



Our Weekly Paid Newsletter

Richard Cluver Predicts

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



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One of the problems of being an active investor is that one can get too close to the action leaving one with roller-coaster emotions which are not good for one's sleeping pattern.

It is not easy to see one's theoretical wealth fall by a few million in a few days because the US inflation rate came in far higher than most expected, or because Mr Putin needs to divert the attention of the Russian people from some uncomfortable local news and so he has sent 100 000 troops to the Ukraine border.

The facts are that the life of a share market investor is a continuous process of swings and roundabouts and if you cannot sleep soundly because on paper you have lost money one day and made twice as much the next, then you need to learn to put a little distance between yourself and everyday events. The reality is that the marketplace has never been a dull place and it is unlikely to ever be so in the future. The wise investor accordingly learns to live with this fact, instead of watching his own footsteps in the daily sands of time, the wise investor focuses on the far horizon.

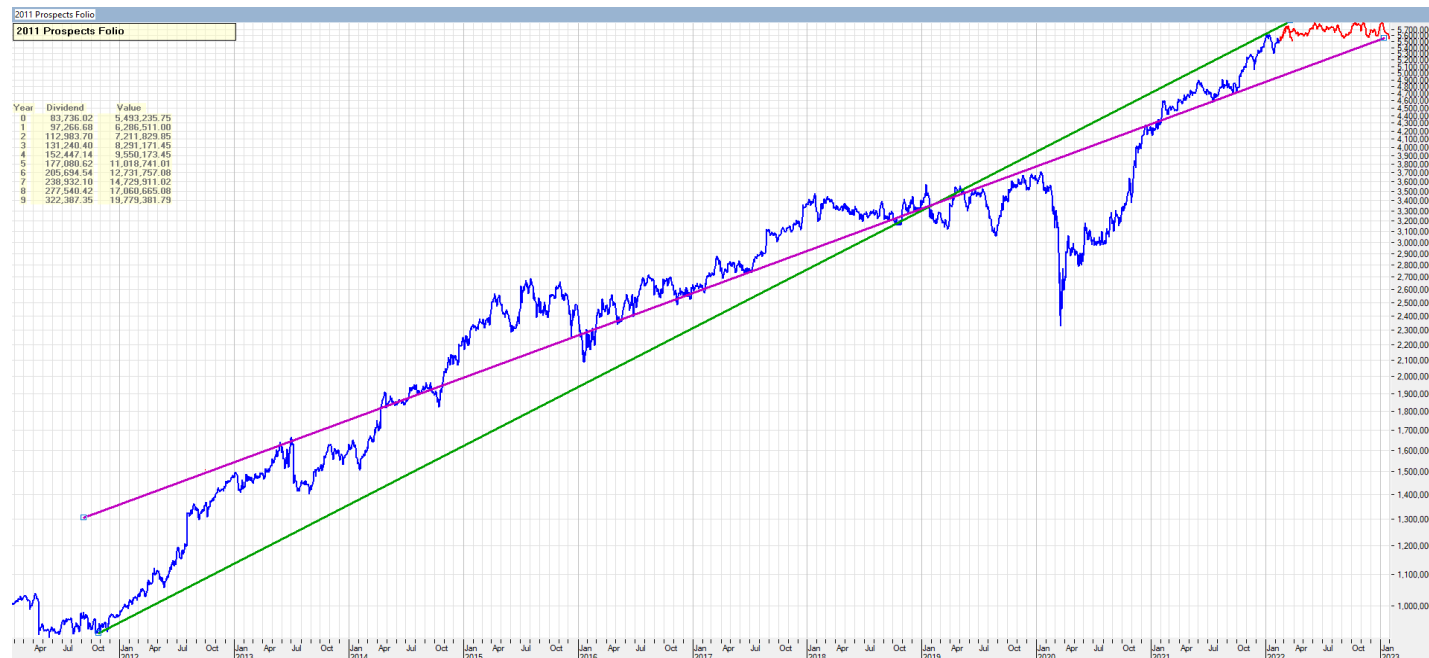
To illustrate the point, there are several ways of viewing your portfolio. Consider the Prospects portfolio graph below and instead of focusing upon the blue line of the day to day value, what is important to the normal long-term investor is the **SLOPE** of the green trend line. So long as it is heading upwards at better than the inflation rate then you know you are ahead of the game.



In fact the green line has been rising at a compound annual average rate for the past decade of 19.4 percent whereas inflation averaged 5.06 percent throughout. Thus while an original investment of R1-million in January 2011 has grown to a present R5.40-million, owners of this portfolio grew their REAL wealth by 14.34 percent a year. Applying the “doubling number of 72” thus implies - 72 divided by 14.34 – that portfolio owners doubled their actual buying power every five years since the portfolio was launched.

At its present rate of growth the portfolio will be worth R11.18 million in five years time and ten years from now it might be expected to be worth R23.6-million. That is provided Mr Putin has not led the world into a nuclear holocaust; in which it won't matter to anyone will it!

There are, however, other important points to derive from the graph. The long-term growth mean has been slowing as a consequence of ANC economic policy which has moved away from fostering growth to instead favour the distribution of the fruits of all of our collective labours of the 20th century. I have thus drawn in the arithmetic mean of the past decade which is represented by the purple line.



Now we can see what ANC policy has cost investors for the purple line is rising at a mere 13.6 percent compound from which you also need to strip the inflation average of 5.06 (which is the rate the Rand is losing value relative to that of our international trading partners). Thus we arrive at a REAL mean rate of 8.54. However, that is still pretty good when you consider that the self same ANC economic policies have cost the average South African his job. He now has to live on Cyril's R350 a month special poverty grant. And there is no guarantee it will be renewed after next March!

There is, however, much more to gather from the graph. First of all, the fact that the blue day-to-day trace of the daily portfolio value was well above the green line ALL the time until early 2019 tells you the portfolio was doing consistently better than its long-term trend. And of course the blue line has been above the purple mean line since early last year which suggests that if current economic policies were continued, the trend of the purple line would soon begin to rise.

But note the red trace which is drawn by ShareFinder's artificial intelligence system which suggests that the portfolio will largely move sideways during 2022 because of events outside this country's control: namely the US Federal Reserve's struggle against rising world inflation! Worse, the implication of the fact that the red line intersects the purple line on the down-side in early 2023 implies that unless the SA Government can pull some significant growth cats out of the bag, the pressure will thereafter be upon pulling the purple line downwards into the future. If that happens we might all need to start re-examining our investment policies!

Importantly, you might ask, how does all of this make it easier to sleep at night? Well the green and purple trend lines simply smooth out the bumps of the swings and roundabouts. Recognising that after Putin has gone, someone else probably somewhere else will also be causing day-to-day worries. What the realistic investor should thus be doing is ignoring the background noise and focusing his attention upon the people who manage the companies he invests in. He should thus always be looking for company management

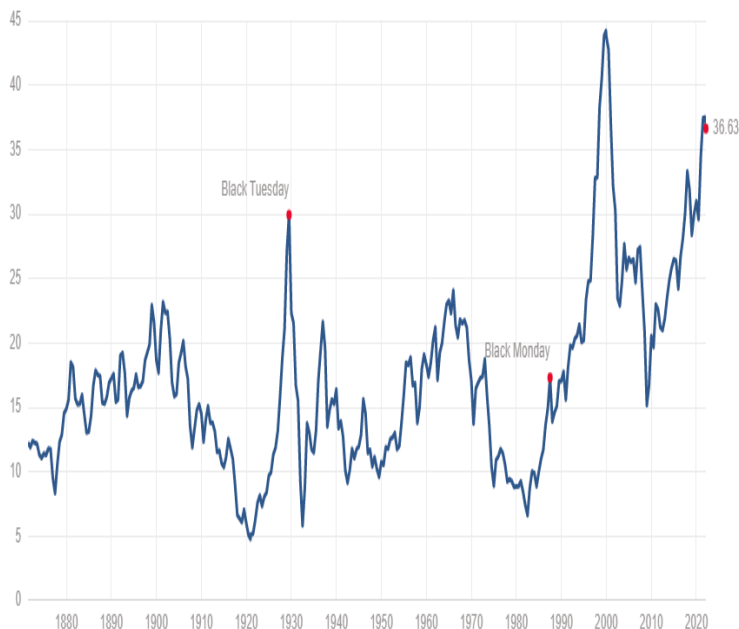
excellence and that is always measurable by the consistency of dividend payments; these are the Blue Chips automatically selected for its users by the ShareFinder system.

Here, the fundamental point is that nimble and competent management can always be counted upon to cope with whatever the Putins, Zumas and Bidens of this world fling at them.

Company and management excellence is the thing that will allow you to sleep soundly at night, not the self-importance of politicians who come and go!

I should leave it there, but there is one other important thing to take note of this week. I have regularly drawn readers' attention to the cyclically adjusted price to earnings ratio of Wall Street's Standard and Poors 500 Index which was devised by US economist Robert James Shiller, Sterling Professor of Economics at Yale University. Those of you who file my previous writings might turn to the December issue of my Prospects newsletter to compare with the graph on the right and, importantly, note that the 'Cape Ratio' has declined from 39.53 then to 36.63 this week.

The importance of the decline is the recognition that the pressure for a share market crash has been declining lately.....another reason to sleep easier at night. But the pressure is still unrealistically high!



The month ahead:

New York's SP500: I correctly predicted the weakness would be over last Friday and I still expect the recovery to last until the 22nd when I expect another month-long retraction to begin and then recovery until late June.

Nasdaq: I predicted a recovery until early June. But watch out for interim weakness from the 22nd to March 2.

London's Footsie: I correctly predicted the start of a new longer-term declining trend until early April when I expect a two-month recovery before things head south again.

Germany's Dax: I correctly predicted a brief recovery which I hope will last until March 2 within a volatile decline which I expect to last the whole year. The next weak phase should last from early March to early May.

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

Hong Kong's Hangsen: I correctly predicted gains until mid-May followed by a two-month decline followed by a protracted recovery to October.

Japan's Nikkei: I correctly predicted a continued decline until late April when a sharp recovery appears likely. Then I expect it to be down again in August until mid-November.

Australia's All Ordinaries: I correctly predicted a brief recovery which I expected to last until late February before the decline resumes for most of the year.

JSE Top 40 Index: I correctly predicted weakness until late April when a longish rally appears likely until late July.

ShareFinder JSE Blue Chip Index: I correctly predicted weakness until the 22nd and then gains until the first week of April. But then it is likely to be down again until late August.

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

Rand/Euro: I correctly predicted the start of weakness until early March ahead of gains from then until mid-June.

Predicts accuracy rate on a running average basis since January 2001 has been 86.53 percent. For the past 12 months it has been 94.4 percent.