Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 36th year of service to the investing public of South Africa

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The Wall Street Journal reported this week that the global economy is showing vigor, with business surveys this week pointing to a widespread revival in growth despite rising borrowing costs and elevated energy and food prices: a sign that central banks may need longer than anticipated to bring inflation under control.

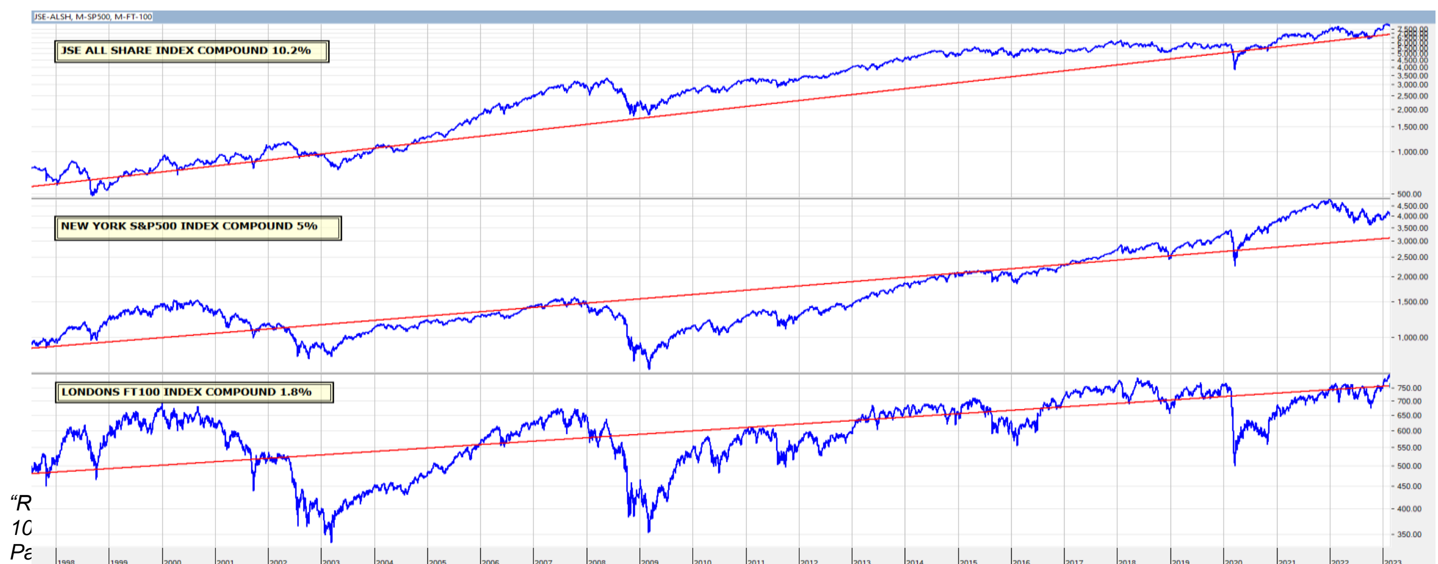
The latter view was, moreover, telegraphed this week by the US Federal Reserve. Furthermore, data from the U.S., China and Europe have shown surprising vitality in these regions' economies since the start of 2023, confounding predictions from the World Bank and other economists that the global economy was set for one of its weakest years in recent decades.

While this is promising for governments, that resilience may persuade central bankers that they need to raise key interest rates further than anticipated in order to cool prices: effectively pouring more cold water on an economy that is still running a little too hot. This could translate into a slowdown in growth later in the year and into 2024, which had been seen as a recovery year.

In stark contrast, although South Africa has created more than a million jobs in the past year – mostly in the Western Cape – employment here is not back to the level prior to the onset of the Covid-19 pandemic. According to Stats SA figures, although South Africa has now added back a total of 1.78-million jobs since the aftermath of the initial Covid restrictions in early 2020, the labour market is nevertheless 448 000 jobs below the level prevailing prior to the start of Covid.

Well, none of us need reminding that a combination of corruption and the ANC's policy of 'cadre deployment', which has placed incompetents in so many vital decision-making roles, is largely to blame for South Africa's sub-optimal economic performance. But that should NOT oblige us to believe that everything South Africans do is sub-optimal. Indeed, as I hope I convincingly illustrated last week, South African businesses are outperforming many of their international peers by a significant degree.

Indeed, only by employing the market research tools provided by the ShareFinder system to chose the best of the very best investment grade companies in the world's major share markets and, furthermore by also employing ShareFinder's artificial intelligence tools to identify the optimum buying points for such shares, could foreign investors beat the returns being offered by South Africa's best of best…and then by only a fairly narrow margin!

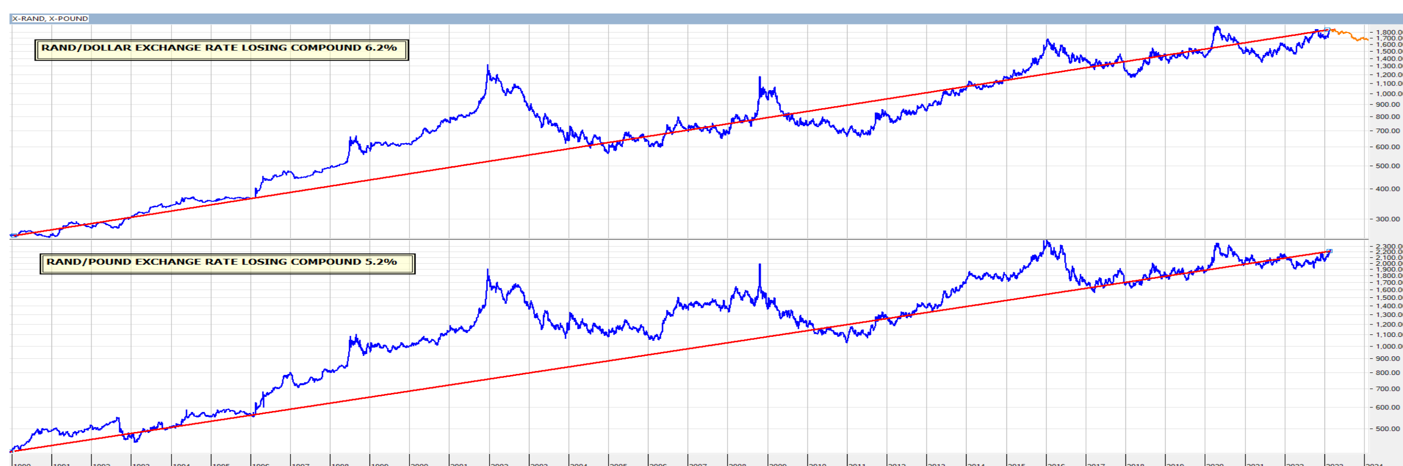


If you read last week's column you will recall the three graphs above which I published dating from 1987 to the present and portraying respectively, the JSE All Share Index which has risen constantly at compound 10.2%, New York's broadest stock exchange measure, the S&P500 Index which has achieved a constant 5% and London's FT100 Index which has achieved constant 1.8 percent annually on average.

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 because the value of their investments has continued to rise at an even greater rate than ANC inaction has been destroying the value of the Rand.

Here, in a nutshell, is the true explanation for the problem our political left continue to bleat about: 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.

Of course, from the perspective of an overseas investor thinking of taking advantage of the superior investment growth potential South African securities offer, there is another very real issue he has to take into account which is the additional penalty of the Rand's loss of value. Thus, I published a graph composite illustrating how, over the same period the Rand was losing 6.2 percent annually relative to the US$ and 5.2 percent annually relative to the British Pound.



So, to get the 'real' return on money invested in South Africa one needs to remove that currency slippage to thus show that, in relative terms, if you bought the JSE All Share Index you would receive a real annual average price gain of 10.2% minus the Rand's annual loss of 6.2% to determine an actual gain of 4% compared with Wall Street's offering of compound 5%. Similarly you would need to deduct the Rand/Pound annual slippage of 5.2% from 10.2% to arrive at a comparable 5% gain for a British investor who is able to achieve an average share price growth rate of 1.8% from a Financial Times Index investment. That is why in simple terms, historic ties notwithstanding, British investors continue favouring South Africa as an investment destination while US investors look elsewhere.

But of course currency-corrected index growth is only part of the story. To effectively compare investment destinations, one needs to also factor in the average dividend yield on offer in order to determine the Total Real-Return offered by a security. Thus, we might note that the average SA-listed share is currently offering a dividend yield of 6.5 percent. In contrast the average New York Stock Exchange share is offering 2.9 percent and the average London-listed share is offering 6.6 percent.

Finally, last week I also proved that the highest long-term returns in the SA market were always directly related to the underlying balance sheet statistics of the companies involved. Thus, for example, in every market that ShareFinder International analyses, it is clear that the average Total Return of ALL shares meeting ShareFinder's MINIMUM Blue Chip standard requirement of enjoying not less than ten years of constantly-rising dividends is 13.23 percent better than total return of the average share listed on the JSE.

ShareFinder, however, additionally blends total returns with numerous aspects of balance sheet data in order to select specific shares whose dividends and earnings are rising exponentially and which, furthermore, are being rewarded by market recognition in the shape of share price growth in order to create from the Blue Chip list an enhanced list of ‘Best of the Best’ companies which form the core of its top-performing Prospects Portfolios. And the good news is that the average performance of these latter portfolios far outstrips the average, achieving on average a 100 percent better total return than the market index in every country where ShareFinder operates.

Accordingly, in the table which follows, I have included the compound annual average growth rates of the JSE All Share Index and compared that with Wall Street’s S&P500 Index and London’s FT100 Index. Relative to these I have then added in the Blue Chip Indices for each of the three countries as well as the compound average performance of Prospects Portfolios in each of the three countries. Finally, I have stripped out the Rand/Dollar slippage rate in respect of US investors and the Rand/Pound slippage rate in respect of British investors putting their money into South Africa.

	Compound average growth	Dividend yield	Total Return	Currency slippage $	Currency slippage Pound	Real return to a US investor	Real return to a UK Investor
South Africa All Share Index	10.2	6.5	16.7	6.2	5.2	10.5	10.5
SA Blue Chip Average	14	4.1	18.1	6.2	5.2	11.9	11.9
Prospects Portfolio	**18.8**	**2.9**	**21.7**	6.2	5.2	15.5	15.5
Wall St S&P500 Index	6.8	2.9	9.7	6.2	5.2	9.7	
Wall St Blue Chip Index	11.03	2.3	13.33	6.2	5.2	13.33	
Wall Street Prospects Portfolio	**27.37**	**0.2**	**27.57**	6.2	5.2	**27.57**	
London FT100 Index	3.5	6.6	10.1	6.2	5.2		10.1
London Blue Chip Index	9.92	4.1	14.02	6.2	5.2		14.02
London Prospects Portfolio	**30.81**	**0.2**	**31.01**	6.2	5.2		**31.01**
Index average			13.38				
Blue Chip Average			15.15				
Prospects Folio Average			26.76				
Pound loss to Dollar avg					1.3		

The result is conclusive proof that the only way a US investors can beat the post-slippage real return of 15.5 percent achieved by the SA Prospects Portfolio would be to invest in the Prospects New York Portfolio which achieved a compound average total return of 27.57 percent or, better still if he had invested in the London Prospects portfolio which achieved a compound total return of 31.01 percent.

Noting furthermore that the Pound looses 1.03 percent annually to the US Dollar the Prospects London Portfolio would still to date have given US Investors a real total return of 29.98 percent compared with Wall Street’s best of 27.57.

Thus I have, I believe, conclusively illustrated not only that South Africa’s top companies are every bit the match of their overseas counterparts but, even more importantly, the fact that in the search for superior investment returns there can be absolutely NO substitute for balance sheet excellence. If you want to achieve the highest investment returns you need to make sure you ONLY invest in companies which win the race in EVERY respect of qualitative comparison.

You should only buy the best of the best…and quite a number of those are located in South Africa where they are still prospering notwithstanding the logistical problems caused by the failure of state-run utilities like Eskom (which is forcing them to divert development capital to alternative power provisioning) and Transnet which is preventing them from exporting their products.

There is, however, when reviewing the relative performance of the Prospects Portfolios an additional caveat that has to be understood. Since 2011 the mainstay of my monthly Prospects newsletter was its JSE portfolio which relied on ShareFinder software to each month identify any underperformers in the portfolio and to recommend approximate selling prices and time horizons as well as suggested replacements with their optimum prices and likely trading date.

But when, in 2019, I was persuaded to create additional Prospects portfolios relative to the New York, London and Sydney markets, ShareFinder had created an additional selection tool which allowed one to select quality shares which were powering ahead of all the rest because of short-term market sentiment. Since, furthermore, markets worldwide were in their final exponential phase of their price cycles, I “borrowed” a million dollars/pounds in each of these three additional markets in order to create “Risk Portfolios” which by their very nature would be of a short-term nature.

And the consequence of these creations was spectacular short-term gains which, as these three markets matured, I cashed in, repaid the borrowings and added the profits to the long-term Prospects Portfolios in each of the three new countries. And as a consequence, those three new portfolios gained an additional performance boost which the SA portfolio did not participate in. If those gains were stripped out then the relative performance of South Africa's Best of the Best would have been significantly better than those of the other markets I have analysed.

Next week I will take a look at the potential of such cyclic opportunities and others which are offered by, for example, Preference Shares and Gilts at times when global interest rates are peaking.

The month ahead:

New York's SP500: I correctly predicted the recovery which likely to last until March 24 ahead of the next retraction to April 14 and then gains until early July within a long drawn-out recovery.

Nasdaq: I correctly predicted a recovery trend until March 21 ahead of weakness until the end of April followed by a sideways to modestly-rising trend until mid-August when the next recovery phase should kick in.

London's Footsie: I correctly predicted the start of modest gains. Long and short-term pressures are, however opposing one another and so the jury is out for the next fortnight within an overall weakening trend to the end of May. But from then onwards gains are probable until mid-October.

France's Cac 40: I correctly predicted the start of a recovery to March 22 followed by volatile declines until early May when the next up-trend is likely to 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. Within that, the current brief recovery is likely to last until the end of this month ahead of further declines to early May when the next recovery is likely to last until late July.

Australia's All Ordinaries: I correctly predicted 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 followed by losses until April 12 when the next brief recovery is due.

ShareFinder JSE Blue Chip Index: I correctly predicted the beginning this week of a long but VERY volatile recovery until late-October. Within that the current recovery is likely to last until March 30 followed by weakness to April 25.

Rand/Dollar: I correctly predicted brief weakness until now followed by gains until March 22 then weakness until April 6 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 86.92 percent. For the past 12 months it has been 94.75 percent

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