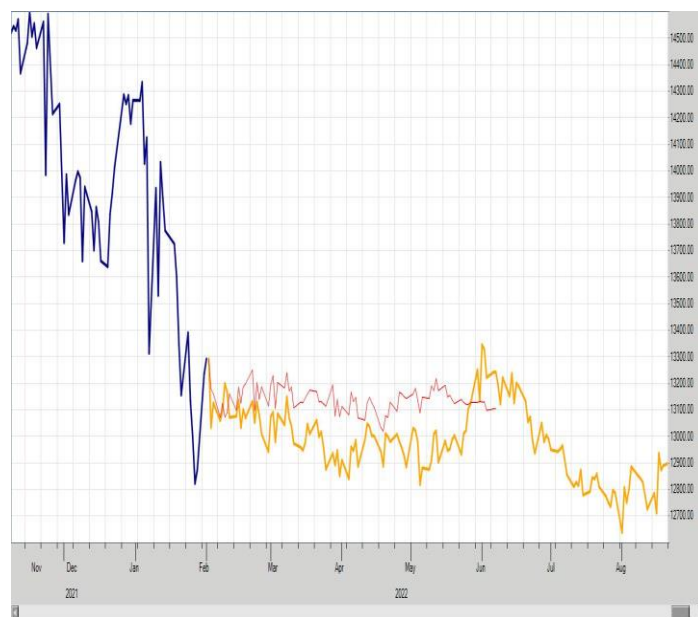
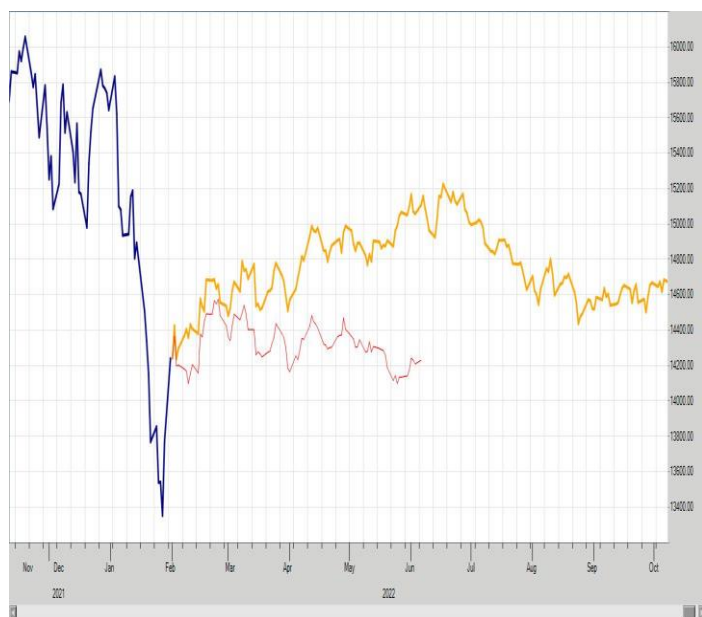




**Wall Street's Nasdaq Composite Index notched up its worst month in nearly two years in January following on the US Federal Reserve's aggressive hike signals which have been widely interpreted as a warning that the current era of market speculation has begun to give way to a more sanguine phase which will logically favour traditional 'Value Stocks.'**

The index fell 9% in January, its biggest monthly drop since March 2020, on the back of a surge in US Treasury yields which hurt pricier technology stocks that are valued on future growth expectations rather than the solid dividend and earnings yield histories of traditional Value Stocks. It is a compelling reason why the ShareFinder-selected Blue Chips will arguably do best for the foreseeable future.

Interestingly, however, ShareFinder's future-projection system disagrees with that view. Below on the left I have pictured what ShareFinder expects will happen to the Nasdaq itself and, on the right, Nasdaq Blue Chips. But this is one of those extremely rare instances where I believe ShareFinder is wrong, as I shall shortly explain!



The impending transition from a phase in which the market is dominated by speculators who favour stocks which might be earning nothing at all currently but are hoped will be the next big profit blockbuster of the future, giving way to a new era in which the likely favourites will be those stocks which conform to the traditional means of valuation, is due entirely to the major transition currently under way in the behavior of the world's central banks.

The latter first entered their, until recent, phase of easy money-creation as far back as the late 1990s when most of the current generation of 'Reddit' speculators were still in nappies and so their entire lived experience has been one in which the emergence of a rampantly-growing Chinese economy effectively masked the usual effects of irresponsible monetary policy.

Economics 101 teaches us that if you increase the supply of any commodity you will depress the price by a related amount. Thus, printing money normally reduces its value which is the same thing as creating monetary inflation.

Central banks first began printing money in huge quantities in the late 1990s to, initially, save the economies of the Far East following the collapse of the Thai Baht and the subsequent knock-on which, at the time, looked like destabilizing the entire world economy.

The central banks had, furthermore, barely begun to mop up their surpluses than the 2007 'Sub Prime' crisis in the US again threatened a global monetary catastrophe. Again, the central banks printed massive quantities of money to head off a high probability of a global recession morphing into the mother of all depressions. And then, of course, came the Covid accommodation!

So it was done with all the right reasons. But to everyone's surprise, global monetary inflation did not result because a nascent China was flooding the world with cheap consumer goods which forced local producers to hold down their prices if they hoped to remain competitive. Many failed and went out of business and so today's Blue Chips represent those which managed to survive by adaptation and innovation which has stood them in very good stead for a future in which a maturing Chinese economy is no longer able to dominate the cheap consumer market.

As an aside, that is why our local Foschini Group has been able in recent years to achieve such success by returning to local manufacture of its clothing lines!

Thus, the graph below courtesy of the American Institute of Economic Research, paints a vivid picture of what has been happening to the global money supply and why, in the absence of a new China to keep a lid on it, economists have long been fearful that rampant inflation might take us back to the dark days of the 1970s when inflation was decimating the living standards of people like pensioners who were forced to live on the dwindling buying power of fixed incomes.

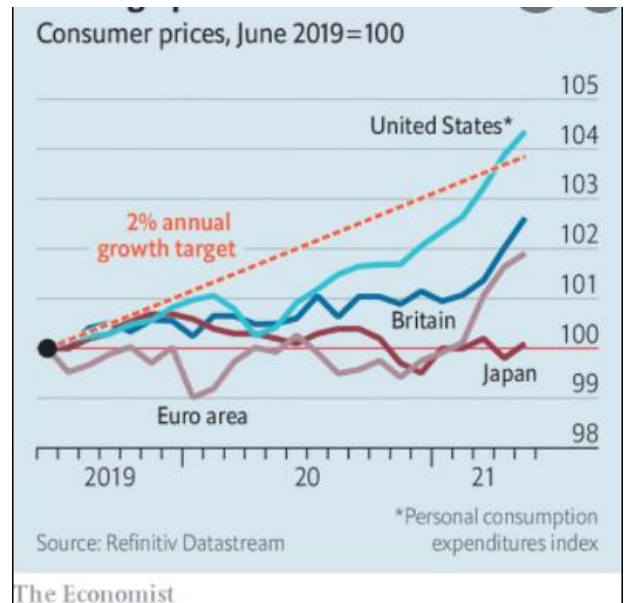


For a country like South Africa with the world's highest unemployment rate, it is an explosive issue which very eloquently explains why our own Reserve Bank has initiated a series of interest rate hikes.

Meanwhile, my next graph courtesy of The Economist, shows very clearly what is already happening on the inflation front.

I have meanwhile written extensively in the recent past about why I believe the authorities are not accurately capturing inflation data because it is very much in the best interests of highly-indebted governments to force their citizens to swallow as much inflation as they can comfortably inflict upon them because it is their most effective means of reducing their sovereign debt.

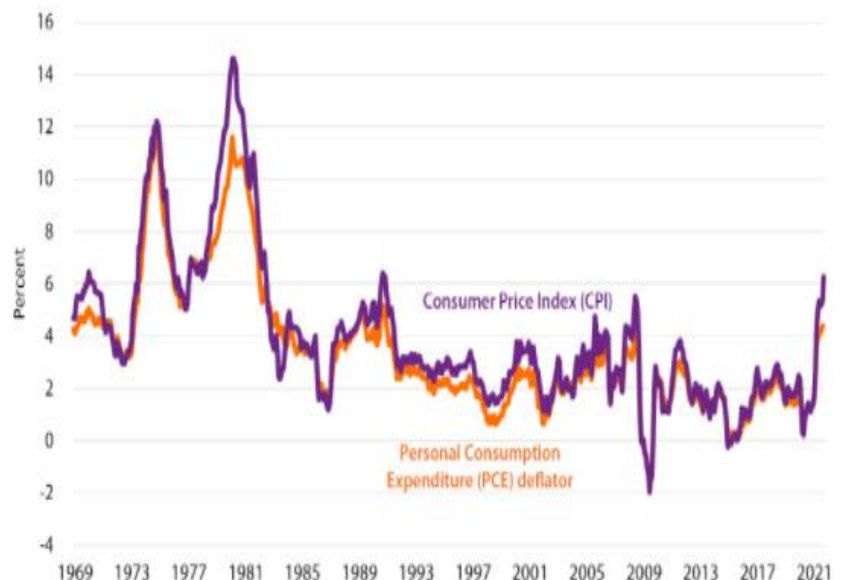
Most readers will accordingly be very familiar with my next graph which indicates that relative to the price of gold – the world's traditionally most valued inflation hedge – the US Dollar has annually lost buying power at a compound annual average rate of 9.2 percent over the past quarter century:



Compare that to the graph on the right which tracks US inflation over the past half century in which it is clear that the average 'official' rate has hovered around 3.5 percent.

So, someone is not telling ordinary folk the whole truth and investors have understandably become wary that the long market boom which gave US stocks an annual 16.4 percent growth rate since the bottom of the 2007-2009 Sub Prime market collapse, is inevitably over.

"Richard Cluver Predicts"  
February 4, 2022  
Page 3 ©2022 Sharefinder International



Source: US Census Bureau; US Bureau of Economic Analysis; author's calculation.

If central banks are obliged to raise borrowing rates in order to head off dangerously-rising rates of inflation, then share prices will have to decline in order to maintain balance with treasury bond yields. And my next graph indicates how US 5-year bond yields have risen explosively since August 2021 when they were yielding 0.22 percent to a peak on January 27 of 1.65 percent.

It's an immutable rule honoured traditionally by the lagging effect of market operators getting used to a new dynamic.....especially one which comes after a trend that has lasted nearly 30 years!

And that is why I think ShareFinder's projection in respect of Nasdaq Blue Chips V the Nasdaq as a whole is wrong on this occasion. ShareFinder's projection system is based upon a machine-learning approach which gives a higher weighting to current events than it does to past history. In other words, it will also take time adjusting to the new normal.



Well let's see. Sometimes the human brain can be smarter than computers.....because humans rely upon their lived experiences!

## The month ahead:

**New York's SP500:** I correctly predicted the weakness would be over last Friday and I expect the recovery to last until the third week of February when I expect another month-long retraction.

**Nasdaq:** I correctly argued that the retraction was now over ahead of volatile gains until early June. Now I see further declines from February 22 to March 2 before a sustained recovery until June.

**London's Footsie:** I correctly predicted the present recovery was a short-term thing in a longer-term declining trend lasting until early April when I expect a two-month recovery before things head south again.

**Germany's Dax:** I correctly predicted a brief recovery within a volatile decline which I expect to last the whole year.

**France's Cac 40:** I correctly predicted a yo-yo somewhat downward trend for most of the year. Expect weakness now until the second week of March ahead of a month of gains and then further declines.

**Hong Kong's Hangsen:** I correctly predicted the imminent end of the recent long decline and now I see gains until mid-May followed by a two-month decline followed by a protracted recovery.

**Japan's Nikkei:** I correctly predicted a decline which I expect to last until late April when a sharp recovery appears likely.

**Australia's All Ordinaries:** I correctly predicted a falling trend which I expect to last for most of the year. Within that I saw a brief recovery which I expect to last until late February before the decline resumes.

**JSE Top 40 Index:** I correctly predicted weakness which I expect to last until late May when a longish rally appears likely.

*"Richard Cluver Predicts"*

February 4, 2022

Page 4 ©2022 Sharefinder International

Published by Sharefinder International

<http://www.sharefinderpro.com>

richard@rcis.co.za



**ShareFinder JSE Blue Chip Index:** I correctly predicted weakness to the end of the month ahead of another last rally which might last until the 17<sup>th</sup> before declines until late August.

**Rand/Dollar:** I correctly predicted a recovery which I still see lasting 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 94.56 percent.***

---

## ***FINANCIAL MAIL EDITORIAL: Government will have no excuses when SA's beleaguered middle class collapses***

02 FEBRUARY 2022

When Reserve Bank governor Lesetja Kganyago hiked interest rates by 25 basis points last week, those who were listening might have heard an audible groan from SA's besieged middle class.

The Bank's reasoning was that inflation had climbed to a five-year high of 5.9%, so Kganyago was only following SA's inflation-targeting policy.

But it's not as if the economy is so hot, and demand rising so fast, that Kganyago needed to cool the economy. That 5.9% inflation number wasn't a perfect reflection of what is happening to market prices set in a free economy; rather, it is a number driven partly by the grasping hands of a rent-seeking state that hasn't bothered to ask what happens when it kills the golden goose.

The hollowing out of SA's middle class in recent years is a subject that has been glossed over by many economists. But the indisputable fact is that an increasingly small number of employed South Africans are having to pay for an ever-swelling group of unemployed South Africans.

Over the past decade, SA's tax base added just 500,000 people, while the number of unemployed rose from 7.1-million past 10-million, and those on welfare from 16-million to 18-million.

Yet each year, delinquent municipalities seek to leech an ever-larger amount from a proportionally smaller number of working South Africans, partly to pay bloated salary bills for officials who, in many cases, have no right to occupy a chair.

It doesn't help that Eskom now wants a 20.5% tariff hike for the 2023 financial year — and this after a 17.8% hike imposed on municipalities last year. Throw in the 40% rise in petrol prices — due to a steep rise in the oil price, worsened by the extra fuel taxes ladled into the price in recent years — and you have a brewing crisis.

Needless to say, all these hikes — imposed not as a consequence of rising demand, but because of gross inefficiencies at state-owned monopolies — are leaving South Africans far poorer.

This week DebtBusters, the largest debt counselling company in the country, reported that demand for debt counselling soared 18% in the last quarter of 2021. Those who applied for counselling were battling to keep on top of their finances because their real income, with inflation stripped out, had shrunk by 25% over the past five years.

This accords with the grim picture painted by the Pietermaritzburg Economic Justice & Dignity Group, whose household affordability index shows a basic basket of food cost R4,401 in January — an 8.6% increase on the same month last year. It urges policymakers to wake up to "the major affordability crisis" facing ordinary South Africans.

But why would they? Up to now, the evidence suggests, government officials seem to believe the country's citizens exist only as a source of tax to finance their stay in office. Nor do they have to deal

with the real-world realities of their subjects, since they're guaranteed a job and wage hikes untethered from the service they notionally provide.

Even though middle-income households have taken financial strain during the slow growth of the past decade, and particularly during Covid, far more terrifying has been the rise in unemployment and the relative decline in wage earnings for the bottom 50% of income earners.

The bottom line is that without sustained, rapid economic growth — something that will be challenging in the wake of the pandemic and the July unrest — the tension between SA's small, stagnant tax base, the beleaguered middle class, and the exploding demand for welfare is likely to become ever more acute. Government officials don't seem to be listening — but when this pot boils over, they'll have no room to feign surprise.