Our Weekly Paid Newsletter
Richard Cluver Predicts
In our 36th year of service to the investing public of South Africa

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I cannot remember a time when South Africa was as swathed in doom and gloom as it is right now and then this morning I read one of my favourite local columnists, Justice Malala who summed up the situation like this:

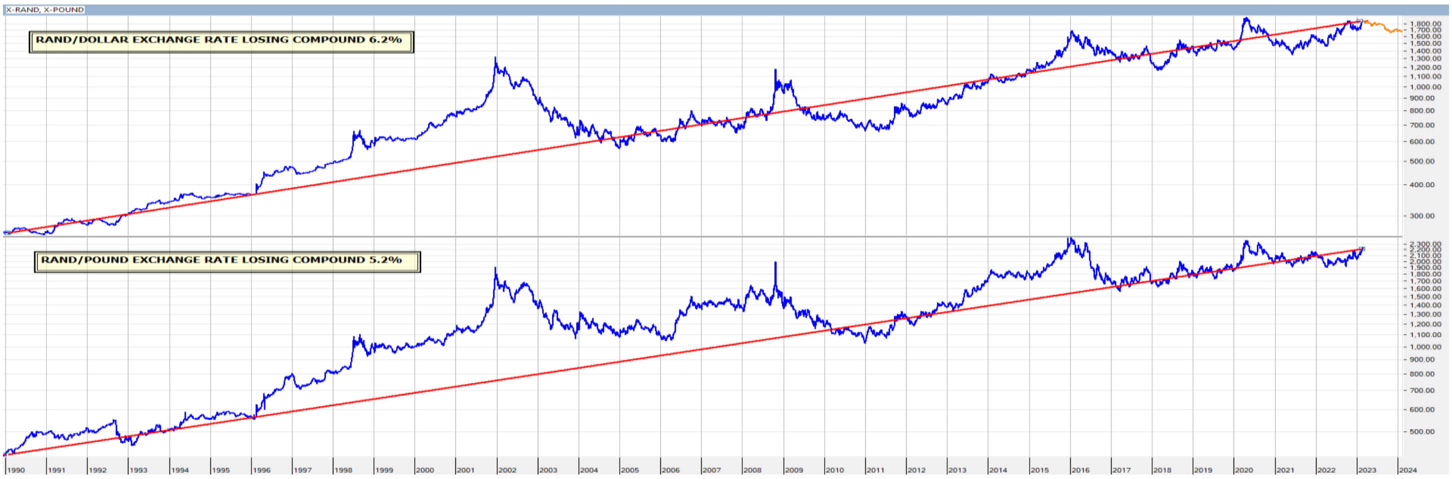
"These are, literally, dark days for South Africa. The electricity blackouts have left many of us sitting and working in the dark, feeling despondent and apprehensive about the future. The senseless political squabbles — and a president and cabinet that seem to be caught in the headlights instead of acting decisively — add a layer of desperation to the discourse. Many of us wonder: where is the ethical and resolute leadership we hanker for?

"So, it's justified to feel a bit down about the state of the country. The crime statistics are horrendous, and this trend is unlikely to change under the current police leaders. The behaviour of local politicians in municipal coalitions makes you anxious about a post-2024 future in which national political partnerships must be forged."

And then he went on to highlight a number of centres of excellence and good people who are determined to lift us out of the depression that has engulfed this country in the final death agonies of the ANC.

The problem with mental depression, the experts tell us, is that it is an insidious thing which feeds upon the pessimism of others and we, as a nation, are currently probably collectively locked in a cycle of self-inflicted gloom which is not really supported when one also considers the positives of living in this country.

But let us look at the facts, starting with the most accurate barometer we have of our financial standing in the world as reflected by the value of the Rand relative to currencies like the US$ and the British Pound. Lately, since South Africa was grey-listed because we are seen to be vulnerable to people who want to use our financial institutions to fund terrorism, much is being said and written about the "sudden collapse" of the Rand. But, as you can see in the graph composite below, the Rand has actually been losing value steadily over the years. It's NO instant thing…the rising graphs of course mean one needs more Rands each year to buy overseas currencies:



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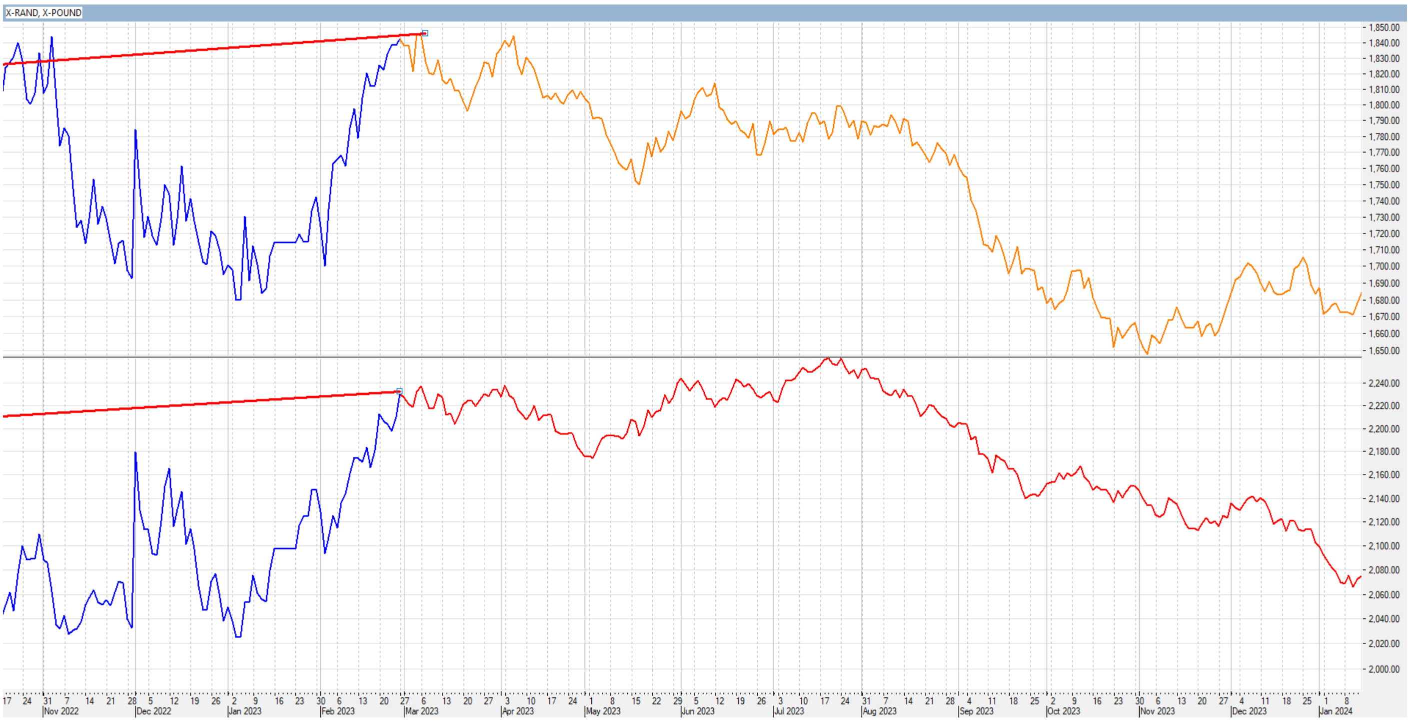
http://www.sharefinderpro.com
richard@rcis.co.za

My first graph composite dates back to December 1989 in respect of the US Dollar when you needed R2.57 to buy a US Dollar and to April 1991 with regard to the British Pound at a time when it took R3.12 to buy a Pound.

When economists interpret such graphs they talk about a snake in a tunnel. The tunnel is the straight line about which the commodity price “snakes.” So you can see that at times, such as in December 2004, the Rand was relatively stronger than the Dollar and in October 2008 when the Rand was weak relative to both currencies. Importantly, however, the exchange rate has ALWAYS snaked about those trend lines which themselves remain fairly constant….that’s why one can draw straight lines to express the long-term trend.

The reasons why the Rand loses value over time are complex: In part, because our principal exports are commodities like minerals and agricultural products whose producers, our miners and farmers, are given a competitive edge in international markets if the Rand if artificially weakened. But the most fundamental reason is that South Africa’s inflation rate is generally higher than that of the US and Britain.

But let’s zoom in to the current situation to see what has been happening lately and what ShareFinder’s artificial intelligence system thinks the future holds:



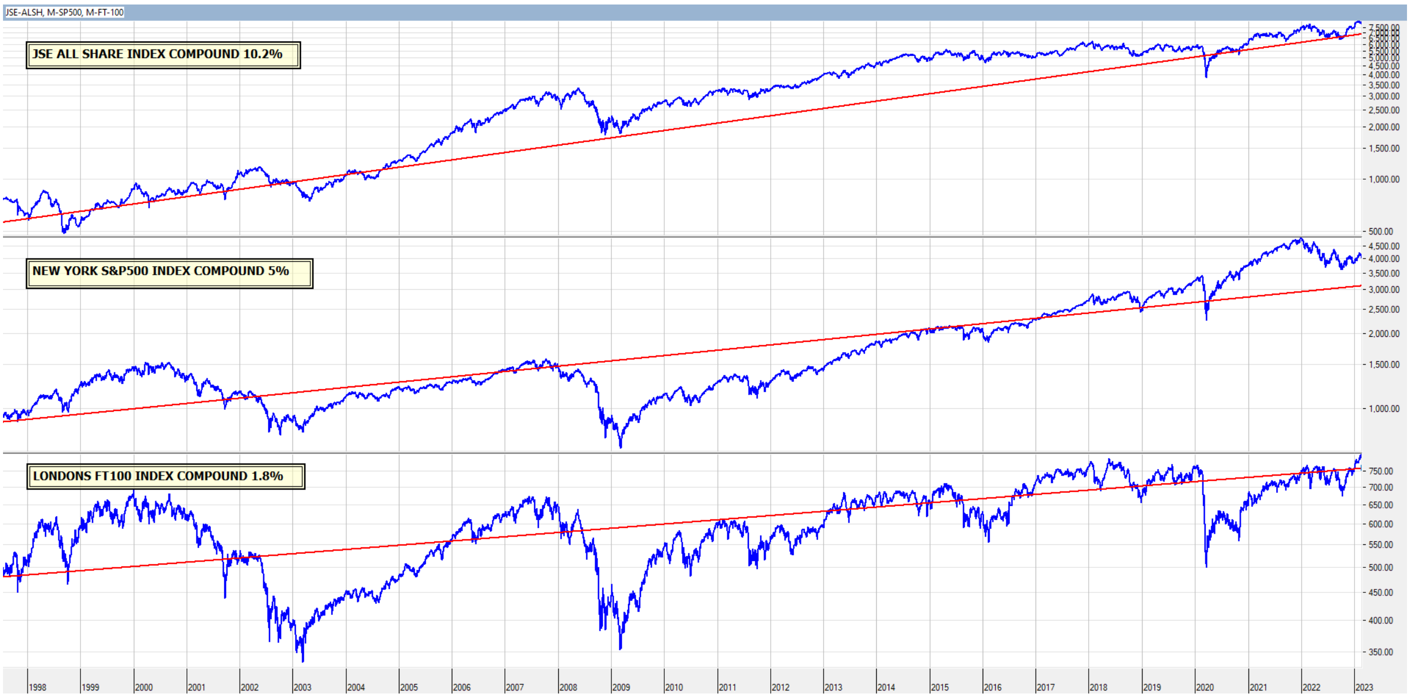
As you can see, ShareFinder projects that, relative to the US Dollar, the Rand will be back to R16.47 by early November from a current R18.38 and that, from R22.29 to the British Pound currently, it is likely to strengthen to R20.65 by next January. So, perhaps, things might not turn out as grimly as we all currently feel! Readers who regularly follow this column well know that the value of the Rand is one of the indicators I predict every week with better than 94.2 percent accuracy. So there is a very strong probability that the graph above is forecasting what will truly happen during the rest of this year.

Another important indicator of how the world views us – and how we view ourselves – is the health of Johannesburg Stock Exchange. Commentators regularly remind us that foreign investors are unlikely to invest money in this country until such time as uncertainty is removed about the issue of expropriation without compensation which, the lawyers regularly warn us, our current legislation is so ambiguous in its wording that while it purports to apply to land thought to have been stolen from black tribespeople in colonial times, it could just as well apply to that precious Irma Stern painting you inherited from your grandfather or to your share portfolio.

So, if there is even a whiff of doubt that an investment from abroad into South Africa could be confiscated at the whim of some left-leaning politician, you are not likely to invest here even if it looks like a mouth-watering prospect.

The counter to that, of course, is that local investors who are likely to have a more positive view….or who are finding it difficult to send their money abroad….are currently seeing unprecedently-high dividend yields as a real opportunity here. But don't expect to see any real change in the downward trajectory of the JSE All Share Index until we know with some certainty how the political landscape is likely to look after the next elections around April next year. So, again, I am not reading much into the present relative decline of the JSE at a time when the overseas outlook is improving:

Here I have gone back to 1997 to give you three graphs portraying respectively, the JSE All Share Index which has risen constantly at compound 10.2%, New York's broadest stock exchange measure, the S&P500 Index which has achieved a constant 5% and London's FT100 Index which has achieved constant 1.8 percent.

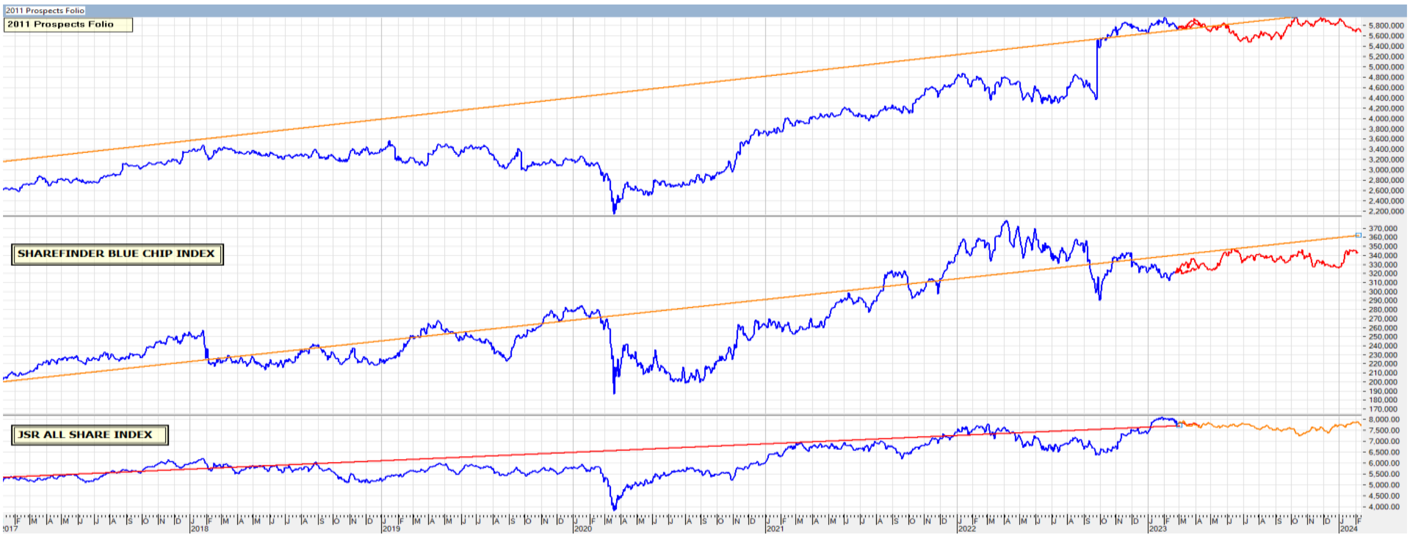


The striking difference is that a Rand invested here in South Africa will grow 5.6 times faster than in England and twice as fast as in New York. The reason, of course, is that shares are a defensive investment against inflation. So, while it is now indisputable that the ANC has wrecked our economy with its soviet-inspired statist view of economics, investors who placed their money wisely have not suffered. Here, in a nutshell, is the explanation for the continued bleat by the political left that despite everything the ANC has done to try and re-distribute wealth, the wealthy have continued to prosper while the poor, lashed by unemployment and inflation, have faced ever-increasing hardship.

Simply stated, those who saved a portion of their earnings into well-chosen investments, have continued to prosper while the State, employing the same monetary policies that brought about the collapse of Communism in the Soviet Union, has utterly failed the poor. But that is the fault of our leftist politicians, not of those thrifty South Africans who have prospered despite the actions of the ANC.

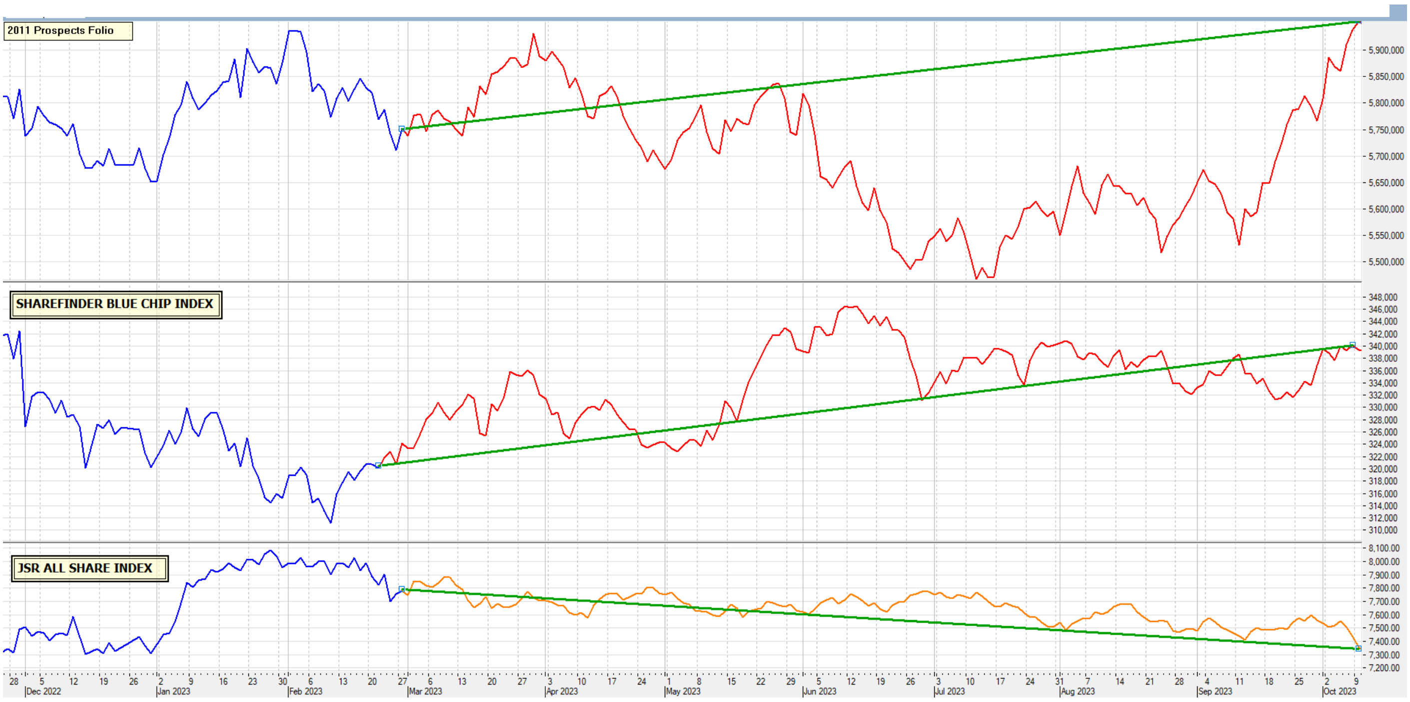
So what does ShareFinder project will happen to the JSE? Well my next composite tracks three categories of JSE shares. At the top is the performance of the Prospects Portfolio - which represents the very best of JSE Blue Chips - since the inception of the portfolio in January 2011 and which has delivered a compound annual average growth rate of 18.8 percent. Below that appears the ShareFinder Blue Chip index which tracks all JSE shares which qualify to be called Blue Chips and which over the same period has delivered compound 14.3 percent.

Finally, over the same period from January 2011 to the present I have repeated the JSE All Share Index which has delivered a compound annual average growth rate of 7.9 percent over this period.



What it serves to illustrate is that the finer the company's balance sheet credentials, the better it performs over time:

Finally, I have blown up the future projections for these three JSE sectors to show that the Prospects portfolio is likely to grow over the next seven months at an annualized rate of 5.9 percent, Blue Chips as a category are likely to achieve a better 9.9 percent growth rate and the JSE All Share Index is likely to decline at minus 9.2 percent.



If this seems to contradict my previous comment that the best of the best will always outperform all the rest, the reason is simple. In September last year the PSG Group, which then formed a part of the Prospects portfolio, was broken up and its constituent shares were unbundled to shareholders with a consequent 25 percent impact upon portfolio growth. In the circumstances it should surprise nobody that the portfolio is currently taking a little R&R. I am confident, however, that in the longer term the Prospects portfolio will continue to be the best-performing portfolio in the world.

The month ahead:

New York's SP500: I correctly predicted the market would see a brief retraction until the 23rd before the next month-long upsurge occurs. Now the recovery can be expected with the first up-surge likely to last until March 24 ahead of the next retraction to April 13 within a long drawn-out recovery.

Nasdaq: Similarly with The S&P500, I correctly predicted a decline which I think will end around March 7/8 followed by a recovery trend until March 21 ahead of weakness until the end of April. Overall I see the trend going down until September before real growth returns.

London's Footsie: I correctly predicted the start of modest gains which I see lasting until March 22 ahead of a retraction to May 31. The longer-term trend is for gains until late October.

France's Cac 40: I correctly predicted the start of a long recovery which I continue to expect will last until early July.

Hong Kong's Hangsen: I correctly predicted a continuing decline which I still expect to last until early May before the next long recovery begins.

Japan's Nikkei: I correctly predicted the protracted decline which began last August was likely to last until May before the next long but volatile recovery trend begins.

Australia's All Ordinaries: I correctly predicted that declines would continue until around now followed by gains until March 23 when I expect another brief decline to April 13 followed by fairly steady gains until late August.

JSE Top 40 Index: I correctly warned that the decline which began in January is likely to continue until October. The brief interim recovery we are now seeing should be over by March 9.

ShareFinder JSE Blue Chip Index: I correctly predicted the beginning this week of a long but VERY volatile recovery until late-October.

Rand/Dollar: The recovery came a little earlier than I expected and should last until March 22 then weakness until April 4 followed by gains to May 18 then weakness until June 13 followed by gains until early November.

Rand/Euro: I correctly predicted weakness which I still expect to the end of March followed by gains until May 18, then weakness until June 20 ahead of a recovery to next February.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.9 percent. For the past 12 months it has been 94.2 percent.
