



One of the curiosities of the human condition is our seeming complete inability to learn from our past mistakes and so, like the fabled Greek Sisyphus, we are condemned to keep making them over and over again and suffering the same pain each time.

Sisyphus, King of Corinth, was punished by Hades for twice cheating death and accordingly condemned to forever roll an immense boulder up a hill, only for it to roll back down every time it neared the top, forcing him to endlessly repeat the punishment.

Indeed, where investment markets are concerned, not only do we tend to cling to outmoded opinions and, to make things even worse, when all the experts are telling us that the good times are coming to an end and deep pain is imminent, we tend to nevertheless rush back in for more. It's just happened to the executives of Silicon Valley Bank in the US who refused to understand that market strategies change and one must adapt with the times.

But to give you a better understanding of this point I am going to take you through the longest bull market in modern history; the Wall Street share market boom which began in early March 2009. To understand what happened, however, we need to take a step further back in history to a moment in the late 1990s when, the aftermath of a speculative hot-money Far Eastern monetary bubble ended with the collapse of the Thai Baht on July 2, 1997. The Thai government had run out of foreign currency and was no longer able to support a fixed US Dollar exchange rate and was forced to float the Thai Baht.

The currency exchange rate of the Baht immediately collapsed and, in a prelude to what has lately been happening since the fall of the Silicon Valley Bank in the US, fearing that a domino effect might bring down the currencies of surrounding 'Pacific Rim' countries, fragile governments might fall and in turn eventually even collapse the value of the world's leading currencies, the US Federal Reserve stepped in as a buyer of the Baht. To fund that exercise the Fed embarked on a process of printing money by a stratagem that was later to be notoriously known as 'quantitative easing.'

Since a century ago when central banks began substituting paper bank notes for the gold coin which had served mankind's trading activities for thousands of years, they have well-learned that to print more money than is justified by GDP gains is like injecting a person with cocaine. While the initial effects are stimulatory there is an inevitable consequence of monetary inflation. It's what caused the Great Depression and, Germany's Weimar Republic which ended with World War Two and it in turn sent the whole world into recession in the 1970s.

But in the late 1990s something strange happened. There was no inflationary consequence because the Chinese industrial miracle was under way and the price of consumer goods was falling sharply in real terms everywhere in the world. The effect of this was to mask inflation.

But something else was also happening. All of those speculative dollars had to go somewhere and since Western industries were giving way to Chinese producers and there was accordingly a lesser call for development capital in the West, the money surplus flowed to Wall Street which, because the world had fallen in love with the Internet which was re-shaping everything humankind did, there was an immense speculative boom under way.

But do understand that speculative booms can only happen when too many people with too much hot money get greedy and think they are onto a new hot thing. Here think of the Tulip boom in Holland in the mid 1600's or the subsequent South Sea Bubble of 1720...the world's first-recorded Ponzi scheme....None of them can happen if people do not have cash on their hands which is surplus to their everyday needs!

So in the late 1990s the US Fed's surplus dollars were flowing into US technology shares as illustrated by the technology-dominated Nasdaq index rising from under 1,000 to more than 5,000 between the years 1995 and 2000. As always with share market bubbles, it burst in March 2000 and by October of that year the Nasdaq had fallen more than 75 percent wiping out more than \$5 trillion in market value. The crash that followed saw the Nasdaq index tumble from a peak of 5,048.62 on March 10, 2000, to 1,139.90 on Oct. 4, 2002: a 76.81% fall.



By the end of 2001, most dotcom stocks went bust. Even the share prices of blue-chip technology stocks like Cisco, Intel, and Oracle lost more than 80% of their value. It would take 15 years for the Nasdaq to regain its peak, which it did on April 24, 2015.

With all of that speculative money destroyed by the Nasdaq crash, another recession was looming in the USA and so the Federal Reserve went on another printing spree. The problem with central bank actions is, however, that they are at best blunt instruments whose consequences almost always produce a delayed reaction. The almost inevitable consequence is that central banks often tend to print more money than is required to overcome the liquidity crisis that usually follows the loss of so much stock exchange value.

In short order then, this latest excess of money again flowed into the marketplace where it began fuelling ultra-cheap home mortgages. Embarrassed by having so much cash on their books, US mortgage originators Fannie Mae and Freddie Mac started making home loans accessible to borrowers who had low credit scores and a higher risk of defaulting on loans. These so-called "subprime borrowers" were allowed to take out adjustable-rate mortgages with low starting rates that would increase after a few years.

Financial firms in turn sold these subprime loans to large commercial investors in pools of mortgages known as mortgage-backed securities and so, by the fall of 2008 when borrowers began defaulting in high numbers on these subprime mortgages, the collapse of the financial markets and the global Great Recession was again inevitable.

And of course the US Federal Reserve galloped to the rescue, printing even more dollars which as usual flowed into the marketplace to fuel the longest and most spectacular share market boom in history. Here, courtesy of the Visual Capitalist is the past 30 years of US money supply history and the reason I was prompted to write my 2019 book **The Crash of 2020**.



Just like clockwork, share prices have always responded to this monetary stimulation and Wall Street stockbrokers have become billionaires in the aftermath. Ironically the events that have made them even richer has been short-selling which has enabled traders to gear up and magnify the profits that can be made from anticipating such market crashes. So, for the smart people of Wall Street it's a case of "heads you lose and tails I win,"...and even more so if you have a hot line to the US Federal Reserve which means you can time the latter with almost exquisite perfection. My following graph summarises the history of Wall Street's Standard and Poors500 Index:

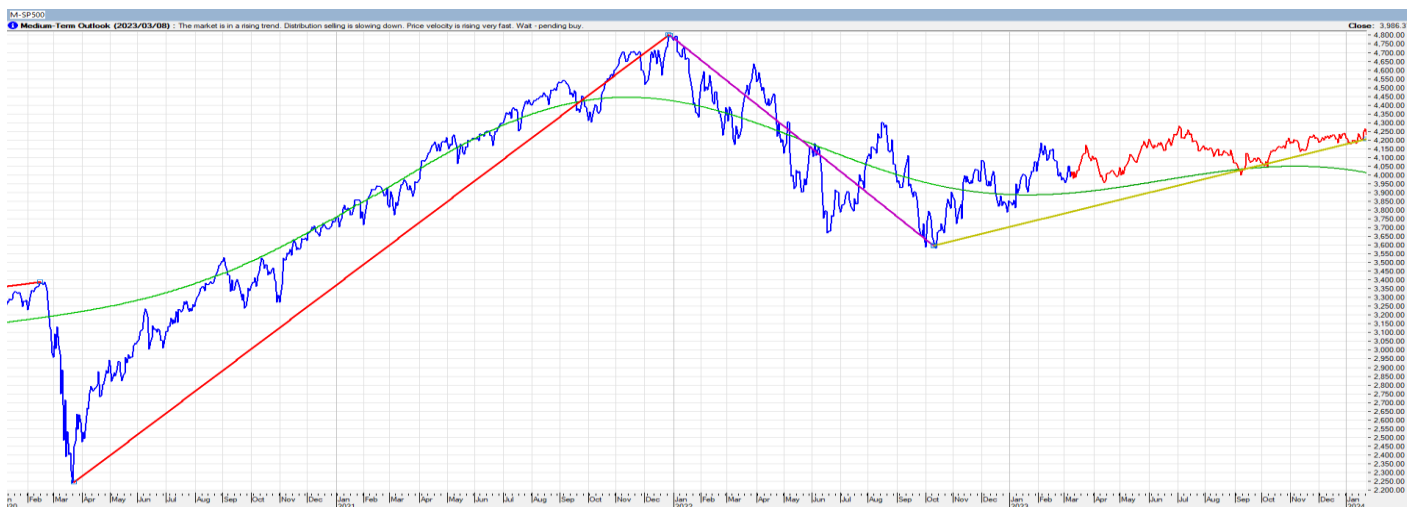


As a sub note, just look at how those four trend lines grow progressively steeper until we get to the very latest bull market which followed the Covid-19 monetary stimulation. But this time things are different. China is no longer the source of cheap consumer goods whose low prices tend to mask inflation. Finally the inflation genie is out of the jar and central banks have increasingly come to the realisation that the mild deflationary tools they have employed over the past 30 years are no longer working. US Fed Chairman Jay Powell admitted as much last week when he reported that interest rates are likely to go higher and remain higher for much longer than usual.

But that was before the collapse of the Silicon Valley Bank which had failed to recognise that when sovereign bond interest rates rise in harmony with central bank efforts to contain inflation, such bonds lose value...spectacularly so! Now, everyone is frantically revising their predictions of future interest rates increases because the US Federal Reserve is being forced to again fire up the monetary printing presses in order to stave off a chain reaction of further bank defaults.

But inflation has far from been tamed. Indeed, this week the news broke that U.S. consumer prices rose 6 percent in the year through to February, with details showing that inflation remains stubborn. Ordinarily, persistent inflation would argue for a forceful response from the Fed, but the current banking turmoil has left economists and investors sceptical that the central bank will be able to continue taking strong action.

So, despite sharp borrowing rate increases which have normally produced vicious but short share market bear phases, this time around it took over nine months to begin cooling the New York stock exchange and, furthermore the subsequent recovery since October 12 2022 has been far more modest than the previous ones and, indeed, ShareFinder's artificial intelligence-powered future projection system pictured in red at the right of my next graph, senses that the rate of recovery is likely to slow even further in the months ahead.

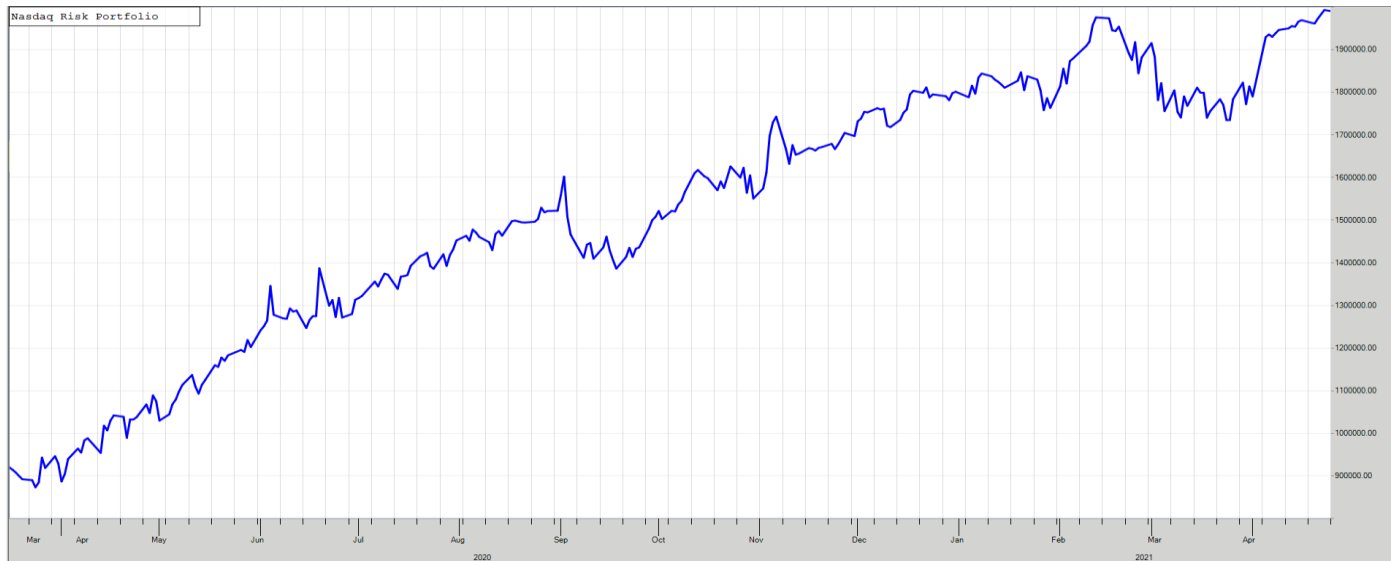


The red trend line of the 2020-21 bull market underscores a compound annual rate of 54 percent, the yellow line underscoring the present recovery represents the slowest of the past 30 years at compound 12.9 percent. Meanwhile, Developing economies like that of South Africa, which are burdened down by massive debt and rapidly-rising consumer prices, remain in a bear phase and are likely to continue falling at least until mid-October if the ShareFinder projection maintains its better than 95 percent forecast accuracy rate as you can see in this next graph:



So, hopefully you now fully grasp the cyclic nature of investment markets and, why they tend to be so predictable because they are precisely linked to central bank interest rate policy. However, to fully exploit this fact you need to take to heart my opening premise that humankind is collectively unwilling to accept change. Although an increase in interest rates is generally much speculated upon in the Press, and is almost always preceded by rising consumer prices resulting from monetary inflation, the investing public seems always reluctant to accept that the latest bull market might be drawing to an end.

Indeed when the first signs appear that the end is nigh, investors seem to perversely INCREASE their profit expectations. In an average bull market, around one third of the entire price growth tends to occur in the closing months of that market phase. Here, for example is the graphic performance of the Nasdaq Risk Portfolio which we ran in the Prospects newsletter from March 2020 to late April 2021 when I considered the risk of continued holding had become too great. An original investment of \$999 015 rose in that period to \$1 995 418.



It's not an option I would recommend to anyone who is risk-averse but it is clear that I doubled my money in each of the three risk portfolios that we used for this exercise. My Australian risk portfolio took \$898 831 to \$1 682 927 over the same period and in London an investment of £890 951 to £1 648 010.

I will explain more next week about how you can profit from market cycles...if you have courage and the capacity to lose money if your reading of the markets was wrong!

The month ahead:

New York's SP500: I correctly predicted the recovery which is likely to last until March 24 ahead of the next retraction to April 13 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 modestly-rising trend until early June when I see a declining trend again setting in until the end of August when the next recovery phase should kick in.

London's Footsie: I warned that long and short-term pressures were, opposing one another and so the jury was out for the next fortnight within an overall weakening trend to the end of May. But from then onwards gains were probable until mid-October. Now I see losses slowing but continuing to early April when a long drawn-out recovery should begin.

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 late 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, I see a brief recovery from March 17 to 28 ahead of further declines to early May when the next recovery is likely to last until late August.

Australia's All Ordinaries: I failed to anticipate this week's sharp decline but the gains I predicted began on the 14th and should last until today ahead of the further declines I expected to last until April 13 ahead of gains until June 8 when another five-month decline looks likely.

JSE Top 40 Index: I correctly warned that the decline which began in January was likely to continue until October. Now I see a very brief interim recovery to March 29 followed by losses until mid-May and then modest gains until the end of September. But the overall trend remains down to mid-October.

ShareFinder JSE Blue Chip Index: I correctly predicted the beginning of a brief recovery but failed to anticipate the Silicon Bank sell-off which should extend this weakness until mid-May before there are any gains. Overall, however, I see weakness until next January at least.

Rand/Dollar: I correctly predicted brief weakness which should be over today, followed by a very brief recovery until the 22nd followed 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 gains until March 21 then weakness until April 4 ahead of a recovery to mid-May ahead of weakness to mid-June when a long recovery is likely until next February.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.91 percent. For the past 12 months it has been 94.57 percent

PETER BRUCE: ANC-EFF coalition would preside over an unimaginable collapse

Business Live

Julius Malema has only catastrophically damaging remedies for the nation's problems

EFF leader Julius Malema is a frightening and blisteringly smart figure, more charismatic by some measure than any other SA politician. I watched a news conference on Wednesday, about his threatened national shutdown this coming Monday, in which he pretty accurately put his finger on every critical problem this country faces.

As he spoke I couldn't help thinking that if there were any grounds on which Malema and big and small business could stand together, they and this country would be unstoppable. I remember Moeletsi Mbeki arguing so well a few years ago that while the ANC and its union and communist allies were either delusional or simply addicted to corruption, the two big communities in SA desperate for clean government were the poor and big business.

It's still true. The poor have no bargaining power, perhaps other than their vote, with which to improve their lives, and the ANC patently could not give a flying fox about them. Look around the country — you can measure the neglect with your own eyes almost everywhere.

For its part, business lives in a twilight zone. On paper, sure there's actual electricity. There's a big and important functioning port in Durban. There's a national airline. Decisions made by the state are implemented quickly and professionally. There is policy certainty. People at the middle and bottom levels of government department know what their jobs are.

The fact that that is all fantasy is the result of corrupted government. Everything the state does is subject to negotiation for the best internal ANC political outcome and for party financing. Money deformed SA from the moment first diamonds and then gold were discovered here in volume, and it still does.

Malema, like Karl Marx and many other leftist actors before him, is good on the iniquities of capitalism. And just like them he arrives at catastrophically damaging remedies. The EFF manifesto for the 2019 general elections makes that clear, promising to immediately expropriate all land, hold it in state custody and redistribute it according to race, "meaning that black people will accordingly control the majority of the land, as they constitute the majority in SA". It would redistribute "a minimum of 50% of the land" to women and the youth, it says, along with a host of other commandments that would deprive current property owners of their assets.

On energy, the party would "stabilise energy supply through maximally pursuing mixed energy sources, including safe coal, nuclear energy and renewable energy sources". It would also "instruct and assist Eskom to build a massive renewable energy division ... and cancel all contracts with independent power producers and will stop the rollout of new independent power producers immediately".

Its prescription for the economy in general was and probably still is "where the state owns strategic sectors of the economy, and where the ownership and control of the non-state-owned sectors reflects the demographics of SA".

The ANC, in other words, on steroids. A loathing for the private sector and markets, already a feature of ANC policy, and a completely untested confidence that it could create multiple state-owned banks in “various” sectors and grow the economy 6% a year for the first two years and 10% a year for the last three.

Had it won the 2019 election the EFF would have been able to blame Covid and apartheid for failing on every count, just as President Cyril Ramaphosa does every day. Clearly, though, there is no table, no hidden corner, no luxury yacht where any conventional business representation could talk to the EFF. Theirs is a prescription for instant and unimaginable economic collapse.

But that said, you have to ask whether there is any point talking to the president either. Business has just pledged R100m to Ramaphosa as a so-called Resource Mobilisation Fund to help him centralise the running of key areas of the economy from his own office. Why?

The same Ramaphosa would think nothing of falling into bed with the EFF if the ANC vote in elections next May forces it into a coalition government. It already conspires and governs with the EFF in municipalities as its vote slips in local polls. Ramaphosa shows no sign of concern. The price of EFF co-operation in that case would be, many commentators suggest, that Malema becomes deputy president of the country.

That still leaves business with a final alternative — to reach out directly to the poor and marginalised and offer a revolutionary alternative driven by private enterprise and the creation of employment through the creation of businesses and employers. Any chance of that alternative being Herman Mashaba’s new ActionSA will have been dealt a severe blow by the resignation earlier this week of ActionSA Gauteng chair, former DA Midvaal mayor Bongani Baloyi.

Which leaves business with the DA, excellent in the Western Cape and all over the place in the rest of the country. And with an unconvincing leader to take it into the election. And the fact that he is white matters, like it or not. That said, a R100m targeted business programme to identify a variety of independent candidates and parties to back in different constituencies in the coming election may have stood it in a lot better stead next year than giving it all to Ramaphosa now.

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