



Our Weekly Paid Newsletter

Richard Cluver Predicts

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



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The moment I have long awaited looks as if it is nearly upon us: the upturn of the JSE is nigh after a tough few months that have subjected us to the daily dread of watching the value of our portfolios steadily decline.

Veteran investors have generally learned to be philosophical about such times because they have experienced so many waverings of the “snake in the tunnel” that they well understand it little matters to what extent and how often the snake wavers, provided the tunnel itself keeps on rising. But you have to be VERY experienced not to let those periodic down-turns get to you!

So I thought this morning to take a look at the snake in the tunnel of the Prospects Portfolio which so many readers follow very closely indeed. And indeed you should because over time it has been one of the world’s best performers.

The parallel orange trend lines I have drawn onto the portfolio performance graph since its inception in 2011 represent the boundaries of the tunnel which, if you care to calculate them, have risen throughout at 14.5 percent compound.



Here please note that I take the assumption that the average follower of this column extracts and spends his dividends rather than re-invests them. To calculate the actual performance of the portfolio you would thus need to add its 2.5 percent dividend yield to achieve a market-comparable performance rate. Since so many of you do me the frequent courtesy of phoning for a chat or simply e-mail your views, I think I understand your profile to be mostly retired folk who need their dividend income to live on and that is why we do not calculate using the re-invested value. But if you want to make comparisons with what the professional fund managers are achieving you need to add those two figures together to determine that the “Tunnel” is actually rising at 17 percent compound.

Viewing the long-term graph it is clear a bad thing started to happen in January 2018 when the portfolio – along with most JSE Blue Chips – began losing its upward momentum. That it happened to coincide with the date when Cyril Ramaphosa took office as President is an unfortunate truth but it tells you something important about share market psychology. The rot which nearly destroyed the South African economy happened when the portfolio was comfortably gaining year by year in an untroubled fashion.

But it was only when Ramaphosa came to power that we – and the world – began to realise the full extent of the “State Capture” years, that market decline really began. The diverging purple trend lines accordingly depict the early Ramaphosa years with the lower (falling) line representing the fears of the pessimists who thought in the circumstances the best thing was to sell up and get out. The upper purple line, on the other hand, represented the rising optimism of those who believed Ramaphosa and his new team could fix things!

In 2019 when I was serialising to you readers my then up-coming new book “The Crash of 2020” I was warning that a global economic crisis was developing which was looking for a black swan event to precipitate it. And, of course, we all well know that Covid 19 proved to be that event and, just as I had predicted, it originated in China (though at the time I believed it would have been something like China invading Taiwan).

Students of share market charting will always tell you that a “broadening formation” like that depicted by the divergent purple line will inevitably lead to a break-out and, of course, it duly happened in January 2020 when world share markets collapsed.

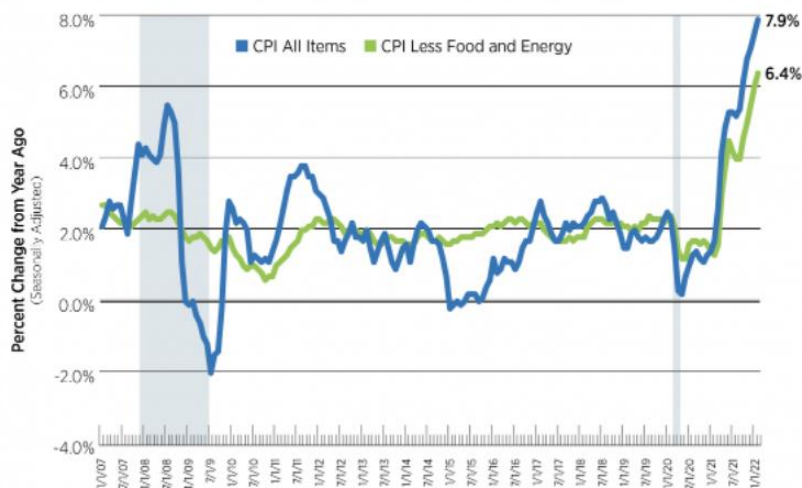
More importantly however that collapse was a very significant and very recognisable long-term market turning point. Those of you who had followed me closely during late 2019 had liquidated the weaker performers in their portfolios in order to create cash and you were thus able to buy in at the very bottom of the market in March 2020. So all of you who followed me, had a spectacular ride as the value of the portfolio rose from R2.4-million to R4.6-million in the following 12 months when, as you can see, it broke above the upper of the two parallel orange trend lines.

The recovery slowed then and for most of last year it more or less tracked the upper trend line. However, readers will recall that the deep underlying fear which I wrote about in “The Crash...” was that the impending Covid crash would be merely a dress rehearsal for the main event which would likely follow an explosion of world inflation rates in response to the 60-fold increase of global money supply over the past “irresponsible” half century.

That monster came home to roost in the USA earlier this year when inflation began to soar and Wall Street began to anticipate that the US Federal Reserve would be forced to deal with the problem head on by an accelerated process of increasing official interest rates and tightening its accommodation of government borrowings – an extremely difficult thing to do at a time when Vladimir Putin who has spent years building up a war chest of gold bullion, unleashed his war on the Ukraine. Wall Street investors realised that tough times in the shape of 1970s style “Cold War” type stagflation might be staring them in the face once more.

Consumer Price Index

(February 2022)



Source: U.S. Bureau of Labor Statistics

They understandably began to dump bonds and went into cash or, even more defensively, into gold bullion. The gold price consequently soared from \$1734.30 on September 29 to \$2018.60 on March 9. But then an interesting thing happened. It went into almost free fall and by this week had fallen to \$1804.10 where it looks like making a temporary bottom as my next graph illustrates. The world, it seems, is getting used to the new situation.



However, China has been in a Covid lock-down which might now at least be pausing and so market strategists are watching that country with concern lest the onset of summer unleashes some unwanted events which could heighten global tensions. What, the average investor should be asking himself, is what did Vladimir Putin and Xi Jinping decide upon as a combined strategy when they met in Beijing in February ahead of the Ukraine campaign.

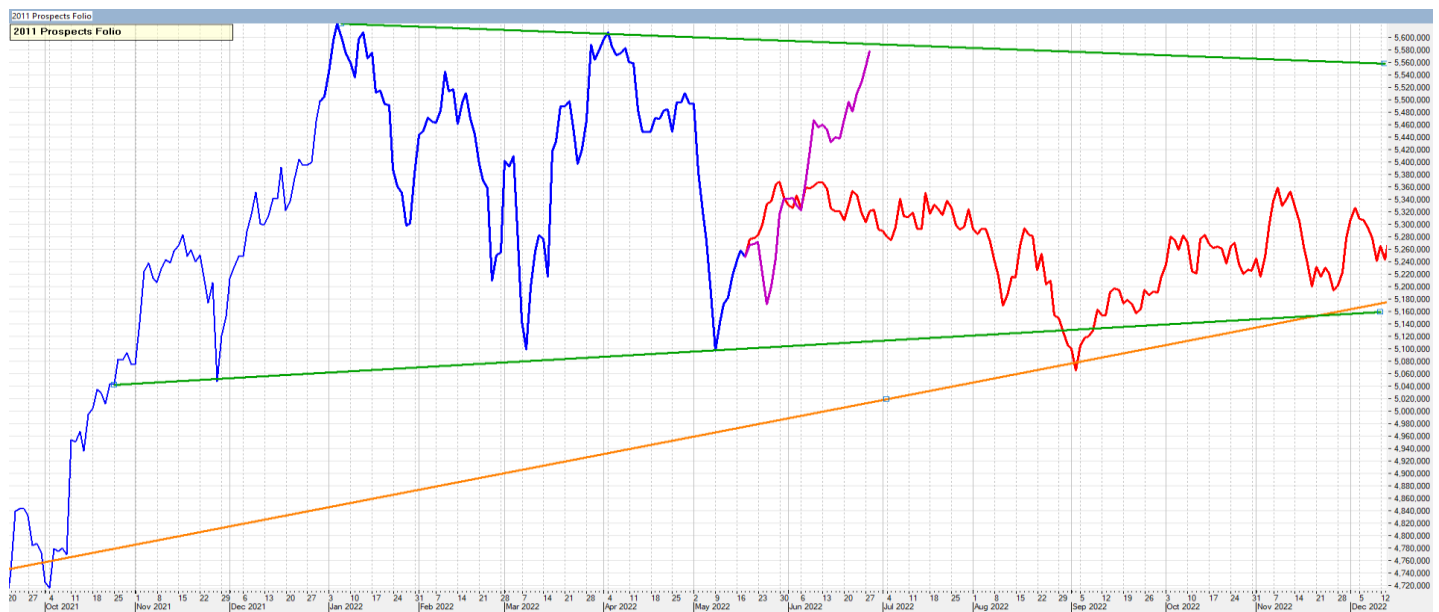
Subsequent events currently suggest that whatever the two agreed on has been tempered by Putin's inability to achieve his wished-for 72-hour takeover of the Ukraine and in early May, Reuters [reported](#) that "senior U.S. officials say they have not detected overt Chinese military and economic support," though they remained wary of the relationship in general.

"We have not seen the PRC provide direct military support to Russia's war on Ukraine or engage in systematic efforts to help Russia evade our sanctions," a Biden administration official told Reuters, referring to the People's Republic of China."

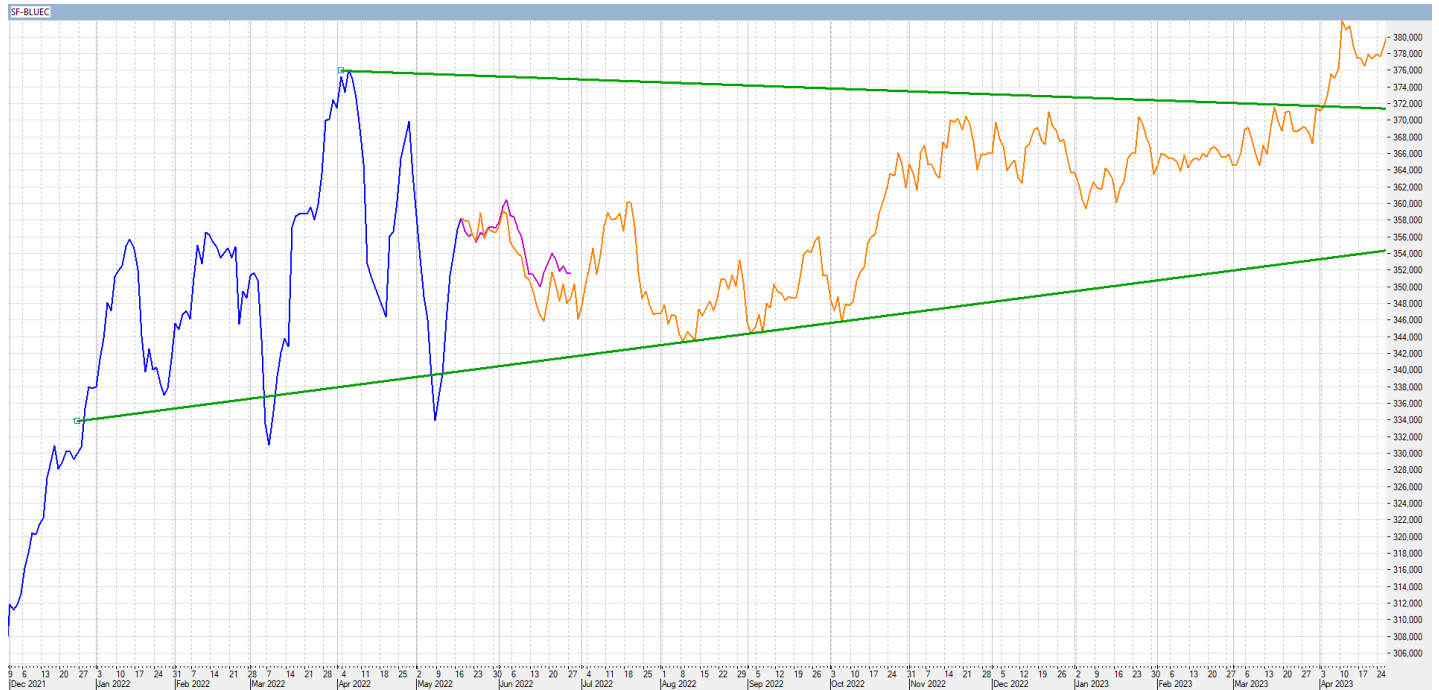
"As well as steering clear of directly backing Russia's war effort, China has avoided entering new contracts between its state oil refiners and Russia, despite steep discounts. In March its state-run Sinopec Group suspended talks about a major petrochemical investment and a gas marketing venture in Russia."

Biden himself took up the issue in a March 18 phone call with President Xi Jinping and subsequently told reporters, "I made no threats. But I made sure he understood the consequences of him helping Russia."

So back to the Prospects portfolio graph to see if we can sense anything about its immediate future and, the first thing to notice about the blown-up graph below is that ShareFinder predicts that the portfolio will remain ABOVE the orange long-term trend line for the rest of this year though a weakening in late August might give some cause for concern. But also note the purple short-term projection which suggests an immediate recovery might be under way:



Happily, South African Blue Chips as a whole look to be on an upward trend for the next 12 months with the best buying opportunity likely in early-August:



However, Wall Street's current brief recovery might represent nothing more than a 'dead cat bounce' which heralds a slow-down in a longer-term declining trend:



The month ahead:

New York's SP500: I correctly predicted the start of a short recovery but it should be over by early July.

Nasdaq: I correctly predicted a fortnight of gains lasting until the 19th/23rd ahead of a prolonged phase of weakness.

London's Footsie: I correctly predicted a month of gains followed by further losses in June ahead of a brief recovery in July. Overall, however the dominant trend remains down into the New Year.

France's Cac 40: I correctly predicted a brief up-tick which could last until early June against a longer-term downward trend until February.

Hong Kong's Hangsen: I correctly predicted an end to the declines with a brief recovery in June. Longer-term I see gains until early October.

Japan's Nikkei: I correctly predicted a recovery from mid-month until mid-July and then declines until the end of September.

Australia's All Ordinaries: I correctly predicted declines which I now expect to last until January but there are individual opportunities within this market.

JSE Top 40 Index: I correctly predicted the beginning of a recovery which I now expect to last until early September ahead of declines for the rest of the year.

ShareFinder JSE Blue Chip Index: I correctly projected a decline which I now see ending in late October.

Rand/Dollar: I correctly predicted that the weakening trend was over with gains likely until the end of June, but within that fresh short-term weakness to mid-June.

Rand/Euro: I correctly predicted further gains which have now begun and should last until early-June when a second phase of weakness could last until the end of July.

Predicts accuracy rate on a running average basis since January 2001 has been 86.63 percent. For the past 12 months it has been 94.68 percent.