Our Weekly Paid Newsletter

Richard Cluver Predicts

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Lest we forget it, this is a season of political madness; not just in South Africa but in some of the world's most influential nations......and it is inevitably having bad consequences for already critically-challenged markets everywhere.

On top of the chaos this past month of one of the world's usually most politically-stable nations, Britain, we have just seen the surprise re-election of a jailbird president in Brazil, the shooting of a former President of Pakistan while the mid-term elections in the US this week offered us a sombre reflection on political division bordering upon serious predictions of a possible civil war. And then, of course, we have the day-to-day utter frustration of having to witness the leadership of the ANC taking cheap pot-shots at each other.

If you are consequently feeling somewhat nervous about the long-term health of your retirement capital in what is clearly the very worst bear market since the Great Depression, take some comfort in knowing that we are into totally unchartered territory. Need I remind you of the table on the right which I published on October 28 which showed that Wall Street has fallen further than at any time since the start of the Great Depression in 1929...and worse is likely to come as we pay off the debt of years of US Federal Reserve irresponsibility.

I know I am frequently personally probably guilty of over-thinking the causes and effects of central bank irresponsibility. Nevertheless the ugly scenario which I offered you in my September 2019 book ***The Crash of 2020***, has almost certainly been surpassed by the reality of what has actually happened since then.

60/40 Portfolio: S&P 500/US 10-Year Treasury (Total Returns, 1928 - 2022)

Year	Return	Year	Return	Year	Return	Year	Return	Year	Return
1928	26.6%	1947	3.5%	1966	-4.8%	1985	29.0%	2004	8.2%
1929	-3.3%	1948	4.2%	1967	13.6%	1986	20.8%	2005	4.0%
1930	-13.3%	1949	12.8%	1968	7.8%	1987	1.5%	2006	10.2%
1931	-27.3%	1950	18.7%	1969	-7.0%	1988	13.2%	2007	7.4%
1932	-1.7%	1951	14.1%	1970	8.8%	1989	26.0%	2008	-13.9%
1933	30.7%	1952	11.8%	1971	12.4%	1990	0.7%	2009	11.1%
1934	2.5%	1953	0.9%	1972	12.4%	1991	24.1%	2010	12.3%
1935	29.8%	1954	32.9%	1973	-7.1%	1992	8.2%	2011	7.7%
1936	21.2%	1955	19.0%	1974	-14.7%	1993	11.7%	2012	10.7%
1937	-20.7%	1956	3.6%	1975	23.6%	1994	-2.4%	2013	15.6%
1938	19.3%	1957	-3.6%	1976	20.7%	1995	31.7%	2014	12.4%
1939	1.1%	1958	25.4%	1977	-3.7%	1996	14.2%	2015	1.3%
1940	-4.2%	1959	6.2%	1978	3.6%	1997	23.8%	2016	7.3%
1941	-8.5%	1960	4.9%	1979	11.4%	1998	23.0%	2017	14.1%
1942	12.4%	1961	16.8%	1980	17.8%	1999	9.2%	2018	-2.5%
1943	16.0%	1962	-3.0%	1981	0.5%	2000	1.2%	2019	22.6%
1944	12.4%	1963	14.2%	1982	25.4%	2001	-4.9%	2020	15.3%
1945	23.0%	1964	11.3%	1983	14.7%	2002	-7.1%	2021	15.3%
1946	-3.8%	1965	7.7%	1984	9.2%	2003	17.2%	2022*	-21.3%

That is why I redoubled my efforts to continue analysing it all, and in particular looking for possible solutions to the overwhelming problems facing mankind currently. The outcome is another book: a comprehensive study of what brought us to this point in history along with the mistakes and discoveries we made along the way. Happily, after the most comprehensive study I have ever undertaken, the consequence appears that the challenges we are now confronting are already being dealt with and I have been left with great hope. So, appropriately I believe, I have entitled it **'Hope'** and it is due for release at the end of this month.

You might also be relieved to know that you will be able to download it for free. All I ask is that you give something to charity and, in the process, also help me unravel one of mankind's greatest mysteries. More about that in the November issue of ***The Investor*** which comes out on November 30.

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

But I can right now give you a hint about my findings. In a nutshell, in our transition over millions of years as the first species to actively ponder our own place in the universe, man lived in hope. Then, with the evolution of religion, hope became replaced by Faith. Finally, in the modern era of exponentially accelerating scientific discovery, Faith is being replaced by Understanding which is leading us forward to great solutions.

But, back to current events; most of my readers have been fortunate enough not have lived through the Great Depression nor have many of us faced the desperation of millions of men and women who have felt the emasculation of, through no fault of their own, being unable through unemployment to put food on the family table.

Unlike South Africa where 33.6 percent of our population – the world's worst such statistic - daily face the consequences of unemployment, the United States, which has to shoulder much of the blame for the failed global economic policies that have brought us to this point, this week went to the polls with unemployment arguably the least of their concerns.

In contrast, the current US rate is 3.7 percent and employers needing staff are having to use big cash and kind incentives to persuade retired folk to fill the gap. Compare that with our situation where young people are prepared to work for no pay in order to get work experience on their CVs.

But then ours is the worst unemployment rate in the world. Proof, if you ever doubted it, that the socialist redistributive philosophy so gleefully thrust upon South Africa when the ANC came to power, has failed us just as miserably as it failed the peoples of the old Soviet Union.....and where Vladimir Putin's attempts to restore central command philosophies upon the Russian people has dragged them back to becoming the lowest economic growth region of the old USSR: and arguably the reason for a diversionary war on the hapless Ukraine in his bid to cling to popularity and power!

Almost as bad as South Africa is unemployment in Djibouti - 26.10% Equatorial Guinea - 25.00% Botswana - 24.90% Grenada - 22.90% Eswatini - 22.70% Lesotho - 22.40% and Gabon - 20.40%.

As a natural consequence, all of these are grappling with political instability, serious human rights abuses, surging crime rates and the emigration of their most talented children, not to mention day-to-day issues like power outages or total unavailability, a collapse of basics like water and sanitation services and an ever-present threat of serious social insurrection.

So it is illuminating to note for a start what is concerning Americans who went to the polls in a critical mid-term election to determine who will in future control their parliament and their senate. What bothers Americans today has turned the polls into referenda on a series of issues which South Africans, Swazis, Lesothos et al could only dream of as problems when the majority can barely feed themselves!

To shift the balance of power, Republicans needed to pick up five seats in the House and just one in the Senate and so these were the issues political candidates had to make front and centre to their campaigns:

- Abortion was put to a vote in five states. Proposed constitutional amendments in California, Michigan, and Vermont could establish a right to abortion, while a proposed change in Kentucky could state that its constitution doesn't protect that right. In Montana, voters will weigh whether to require medical treatment for an infant which survives an attempted pregnancy termination.
- Arkansas, Maryland, Missouri, North Dakota, and South Dakota were all considering whether to legalize recreational marijuana as 19 other states already have. In Colorado, where even the mountains are high, voters will decide whether to legalize psychedelic mushrooms for medical purposes.

- Slavery might be an issue you thought that was settled back in 1865, but Alabama, Louisiana, Oregon, Tennessee, and Vermont were asking their voters whether to outlaw it in their state. Why? Prison reform advocates are hoping the bans, which have passed in some other states, could help end forced prison labour.

Turning to the local scene, this week the ANC Womens League national task team endorsed ANC president Cyril Ramaphosa for second term ahead of Nkosazana Dlamini-Zuma. Ramaphosa garnered 52 votes, while Dlamini-Zuma got seven and Zweli Mkhize received only five votes with one member abstaining. This was a dramatic headline-grabbing shift in posture by the ANCWL which at the 2017 national conference endorsed Dlamini-Zuma on the women card.

But someone arriving in the country and viewing our massive social challenges would surely be bemused by what were the dominant issues preoccupying our politicians. Cynics would, however, not be surprised because our centuries-old experience of the political class has convincingly shown us that very few of them ever put the needs of their constituents above their own self-interest!

More importantly, though on most fronts short-term domestic issues like these have been dominating our news channels, they have been drowning out the Cop27 conference in Egypt which will arguably decide the fate of Planet Earth in the long-term. Since what is under consideration at the Cairo meeting is probably mankind's greatest current priority, it is shocking that you really have to scratch between the news headlines to hear much about Cop27

Pause for a moment to consider the gravity of that statement and then ask yourselves if the world's politicians – or we ordinary citizens for that matter - have any interest in things beyond their own narrow selfish ambitions?

So what has Cop27 been dealing with:

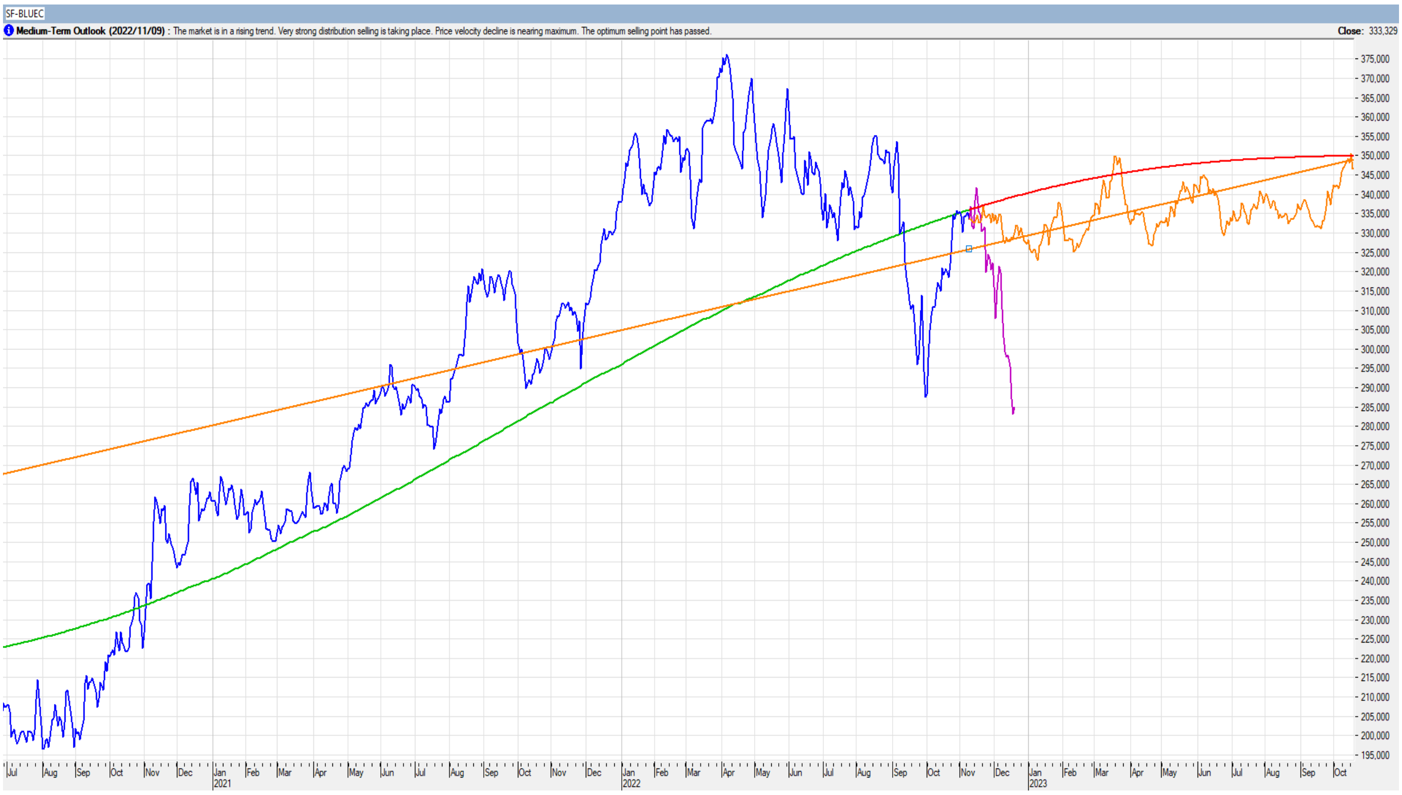
• The Switzerland plan — they (and other leading nations) plan to pay poorer countries to reduce their carbon emissions which would allow the Swiss to claim credits toward their own carbon footprint.

• Egypt may be hosting a conference dedicated to reducing carbon emissions, but it's eager to sell fossil fuels to Europe to raise money for its debt-ridden economy.

• Climate activists are protesting Coke's sponsorship of COP27, pointing to its increasing use of plastics. A new study by Oxfam said that the world's 125 wealthiest individuals collectively produce 393 million tons in annual carbon emissions — or 3 million tons each on average.

So, though a very large proportion of Earth's most respected scientists believe that the very survival of the human race is potentially at stake if we do not change our selfish ways, most of us – and the people we elect to represent us in our highest decision-making forums - simply do not seem to care!

With that thought in mind, what about the outlook for your investments? Noting that US inflation came in yesterday at 7.7 percent which was slower than expected and was immediately being hailed by analysts as a sign that inflation is beginning to moderate, let's start with ShareFinder's outlook for SA Blue Chip shares:



The purple projection line represents ShareFinder's most accurate thought which suggests that in the short-term quality South African shares have nearly ended their recent recovery trend with a sharp decline now probable until the end of the year. That view is matched by the orange medium-term projection which sees a bear trend until January 10 ahead of an up-swing to mid-March.

The long-term view, represented by the smoothly-curving green line which becomes red into the future, makes it clear that a major three-year up-cycle which began back in early 2020 is nearing its likely end with the peak likely towards the end of 2023. Not seen in this graph, however, the extension of that line hints at an exponential upward gain in 2024: a possible bonanza for share market investors who use current weaknesses to pick up still-existing bargains.

The relationship of the current price graph to the straight orange least-squares-fit trend line, which stretches in fact all the way back to 2009, suggests that most of the bargains have by now been taken up. However another brief opportunity is likely in early January, another in February and another in April.

Have a good weekend

The month ahead:

New York's SP500: I correctly warned that the short-term "dead cat bounce" was probably over globally but I correctly predicted further brief gains until around November 7 and then a decline until mid-February which view I continue to hold.

Nasdaq: I correctly saw gains ending with the end of the month and I still see an almost uninterrupted decline until mid-February within an overall decline lasting until September. In the short-term, however, there is some unexpected pressure for gains coming, perhaps, from the inflation news.

London's Footsie: I correctly warned that London was close to the top of an interim recovery which I saw peaking around November 14. That reversal began a little earlier than I expected but overall I continue to expect declines until at least mid to late February.

France's Cac 40: I correctly called the end of the brief recovery and continue to expect declines until mid-February.

Hong Kong's Hangsen: I correctly predicted a short-term slightly sideways trend until early December before the carnage resumes for a relentless drop until April.

Japan's Nikkei: I correctly saw an ending of the brief recovery with declines that I now expect to last until December 21 ahead of quite strong gains until early January.

Australia's All Ordinaries: I correctly predicted gains which I still see peaking around the 15th of November followed by a decline to the next bottom in mid-January.

JSE Top 40 Index: I correctly predicted sporadic gains until early-November followed by a steep decline starting around now until late January when the next up-cycle appears likely to begin.

ShareFinder JSE Blue Chip Index: As detailed in the main body of my text I correctly expected that the market was peaking. Now I continue to expect declines until early-January.

Rand/Dollar: I correctly predicted brief gains. Now I see some modest gains in December ahead of further weakness continuing through to early March.

Rand/Euro: I correctly predicted that the Rand was peaking and saw losses likely until the end of December when, from around the 28,th three weeks of gains appear likely.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.81 percent. For the past 12 months it has been 94.86 percent.

WAYNE DUVENAGE: Good riddance to e-tolls — though confusion reigns on roads debt

Despite finance minister Enoch Godongwana's confirmation two weeks ago that the e-toll scheme would finally be scrapped, there are some who still argue that this was the best way to finance the Gauteng Freeway Improvement Project (GFIP).

This shows a clear misunderstanding on two fronts: first, the cost of collecting e-tolls; and second, the unworkable way in which this scheme was to be administered. From the start, there were always two distinct arms to the project — the first being the costs of building the roads, and the second being the way in which this construction would be financed. On the issue of needing to upgrade the Gauteng freeway network, there was never any doubt. But when it came to how to pay off the bonds used to finance the upgrade, the e-toll scheme was the worst, and most expensive, option by far.

How much should the GFIP have cost society?

If you follow the numbers from the South African National Roads Agency Ltd (Sanral), it's clear why the final bill of R17.8bn paid to upgrade the 200km of roads was grossly overpriced. The following timeline, provided by Sanral and the National Treasury, paints that picture eloquently:

- In 2005, Sanral's own "statement of intent" document presented a price tag of R4.6bn for a 340km freeway upgrade and development project. Of this, the 200km for phase 1 of the GFIP was about R2.8bn.
- However, in January 2008, then transport minister Jeff Radebe greenlit the GFIP at a massively increased price tag of R11.8bn. A project which, just a few years earlier had a price tag indication at under R3bn, had shot up by about 400%.
- But it got even worse. Despite a grossly inflated price tag of R11.8bn, which was approved in the same year that the GFIP construction began, the final construction cost of the project came in at R17.8bn — another 50% on top of the already

inflated price by the time the construction was finished a few years later.

The answer about why the construction costs increased so massively depends who you speak to.

The construction companies and Sanral argued that the 2010 Soccer World Cup had changed the dynamics, making the environment a lot more expensive. Perhaps — but definitely not by almost 400%, on Sanral's estimated pricing in 2005.

In 2013, the Competition Commission indicated that the construction firms had indeed colluded to drive up prices, but this was only part of the problem. The bigger issue is that Sanral allowed this to happen on its watch — it had all the authority to contain costs, but instead looked the other way and allowed the corruption and collusive conduct to roll on unabated.

What financing options for the GFIP were available to Sanral?

There were always two options for Sanral to finance the GFIP.

The first was to receive funds directly from the Treasury for this upgrade, as it does every year for its non-tolled portfolio of roads.

The second was to declare this 200km stretch a tolled road and then try to collect these funds from road users. The challenge was that conventional tolling (through a boom-down plaza) would cause more congestion on these freeways, so an electronic "drive now, pay later" mechanism would be preferable, as it would allow the traffic to flow.

This is where Sanral's plans went awry. It chose the e-toll option, which would slap roughly R1bn per year onto society just to cover the costs of *collecting* the e-toll fees — and that's before any money was allocated to settle the actual road construction bonds.

That administration cost of about R1bn per year was based on the original five-year tender of R6.22bn, which Sanral said had been secured by the Electronic Tolling Company (ETC). The actual contracted figure was massively inflated to R9.9bn, which escalated the annual e-toll operations services component to R1.64bn per year over five years. That seems iniquitous as a funding mechanism for a bond to cover an R11.8bn freeway upgrade project — which would work out to R811m per year over 20 years, at 10% interest. But even at the grossly inflated R17.8bn cost, the annual bond payments would average about R1.2bn per year for 20 years.

So, why on earth would Sanral want to *double* the cost to society by slapping administration or collection costs of R1.6bn per year (to be paid to the ETC) on top of the construction costs?

It wasn't as if an extra R811m per year for the GFIP bonds would have broken the bank anyway — as far back as 2008, Sanral was already receiving R5bn a year from the Treasury for its non-tolled road portfolio. Especially as a Treasury allocation would come without the headache of the administration costs, or implementation of the scheme.

The unworkable e-toll headache

Back in 2008, Sanral and Radebe erred when it came to applying their minds to the e-toll pitfalls that lay ahead.

A thorough and meaningful independent investigation could have provided more sound advice than their "paid for" consultants did. After all, this was a scheme that had never been tried and tested in South Africa before.

One requirement for success, for example, was overwhelming public support for the scheme — but this was clearly missing from Sanral's strategy for the Gauteng project.

Furthermore, a thorough and independent adviser might have also informed them that the e-toll scheme's functionality relied heavily on the country's vehicle registry system (eNatis), as well as an efficient postal services system. Yet neither could even remotely be described as efficient.

And finally, Radebe ought to have questioned Sanral's enforcement ideas — including the threat of withholding vehicle licence renewals if people didn’t pay their toll fees, or downgrading their credit ratings. Neither of these was possible.

With the end of e-tolls, confusion abounds as to who owes what

Since Godongwana’s announcement, it has become obvious that there is no clear plan on how to proceed with this alternative option, in the absence of e-tolls.

While it appears that the financing of the GFIP bonds will be covered by 70% allocations from the Treasury and 30% from the Gauteng provincial government, the amount due is unclear.

A few days ago, Gauteng premier Panyaza Lesufi said the province still needs to negotiate with the Treasury how much it will have to pay, but also how its portion will be financed and over what period. Back in 2012, court papers lodged by Sanral indicated that R20bn had been borrowed and ring-fenced for the GFIP bonds.

Furthermore, Sanral’s financial statements show that between 2012 and 2022, the Treasury had already allocated R22.4bn to the agency specifically for the GFIP debt. This should effectively leave very little outstanding GFIP debt, including interest — unless, of course, Sanral has been reckless and not attributed any of the Treasury allocations towards the GFIP debt.

Either way, this illustrates that what Gauteng residents, and society, now need is absolute clarity and transparency from Sanral and the Treasury on how they arrived at their numbers.

The truth is, the e-toll plan was intended to enrich a few organisations connected to the revenue flows. These include Sanral, which planned to generate around 30% of its total revenue from just 1% of the road network, had it achieved the 94% compliance levels it wanted.

Fortunately, the public refused to roll over and comply and the government has had to come to its senses and apply the right funding mechanism — using the allocations from the Treasury. Even with a needless 10-year delay, the Treasury allocation option is far cheaper than the grossly overpriced e-toll option.

** Duvenage is CEO of the Organisation Undoing Tax Abuse*