Our Weekly Paid Newsletter
Richard Cluver Predicts
In our 35th year of service to the investing public of South Africa

Volume: 35 - Issue: 9

11 March 2022

An American cousin of mine was the navigator aboard the Enola Gay – the B-29 Superfortress which dropped an atomic bomb on Hiroshima on August 6 1945, a fact which has long left me with a morbid fascination with the event which was arguably mankind's greatest shame but which has provided us with 77 years of relative global peace…..until now.

My generation, the one which followed that terrifying event and lived long with the fear that novelist Neville Shute's book 'On The Beach' might any day come true, has in recent years tended to forget the terror that nuclear weapons have long posed us. Most of us have forgotten the photographs of melted concrete and radiation-scarred babies which used to haunt us in the aftermath of World War Two.

Little Boy: the bomb that changed the world

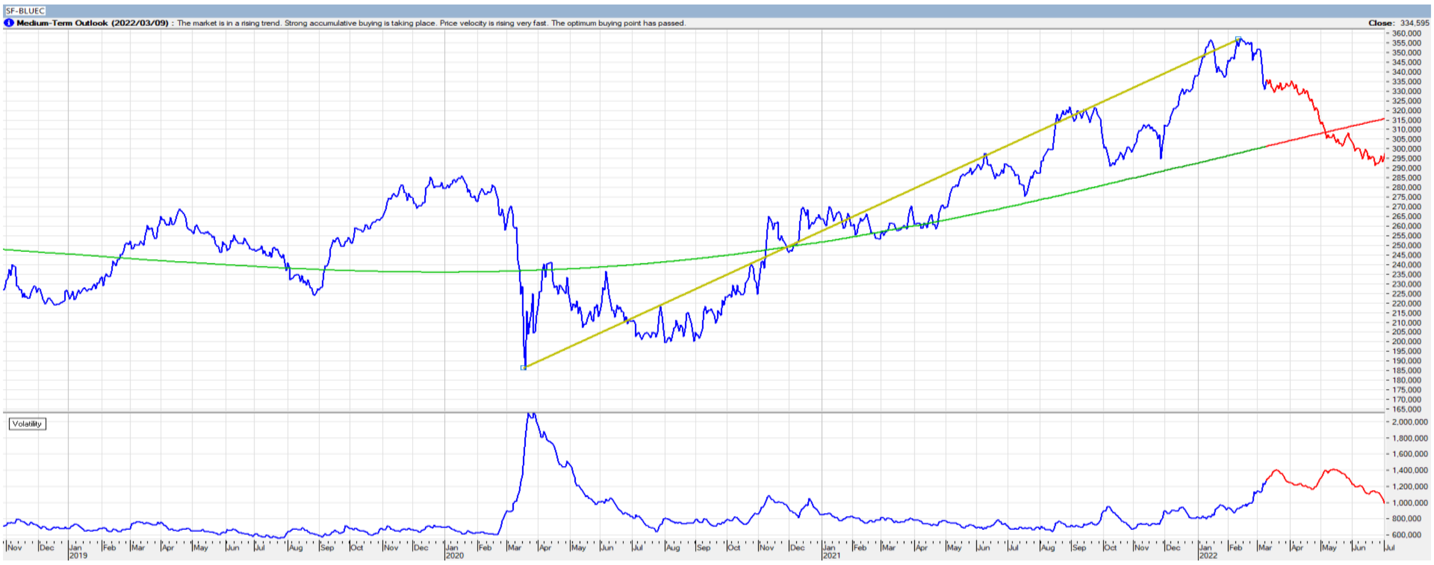
But now it is back. In the words of Vladimir Putin's ally President Alexander Lukashenko of Belarus, "Russia is being pushed towards a Third World War. We should be very reserved and steer clear of it because nuclear war is the end of everything!"

The thought of the world's largest cache of atomic weapons in the hands of one man whom many believe to be deranged because they cannot fathom why Vladimir Putin has launched a war they believe he cannot possibly win, is a threat to every citizen of Planet Earth.

Fortress Russia, long readied for this event and well supplied with most of its day-to-day needs from its own abundant resources is, nevertheless learning that in our modern interconnected world, nobody can ever completely isolate themselves from things like an economic crisis. Thus, facing mounting pressure from his own people who are prohibited from publicly protesting against the rising threats to their individual wellbeing, Putin must be surely feeling dangerously isolated. With his back to a psychological wall of terror, it is anyone's guess what he might do…..and what the consequences might be for you and I!

As always when I wonder how things are going to turn out, I turn to the movements of the world's securities markets and with ever increasing awe towards ShareFinder's artificial intelligence tool which, a year ahead of the event, predicted the "Crash of 2020" and the Covid-19 Black Swan which precipitated it. Readers will, I assume, obviously recall the book I published in September 2019 predicting it all. They might also, if they have been regular readers of this and other columns I am responsible for, also recall that I (and the ShareFinder program) predicted another market crisis for the opening months of 2022 and that I created cash in all of my virtual portfolios in order to be able to profit from the latest misery.

Thus emboldened, I will start with ShareFinder's projections for Blue Chip South African shares which, in the aftermath of the Covid Crash of 2020 had been rising at an unprecedented compound annual average rate of 41 percent as highlighted by the yellow trend line in my first graph…..until Putin invaded the Ukraine. Notice also the smoothly-curving green line of ShareFinder's long-term investment cycle which had long predicted the crash of 2020. That green line tells us that, with an extremely high probability of better than 90 percent accuracy, that the South African market will take the current events in their stride: that an economic recovery in South Africa is extremely probable…..notwithstanding ANC fumbling, load shedding, the RET faction and the Ukraine.

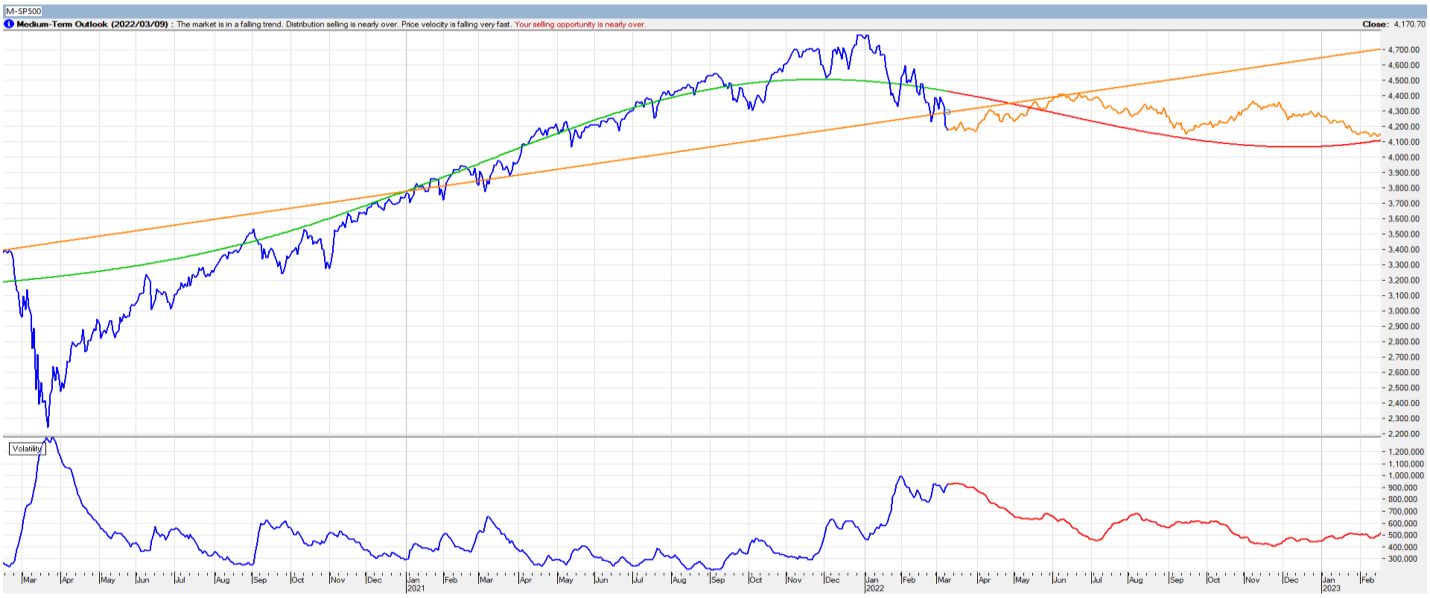


But consider the red line with which ShareFinder projects the likely medium-term trend. It is saying that before the good times roll again we will be taking quite a lot more pain with, on its present analysis, the probability that we will only see JSE Blue Chips bottoming in late June.

Then in the second graph of the composite, note how average share price volatility soared so massively in March 2020…and note on the extreme right that volatility is strongly on the rise once more….though ShareFinder does not at this stage think it will equal 2020.

The last time price volatility was spiking like this was in June 2006 and, then again in the opening months of 2007 when it was anticipating the global monetary panic we came to know as the Sub Prime Crisis and its aftershock in late 2008. November/December 2015 was also a troubling time when the market went on to lose 13 percent in three months, and in January 2018 when the market subsequently lost 17.5 percent. Thus you might conclude that ShareFinder's Volatility indicator is also a very accurate tool!

Now, while the former is important for South Africans and a few overseas investors who are currently once more waking to this country's potential, the market everyone always watches as a barometer of world economic health is Wall Street's S&P500 Index in respect of which I have created the same ShareFinder analysis in my next graph.



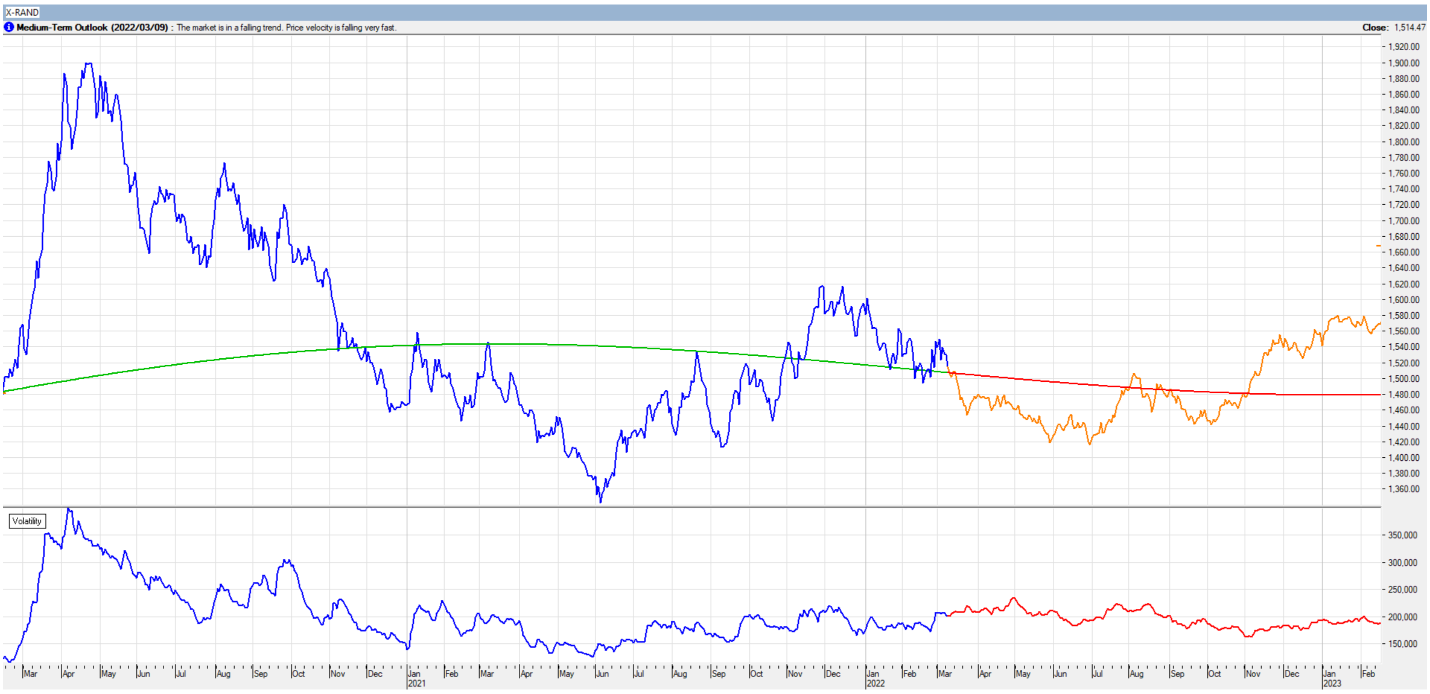
Note that the red medium-term projection senses a recovery beginning from March 31 but, importantly that recovery lies within a still-falling long term (Green) market cycle. I am assuming this suggests that we might be over the worst of the Ukraine events by the end of this month but that still leaves the world with US inflation and what the American Federal Reserve will do with interest rates. Thus from June to this time next year Wall Street will likely remain in a declining trend.

Note, furthermore, that although price volatility is peaking right now, it is already on the way down even though it will be unlikely to return to normal levels this year.

I have, over many years of working with ShareFinder, learned to trust its nearly unerring accuracy. It's sometimes hard to guess what sort of global events are likely to occur to so radically roil markets, but whenever ShareFinder predicts a significantly negative market trend, you can be sure that it will be in response to something bad happening somewhere. And the reverse is also true.

So, I say with caution, I do not think Putin will use his nuclear arsenal.

But to round this off, it is instructive to look at what ShareFinder thinks about the Rand and here we can see that during the time South Africa was locking down with Covid and our share market was tanking in 2020, the Rand was beginning to strengthen. ShareFinder had predicted a long recovery and here it was happening because the world was noticing that, despite the virus, we were shipping out mineral in growing quantities.



A hiccup happened in June last year because, of course, the market knew in advance that we would have rioting in July. But do note that ShareFinder thinks the Rand is likely to start weakening once more in July this year but WITHOUT the volatility that marked March 2020.

I am guessing that is likely in response to the inflation-taming events which still lie ahead of us which, fortunately, ShareFinder thinks will happen in a steady manner in order not to shake investment markets.

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

The month ahead:

New York's SP500: I correctly predicted fresh weakness which I expect to last until late-March followed by a recovery until late June.

Nasdaq: I noted divided signs of short-term downward pressure and medium-term pressures pushing for a gain until late June. Happily both were correct with losses slowing pointing now to a bottom in the last week of March.

London's Footsie: I correctly predicted a brief recovery. Now I see further losses until early April ahead of a two-month recovery.

Germany's Dax: I correctly predicted the start of a down-phase to last until early May and I still see that ahead of a three-month recovery until August.

France's Cac 40: I correctly predicted a yo-yo somewhat downward trend for most of the year and for now brief weakness which I still see lasting until the second week of March ahead of gains until June.

Hong Kong's Hangsen: I wrongly expected a very short up-tick followed by an equally short down and then recovery from around March 18 to the end of June, but I believe it has simply been delayed.

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

Australia's All Ordinaries: I correctly predicted the brief recovery. But I don't see it lasting beyond March 18 ahead of a year of further declines.

JSE Top 40 Index: I correctly predicted weakness. Now I see the decline slowing but continuing until late Arril ahead of a three-month recovery.

ShareFinder JSE Blue Chip Index: I correctly predicted weakness which I see continuing until the 16th when the market is likely to consolidate for a few weeks ahead of further losses until late June.

Rand/Dollar: I correctly predicted a recovery which I continue to expect to last until the end of June.

Rand/Euro: I correctly predicted gains until mid-June.

Predicts accuracy rate on a running average basis since January 2001 has been 86.55 percent. For the past 12 months it has been 94.51 percent.

Tax Ceiling suggested

Business Tech Staff Writer

The South African Institute of Chartered Accountants (SAICA) says South Africa should revisit the possibility of lowering its tax-to-GDP ratio and introducing a tax ceiling.

In a presentation to parliament this week, the group said the tax-to-GDP ratio is used as a measure of how well the government controls a country's economic resources and is a good gauge of a nation's tax revenue relative to the size of its economy.

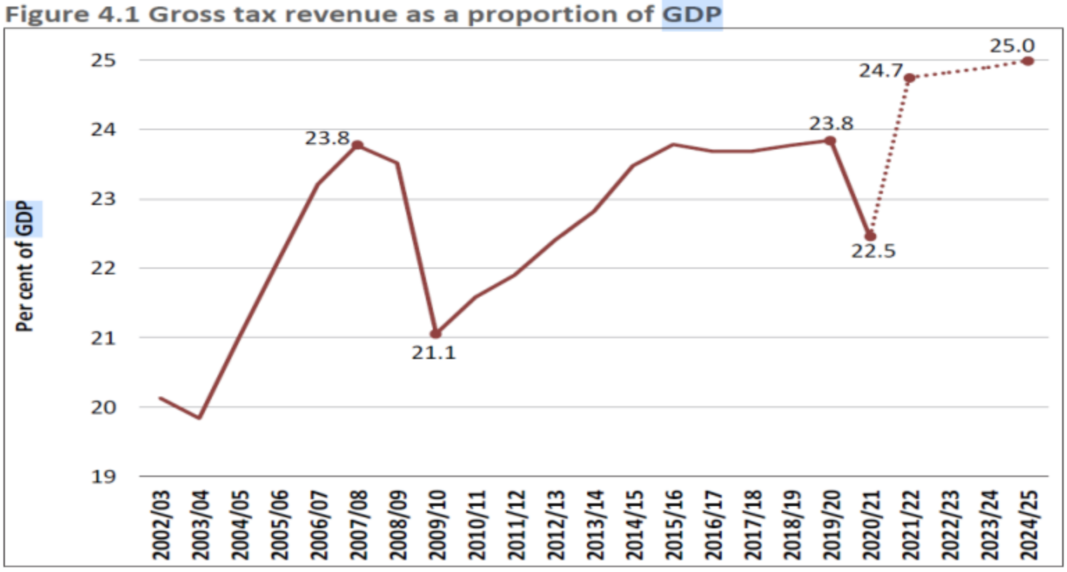
According to the World Bank, tax revenues above 15% of a country's GDP are a key ingredient for economic growth and, ultimately, poverty reduction.

"Higher tax revenues mean a country is able to spend more on improving infrastructure, health, and education – keys to the long-term prospects for a country's economy and people.

"Thus, the higher the ratio, the higher the proportion of money that goes to government coffers; ie, a low ratio puts pressure on a government to meet its fiscal deficit targets."

South Africa's ratio is estimated to be 24.7% in 2021/22 rising to 25% in 2024/25.

Figure 4.1 Gross tax revenue as a proportion of GDP



Source: National Treasury and SARS

However, it is has become evident that South Africa's tax revenues have (on average) been growing despite weak economic growth, SAICA said.

"A high tax-to-GDP ratio is not a problem where taxpayers are receiving good value for their money, however, this is not a reality currently in South Africa.

"The Katz Commission in its third report recommended a set ceiling of 25% as the maximum tax to GDP ratio. The purpose of this is to deal with when too high taxes become damaging to an economy as theorised by the Laffer Curve."

National Treasury has in recent years rejected this ceiling and questioned it, which is reasonable. However, it has not proffered any research that shows that too high taxes can never be damaging to the economy, the institute said.

Civil society group Outa has previously published a paper on a tax ceiling and concluded that 18.6% is an appropriate tax to GDP ratio for the country. It added that parliament itself considered the issue in 1996 but has not since revisited its recommendations.

“Should the current fiscal policy in fact be wrong and damaging to the economy, it would be incumbent on parliament to ensure it is properly informed on this risk, SAICA said.

“Statements made by the Minister for example, that the return from increased taxes has been difficult to gauge in the last few years as in some instances higher tax rates have not realised higher returns, have been made but the reasons for this was not made clear – is it damaging the economy or something else?”

Concrete evidence South Africa is at top of Laffer curve

The 2022 national budget provides concrete evidence that South Africa is at the top of the Laffer curve, says Tertius Troost, manager of tax consulting at Mazars.

The Laffer curve is an economic theory that shows that if citizens are taxed at increasingly higher marginal rates, then at some point revenue collections will start to decline as people stop paying. The curve is used to illustrate the argument that sometimes cutting tax rates can result in increased total tax revenue.

“Increasing the top tax rate from 41% to 45% for taxable incomes above R1.5 million in 2017/18 appears to have generated significantly less than the projected R4.4 billion per year,” said Troost.

“It shows that rate increases lead to emigrations of high-net-worth individuals which have a negative effect on state coffers. It is encouraging to see that National Treasury is keeping a close eye on this.”

PANDORA PAPERS REVEAL OFFSHORE HOLDINGS OF UKRAINIAN PRESIDENT AND HIS INNER CIRCLE

by **Elena Loginova (OCCRP/Slidstvo.Info)**

Ukrainian President Volodymyr Zelensky rode to power on pledges to clean up the Eastern European country, but the Pandora Papers reveal he and his close circle were the beneficiaries of a network of offshore companies, including some that owned expensive London property.

Key Findings

- Ukrainian President Volodymyr Zelensky and his partners in comedy production owned a network of offshore companies related to their business based in the British Virgin Islands, Cyprus, and Belize.
- Zelensky's current chief aide, Serhiy Shefir, as well as the head of the country's Security Service, were part of the offshore network.
- Offshore companies were used by Shefir and another business partner to buy pricey London real estate.
- Around the time of his 2019 election, Zelensky handed his shares in a key offshore company over to Shefir, but the two appear to have made an arrangement for Zelensky's family to continue receiving money from the offshore.

Actor Volodymyr Zelensky stormed to the Ukrainian presidency in 2019 on a wave of public anger against the country's political class, including previous leaders who used secret companies to stash their wealth overseas.

Now, leaked documents prove that Zelensky and his inner circle have had their own network of offshore companies. Two belonging to the president's partners were used to buy expensive property in London.

The revelations come from documents in the Pandora Papers, millions of files from 14 offshore service providers leaked to the International Consortium of Investigative Journalists and shared with partners around the world including OCCRP.

The documents show that Zelensky and his partners in a television production company, Kvartal 95, set up a network of offshore firms dating back to at least 2012, the year the company began making regular content for TV stations owned by Ihor Kolomoisky, an oligarch dogged by allegations of multi-billion-dollar fraud. The offshores were also used by Zelensky associates to purchase and own three prime properties in the center of London.

The documents also show that just before he was elected, he gifted his stake in a key offshore company, the British Virgin Islands-registered Maltex Multicapital Corp., to his business partner — soon to be his top presidential aide. And in spite of giving up his shares, the documents show that an arrangement was soon made that would allow the offshore to keep paying dividends to a company that now belongs to his wife.

A comedian and actor who had been famous since the 2000s, Zelensky began his political rise a few years after taking on a starring role in the political satire "Servant of the People," which began airing on the oligarch's network in 2015. The show starred Zelensky as a humble history teacher whose anti-corruption rant in class is filmed by a student, goes viral online, and wins him national office.

In a case of life imitating art, Zelensky ended up winning the real-world Ukrainian presidency just three-and-a-half years after the show's launch, with more than 73 percent of the vote.

Zelensky capitalized on widespread public anger at corruption, but his 2019 campaign was dogged by doubts over his anti-graft bona fides, given that his campaign was boosted by media belonging to Kolomoisky — who is accused of stealing US$5.5 billion from his own bank and funneling it offshore in concert with his partner, Hennadiy Boholiubov.

In the heat of the campaign, a political ally of incumbent President Petro Poroshenko published a chart on Facebook purporting to show that Zelensky and his television production partners were beneficiaries of a web of offshore firms that allegedly received $41 million in funds from Kolomoisky's Privatbank.

That ally, Volodymyr Ariev, didn't provide evidence, and his accusations have never been proven. But the Pandora Papers show that at least some of the details in this alleged scheme correspond to reality. The leaked documents show information on 10 companies in the network that match structures detailed in Ariev's chart.

The new documents show that part of the network was managed with help from Fidelity Corporate Services, an offshore consultancy that was one of 14 firms whose documents make up part of the Pandora Papers leak. The documents show that Zelensky and his partners used companies based in the British Virgin Islands (BVI), Belize, and Cyprus.

Two of Zelensky's associates in the offshore network, who were also part of his TV production company, now hold powerful positions. Serhiy Shefir is Zelensky's top presidential aide, while Ivan Bakanov heads the Security Service of Ukraine.

These powerful positions also come with risks. Shefir narrowly escaped an apparent assassination attempt when his car was fired on outside Kyiv on September 22. He was unharmed, but his driver was wounded.

Zelensky has repeatedly pledged to rein in oligarchs. The day after the attack on Shefir, the country's parliament passed a bill that would create a register of oligarchs and bar them from financing political parties or taking part in privatizations. Zelensky said that the attempt on Shefir's life will receive a strong response and will not influence his fight against vested interests.

A spokesman for Zelensky declined to comment. Shefir and Bakanov did not respond to questions. Serhiy Shefir's brother Borys, who is a part-owner of Maltex Multicapital Corp, said he may indeed be an owner, but was unaware of the details of the offshore arrangement, which was largely the work of Ukraine's now-Security Service chief, Bakanov.

"Bakanov was our financial director, he set up the financial schemes of our company. Speaking honestly, I'm not ready to respond to you," he said.

Borys Shefir said such offshore arrangements were necessary because of the threat to the company of "authorities and bandits." Kvartal 95's members were moving to divest themselves of offshores, but it was a slow and difficult process, he said.

Mr. Holmes' New Neighbors

It is unclear what most of the offshore network was used for, but a partial answer to the mystery can be found on London's Baker Street, near the residence of another famous fictional character: Sherlock Holmes.

Pandora Papers documents show a network company was used to purchase an apartment in London just a short walk from the museum that now stands at 221b Baker Street, the address of Sir Arthur Conan Doyle's legendary detective. The area is one of several pricey parts of London favored by foreign investors using anonymous shell companies.

That apartment, a three-bedroom flat on Glentworth Street, was bought for 1.58 million pounds ($2.28 million) in 2016 by a Belize company owned by Shefir, SHSN Limited. A two-bedroom flat nearby in Baker Street's

Chalfont Court building, which was bought by Shefir for 2.2 million pounds (US$3.5 million) in 2014, was also transferred to SHSN Limited in 2018.

The documents also show that another Kvartal 95 shareholder, Andrii Iakovlev, obtained a roughly 1.5-million-pound ($2.3 million) apartment in the Westminster Palace Gardens building, a short walk from the Houses of Parliament, in 2015 after his BVI company purchased another BVI company that owned the property.

When contacted by a reporter, Iakovlev said: “Young lady, I don’t speak with people I don’t know. Contact our lawyers.”

Iurii Azarov, a Ukrainian lawyer who has worked for Zelensky and his partners and whose name appears on some of the documents found in the Pandora Papers, also declined to comment.

Mid-Election Maneuvering

There is no sign that Zelensky himself was a part of the London property deals. However, the documents show that he was a key player in other parts of the offshore network.

At the center of the web of foreign firms is Maltex Multicapital Corp, which has never before been linked to Zelensky.

By 2017, Maltex was divided equally between shell companies belonging to Zelensky, Iakovlev, and brothers Serhiy Shefir and Borys Shefir. Ivan Bakanov, another Kvartal 95 partner who now serves as Ukraine’s secret police chief, was the beneficiary of another company that acted as nominee and trustee for the four other men’s ownership of Maltex.

Zelensky, together with his wife, owned a quarter of Maltex through a Belize-registered firm called Film Heritage. But in 2019, in the heat of Zelensky’s election campaign, Film Heritage transferred its ownership of Maltex to another company owned by Serhiy Shefir, the soon-to-be presidential chief assistant. The transfer documents were prepared by Iurii Azarov.

The deal provided Zelensky with a measure of distance from the offshore network, while costing him nothing.

“The share certificate demonstrates that no money was paid by the receiving party. Therefore the ownership was merely transferred from one name to another,” said Martin Woods, a financial crime consultant who reviewed the documents for OCCRP.

Roughly six weeks later, the same lawyer, Azarov, signed another document that stipulated that Maltex would continue to pay dividends to Zelensky’s Film Heritage — even though it no longer owned any stake in the company. The document, a client profile of Maltex prepared for Fidelity, disclosed that the company’s five largest sources of revenue were Ukraine, Belarus, Russia, Belize, and Cyprus.

The Pandora Papers documents do not contain details on the size of any dividend payments, or how many may have been made. Since 2019, Zelensky’s wife, Olena Zelenska, has been the sole beneficial owner of Film Heritage, according to the online registry of officials’ asset declarations, meaning any subsequent payments would have flowed to her.

Financial crime consultant Woods said the share transfer was possibly a “charade” aimed at hiding a stake in Maltex while still being able to make money off it. Zelensky has not mentioned Maltex in any of his public asset declarations, including one filed for 2018, when he still owned 25 percent of the company.

In such an arrangement, “the real owner has placed another person to act as his or her proxy to pretend to be the shareholder,” Woods said.

“The person making the transfer wants to retain the shares and the benefit of the shares, but doesn’t want other people to know that that is the situation.”

In response to questions sent by Pandora Papers reporters, Fidelity confirmed it was the registered agent for Maltex Multicapital Corp, but it said that Zelensky was not currently an owner or beneficiary of any company under its administration.

"The present Ukrainian president is not our client, nor does he have any ownership or any other position in any entity under our administration," Fidelity said.

The company also argued that there would have been nothing wrong to have worked for Zelensky prior to his ascent to political office in 2019. "We don't see any valid reason why such a private citizen should be precluded from venturing to conduct his business internationally, including through a BVI [British Virgin Islands] business Company, if so deemed fit."

The company did not respond to follow-up questions about Zelensky's other partners, as well as the transfer of his shareholding in Maltex Multicapital Corp to Shefir's partners.

A Wider Web

The documents in the Pandora Papers also contain details that dovetail with broader allegations of offshore machinations leveled against Zelensky and his partners during the 2019 election.

During the campaign, the pro-Poroshenko member of parliament Ariev claimed that Zelensky and his partners were the beneficiaries of an offshore network of companies that received $41 million in payments that originated from Privatbank, the Ukrainian financial institution that the oligarch Kolomoisky is alleged to have looted.

Ariev's allegations were detailed in a chart he publicized on Facebook showing a complex web of transactions between layers of companies based in offshore havens including the BVI, Cyprus, and Belize. The chart showed money flowing from the bank via a series of apparent shell entities to companies alleged to have been owned by Zelensky and associates.

Ariev has not provided documentation to back up his claims.

However, the Pandora Papers documents do provide the first corroboration for elements of his allegation: that 10 of the companies that allegedly received the money really did belong to Zelensky and his partners. Such information has not previously been publicly available.

The new documents do not, however, corroborate Ariev's claims that the offshores received funds from Kolomoisky's Privatbank. They provide only fragmentary information about how money moved through Zelensky and his partners' offshore network. The financial flows that are visible from the documents appear to be connected to their television production business, of which Kolomoisky was a client.

The leaked documents show the offshore network was set up by individuals behind Kvartal 95 in 2012, the same year in which local media reported that Kvartal 95 entered into a production deal with Kolomoisky's 1+1 Group.

The Pandora Papers show that SVT Films Ltd, a company that was as of May 2013 half-owned by the BVI holding company Maltex, was to be paid $1.2 million in licensing fees by January 2013 by an offshore company linked to Kolomoisky's 1+1 network for the television program "Make a Comedian Laugh."

In 2015, a company called Gimentiano Holdings Ltd, which was ultimately owned by Zelensky's friend Andriy Iakovlev, also received $750,000 into its account at the Cyprus branch of Kolomoisky's Privatbank. The money came from SVT Films Ltd. for "payment of interim dividends."

OCCRP has previously reported that the Cyprus branch played a key role in Kolomoisky and his partner's alleged multi-billion-dollar theft from the bank. Kolomoisky's partner, Boholiubov, declined to respond to questions sent by reporters that were addressed to both men.

Even as Zelensky pushes his anti-oligarch campaign, some continue to doubt his sincerity. Among them is Ruslan Ryaboshapka, who was picked by Zelensky as the country's top prosecutor in 2019, but ousted from the role in early 2020. He told OCCRP he believes this was due to pressure from the oligarch Kolomoisky.

"A president shouldn't own offshore companies. In general offshore companies are bad, whether they're owned by a president or not," Ryaboshapka said.

He called moving money offshore "an old tradition" in Ukraine, because the country was perceived as a dangerous place with "no rule of law." But still, the use of such companies today raises red flags of "tax evasion or the legalization of dirty money," he said.

"That's the essence of offshore companies."

Aubrey Belford (OCCRP), Margot Gibbs (ICIJ), Luke Harding (The Guardian), and Simon Goodley (The Guardian) contributed reporting.