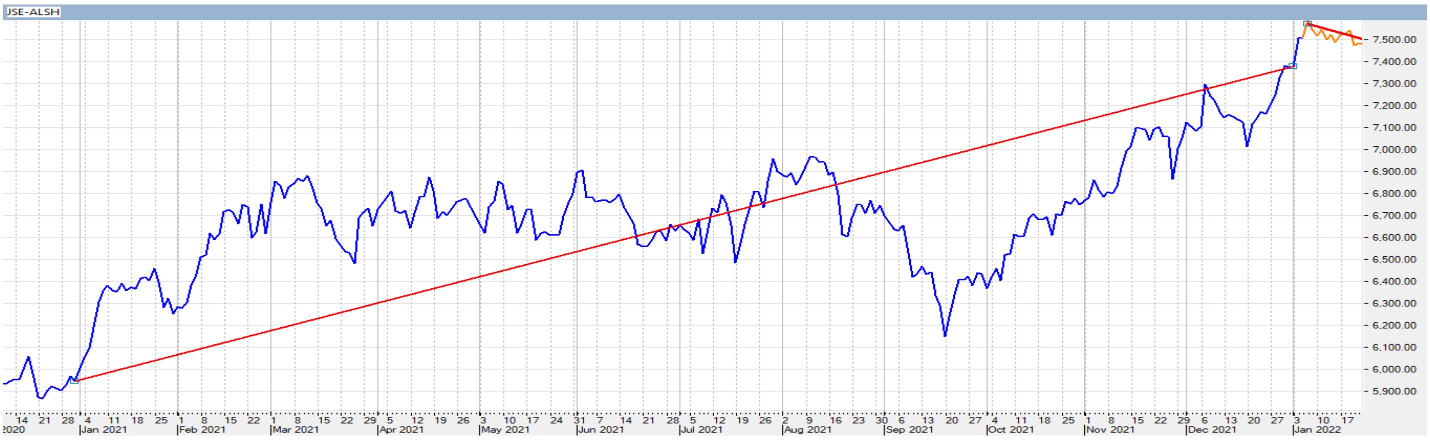
Inevitably, as bond yields rise, the average yield of shares needs to rise in order to maintain a balance which in turn implies that, in the absence of rising corporate profits, share prices have to fall. That is why I have been constantly directing readers' attention to the Shiller inflation-corrected yield ratio of the S&P500 Index which is the most representative global index of share market value. And, as you can see in my next graph it was this week, at 39.43, within an inch of its all time high recorded shortly before the December 1999 bursting of the aptly-named Dot Com bubble which peaked that month at 44.19.

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

It's not at all surprising that the Shiller Ratio is as high. Look what happened to the leading indices during 2021:

MARKETS: 2021 PERFORMANCE			
▲	Nasdaq	15,644.97	+21.39%
▲	S&P	4,766.18	+26.89%
▲	Dow	36,338.30	+18.73%
▲	10-Year	1.514%	+59.7 bps
▲	Bitcoin	$47,124.05	+59.12%
▲	Oil	$75.73	+55.50%

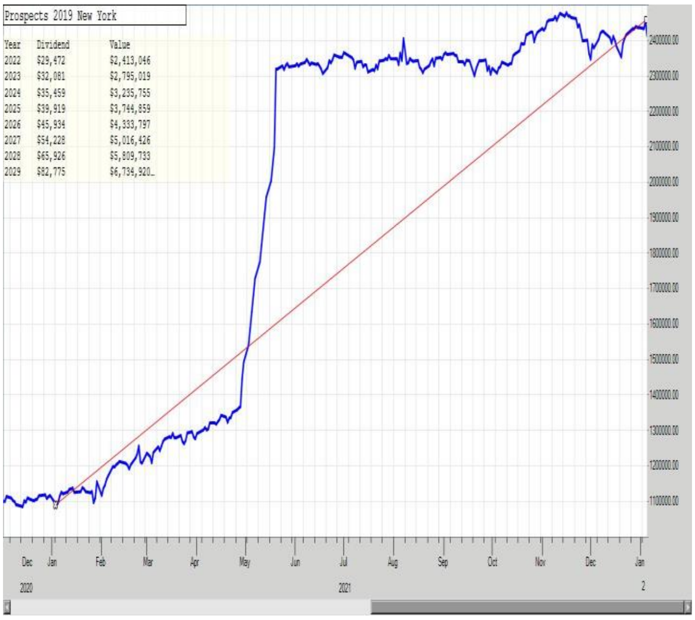
A surplus of central-bank-created fiat money has been washing around the world which is why, for example, that despite South Africa's steadily declining economy, the JSE was also one of the world's best performers, increasing by 23.9 percent over the year:



But, best of all was the Prospects South African portfolio which I maintain for readers of this column, up 35.4 percent which, together with a 2.6 percent dividend income for the year provided investors with an overall gain of 38 percent. As I have immodestly pointed out several times lately, it was so far as we have been able to determine, the world's best-performing portfolio!

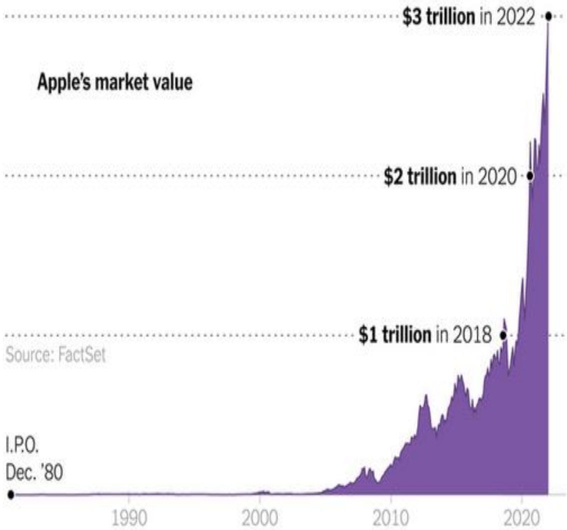
Published by Sharefinder International
http://www.sharefinderpro.com
richard@rcis.co.za

The US, British and Australian portfolios which I maintain for readers did nearly as well but it is not right to make any claims for them because they include the profits that were made by the risk portfolios I previously ran in those countries which were transferred, when I closed them down, into the remaining overseas Blue Chip portfolios. For the record, however, the New York Blue Chip portfolio (below left) gained 75 percent through 2021 while London, on the right, gained 32 percent and Australia, second below left, gained 34.5 percent:



All in all the gains were more than satisfactory, but I should hasten to add that all the portfolios are the result of an automated share selection process which is built into the ShareFinder 6 ‘Portfolio Builder’ system and my only real contribution has been to use the program market projection tools in order to time the buying and selling processes.

In fact the only real claim I can make is that I was the original architect of the software, but even there, since we built in a fairly comprehensive system of artificial intelligence which has since enabled ShareFinder to learn from its occasional mistakes in order to achieve market forecast accuracy rates I would personally never have dreamed were possible. Lest, however, I appear boastful I need to point out that ShareFinder failed to recommend Apple as a buy and look at the final graph on the right to note what this blockbuster has done:



The month ahead:

New York's SP500: I correctly predicted a brief retraction which I believe is over for now ahead of further gains still see lasting until the 17th ahead of another retraction until the 27^{th} and then a month of gains followed by a longer retraction from the end of February to the end of March. However for now the long-term up-trend appears likely to remain in place.

Nasdaq: I correctly predicted a brief retraction which appears over for now ahead of volatile gains until June.

London's Footsie: I correctly predicted a volatile declining trend lasting until next April when I expect a two-month recovery before things head south again.

Germany's Dax: I correctly predicted a decline until early May followed by gains until mid August but failed to anticipate the brief upsurge from early December which I expect to last until the third week of January before the long decline continues.

France's Cac 40: I correctly predicted a yo-yo somewhat downward trend for most of the coming year but was caught off guard by the recent year-end upsurge which looks likely to continue until the end of January before the down-trend resumes.

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

Japan's Nikkei: I correctly predicted a decline that should last until late April but failed to anticipate the present two-month upsurge that should continue the end of January before the decline resumes.

Australia's All Ordinaries: I correctly predicted a falling trend until next October but again failed to predict the brief December upsurge.

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

ShareFinder JSE Blue Chip Index: I correctly predicted a short rally but that should end today and then it is down until August.

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

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

The Predicts accuracy rate on a running average basis since January 2001 has been 86.5 percent. For the past 12 months it has been 94.31 percent.

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

How much money you need to be in the richest 1% in South Africa – and how you compare to others

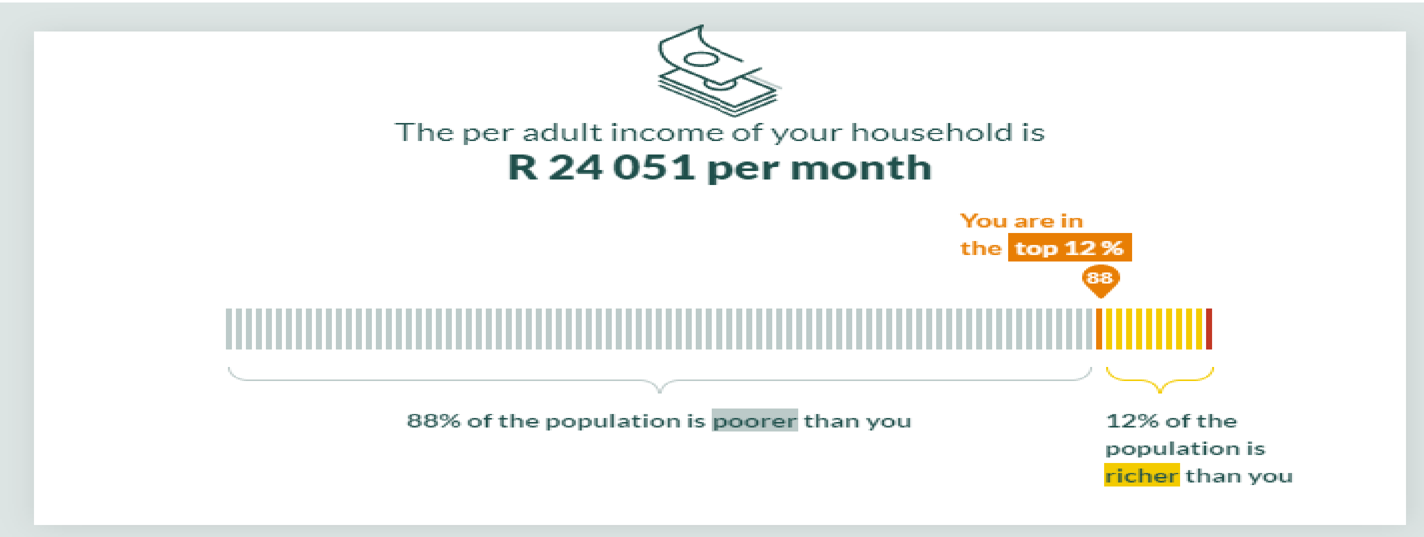
BusinessTech Staff Writer

The World Inequality Lab has updated its wealth database for South Africa and other nations in 2022 – and provides a tool that lets users calculate their wealth relative to others.

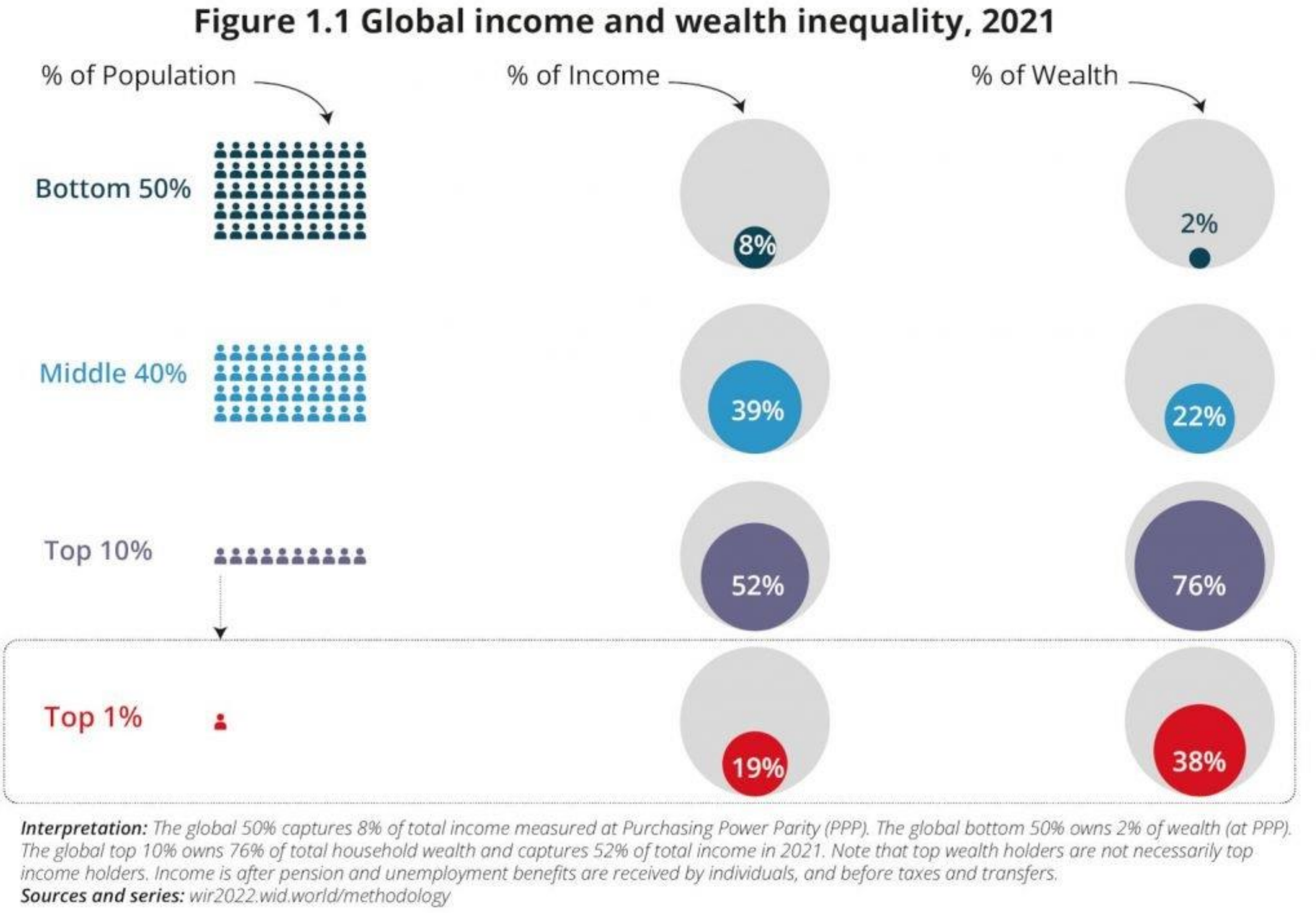
The database was constructed by an international network of more than 100 academics, including Thomas Piketty and Nobel Prize winner Abhijit Banerjee, making it possible to compare income inequality in 173 countries. The estimates are based on a mix of sources, including tax data, surveys, and other statistics.

The database also includes a simulator that allows you to compare your household income to other South Africans. You can access the tool here.

Earning the average formal sector salary in South Africa of R24,051 (QES, 3Q21) would put you in the richest 12% in the country, according to the simulator. The monthly salary you would need to be a top 1% earner, meanwhile, is around **R151,451**.



You would need a net wealth of around **R4.2 million** to be considered a member of South Africa's top 1% when considering total wealth, with the average net wealth of the one-percenters being closer to R22.6 million.



Growing inequality

The group's data shows that after three decades of trade and financial globalisation, global inequalities remain extremely pronounced: they are about as great today as they were at the peak of Western imperialism in the early 20th century.

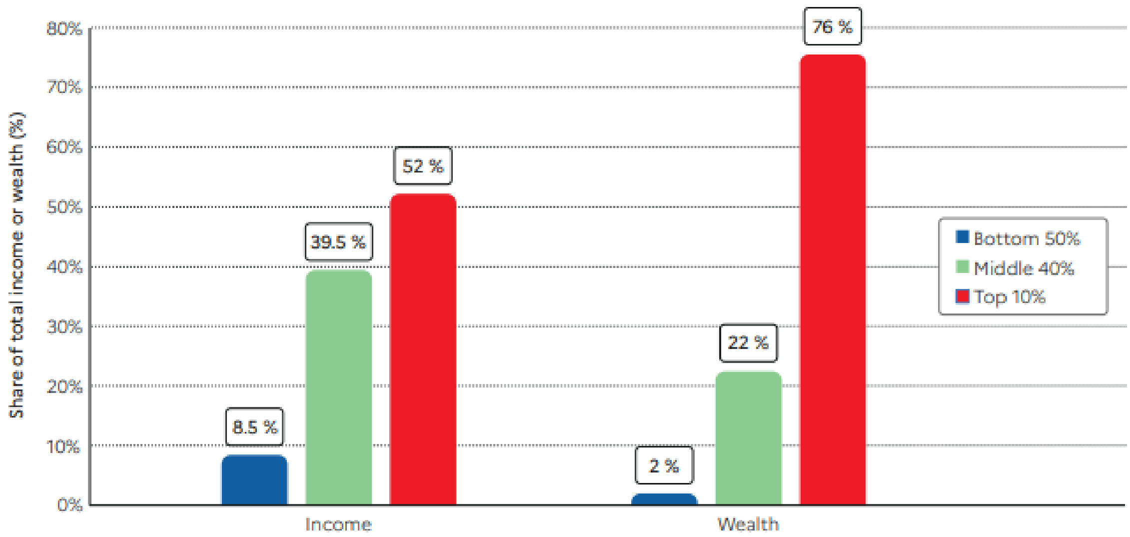
In addition, the Covid pandemic has exacerbated global inequality. The group's data shows that the top 1% took 38% of all additional wealth accumulated since the mid-1990s, with an acceleration from 2020. More generally speaking, wealth inequality remains at extreme levels in all regions and is most pronounced in Africa, it said.

"The Covid crisis has exacerbated inequalities between the very wealthy and the rest of the population. Yet, in rich countries, government intervention prevented a massive rise in poverty, this was not the case in poor countries. This shows the importance of social states in the fight against poverty," said Lucas Chancel, lead author of the report.

The report shows that globally an average adult individual earned a purchasing power parity (PPP) of $23,380 per year in 2021 (R372,669), and the average adult owns $102,600 (R1.63 million).

However, these averages mask wide disparities both between and within countries, the group said. The richest 10% of the global population currently takes 52% of global income, whereas the poorest half of the population earns 8.5% of it.

Figure 1 *Global income and wealth inequality, 2021*



On average, an individual from the top 10% of the global income distribution earns an average of $122,100 annually (R1.94 million), whereas an individual from the poorest half of the global income distribution earns $3,920 (R62,480).

"Global wealth inequalities are even more pronounced than income inequalities. The poorest half of the global population barely owns any wealth at all, possessing just 2% of the total," the group said.

Conversely, the richest 10% of the global population own 76% of all wealth. On average, the poorest half of the population owns PPP $4,100 (R65,352), while the top 10% own $771,300 (R12.2 million) on average.

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