Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 37th year of service to the investing public of South Africa

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The end of the tax year is approaching and many readers who have cashed-in long-held Blue Chips because of their low dividend yield, in order to swap into higher-income producers, are now realising that they face a Capital Gains Tax problem in a few weeks time.

They are accordingly weighing up selling some loss-makers in their portfolios in order to effectively cancel out the capital gain. Thus, my comments in that regard last week have sparked some lively discussion.

For those of you who missed it, last week I wrote: “Ironically, since every year I look to dispose of a few shares which have delivered me tremendous growth over past years - balancing those sales with the odd loss-maker in order to avoid Capital Gains Tax, these transactions have more than once seen me sell high and buy back exceptionally low. I did it in December 2019 when I sold off Sasol shares at R300, only to buy back an even bigger holding when they subsequently fell to a mouth-watering R21 in the following March before rising again to R430 over the next two years.

This year I sold off Anglo at R540 and bought a considerably greater quantity when, I must confess to my delighted surprise, they subsequently fell to R395 a few days later, whereupon I bought back a whole lot more and have since seen them climb back to R475.56.

Mr NA thus wrote, *“I hold the following shares in a “risk” portfolio: Renergen, Purple, Mustek and Karooo. I am considering some sales before tax year end to ease my CGT liability. Do you think I should exit any of these at this stage?*

Most of us enjoy a flutter now and then and I have often written about the desirability of taking such a “flutter” on some wild cat situations which, for varying reasons is why so many of us buy Lotto tickets notwithstanding the knowledge that the odds against winning are 14 350 726 to one. The odds in the share market are far better though, in my long market experience I have only seen a few ever really pay off. However, those which do usually more than pay for the others which don’t.

I do not have empirical evidence for this, but without that view the entire venture capital sector of the market would plainly disappear. So let us start by noting that of the four Mr NA mentions, those who have closely followed Press reports would probably argue that the most likely success story is represented by Renergen which is developing what is believed to be one of the world’s great previously undiscovered helium gas fields in the Magaliesburg crater, a great depression in the Orange Free State caused by a prehistoric meteorite strike.

At the height of the speculative fever surrounding this share, the price touched R43.15 and thereafter it has fallen steadily to touch R9 last October. So let’s start by considering ShareFinder’s technical analysis of the share price behaviour on the right:

As you can see in the topmost graph of the composite - ShareFinder’s most accurate analytical tool: its AI-driven projection system, senses that the price has bottomed in the long-term and from here on in is likely to recover. That view is, furthermore, amplified by the second graph, the Mass Indicator, which measures volume accumulation/distribution. The Velocity Indicator

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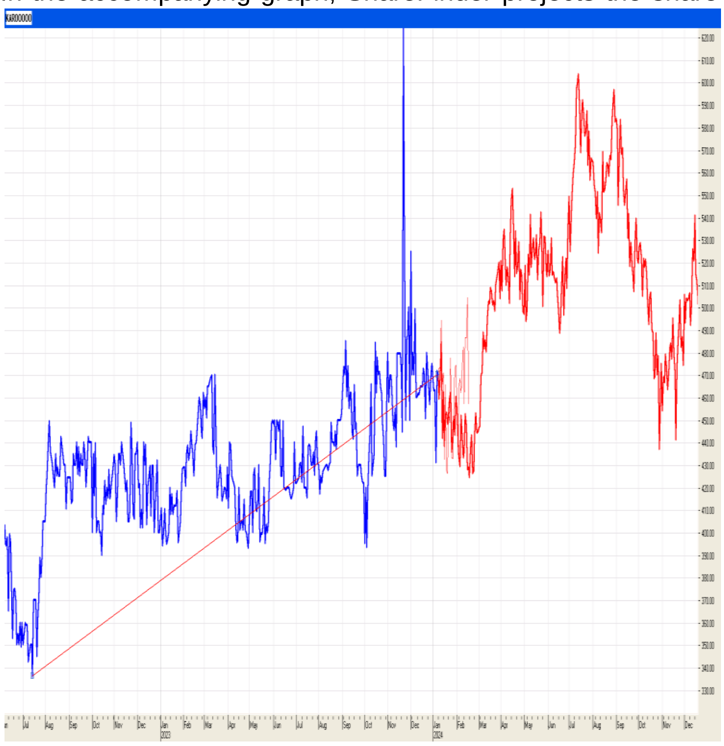
in the third graph of the composite, however, senses that downward price momentum is likely to continue for the foreseeable future and, indeed, from a current price of R14.44, ShareFinder's medium-term AI projection senses a low of R10.24 at the end of February followed by a recovery to R14.54 by the end of April and a further peak of R15.72 at the end of next October followed by another dip down to R6.81 next December.

So, if ShareFinder is as correct as usual, the strategy it suggests is to sell Renergen now in order to lock in a healthy loss. I, for example, have periodically nibbled at Renergen whenever I have thought it cheap but my current average price of R30.80 nevertheless represents a significant loss at present. It would be tempting to thus sell now and buy back in March - and particularly so if I could buy back in the region of R5 in March which ShareFinder calculates is a short-term possibility!

The Purple Group, owner of the Easy Equities online share market software business which is due to hold its AGM on January 19, had enjoyed a healthy run-up from 80 cents a share to R3.45 in January 2022 at the height of speculation fever. Then, last year when the shares were trading at R1.21 it made a rights offer to shareholders at 81 cents a share in the hope of raising R105-million. Then, for the six months to the end of February last year, the group reported a loss of R15.65 million, down from a profit of R25.89-million in the previous period last year. More recently, for the year to August 31 the group has reported a headline loss of 2.05 cents per share which translated to a loss of R44-million compared with a R31.4-million profit the previous year.

Since the rights offer the share price has subsequently fallen to 56 cents amid considerable negative comment from shareholders and, accordingly there must by now be many very disgruntled shareholders prepared to cut their losses if CEO Charles Savage does not come up with something more than empty promises on the 19th.

My guess is it might be smart to sell ahead of the AGM. In the accompanying graph, ShareFinder projects the share could rise to fall to 73 cents ahead of the AGM before falling to 58 cents by mid-April.



Karoo, pictured in my third graph, is the owner of the Cartrack vehicle security system which has increased its users from 1.6-million last year to a current 1.83-million and its revenue by 21 percent to R1.04-billion from R859-million in the previous financial year, taking earnings per share up 14 percent is a share of another kind.

According to SENS, the company expects to report its financial results for the third quarter ended November 30 on January 22

Having listed at R600 a share, it fell to 342.60 in July 2022 before beginning a steady recovery that has taken it at compound 25.4 percent to a current R474. What makes Karoo so different from a trader's point of view is its considerable price volatility which is clearly evident in the graph on the right. ShareFinder projects that the share will fall to around R430 by mid February before accelerating to a price peak of R604 by mid-July.

I do not see Karoo as a speculative situation and I certainly would not be selling!

Mustek, an assembler and distributor of personal computers and peripherals that was established in 1987 and listed on the JSE in 1997, is another reasonably solid investment which in its last financial year to June 30 2023 announced a 5 percent headline earnings increase, a 1.3 percent dividend increase and a net asset value increase of 13.8 percent.

Notwithstanding this, its share price has tanked because of the impact of higher interest rates upon dollar-based borrowings which ballooned 127.4 percent to R174.5 million in the latest financial results to June 31. Having peaked at R17.75 last April, the share price ended the year at R13 and ShareFinder currently expects further declines in the coming months.

As interest rates are widely expected to fall in 2024, my guessing is that profits will improve considerably and, the share price with it.

This is not a share I would currently be selling!

Overall, most readers have probably noticed that there is often considerable amounts of share selling around the end of the tax year which points to Capital Gains Tax balancing as a growing strategy in South Africa. Note my graph below of the JSE All Share Index which illustrates dipping prices five years out of the past six:

One word of caution; if you plan to do this, make sure you accurately detail it because SARS personnel do not appear to be very *au fait* with the process. I have personally had to fight for months recently when all my dividend income was taxed at my marginal rate. Moreover, a whole series of letters of protest simply went unanswered by SARS and operatives I spoke with on the phone did not seem to grasp that dividends are pre-taxed at source and cannot therefore be regarded as normal income.

So, though it is normally quite legitimate to carry-over a capital gains loss from one year to another, I would suggest that for simplicity sake you should confine all your CGT balancing to the current year. Don't, in other words, sell in at a loss in February in order to offset a capital gain from a second sale in March unless you consider it fun to poke the bear!

The month ahead:

New York's SP500: I correctly predicted continuing gains until late December followed by a dip which began on December 29 and is likely to last several months at least.

Nasdaq: I correctly predicted continued gains until Christmas followed by a dip which I still see lasting until January 22 followed by a brief gain to February 2 when a three-month decline appears likely as part of a year-long declining trend.

London's Footsie: I correctly predicted a brief recovery until Christmas ahead of a very cruel January which is now well and truly under way. Thereafter I see a brief but very volatile recovery until August and then down-hill for the rest of the year.

France's Cac 40: I correctly predicted the start of a decline starting immediately in the New Year and lasting all of 2024. The first down-hill phase should last until April followed by gains until the end of August, but overall it is likely to be a losing market.

Hong Kong's Hangsen: I have so far correctly predicted that the long-term decline since last January is likely to continue until the end of March when a long-recovery is likely to start.

Japan's Nikkei: I correctly predicted gains until the end of December ahead of declines which have begun on time and I expect them to last until mid-May followed by a long recovery.

Australia's All Ordinaries: I correctly predicted the market was peaking and still see losses until late-March. Thereafter I see gains until the end of June and then another decline until September.

JSE Top 40 Index: I correctly predicted losses until the end of January followed by a recovery until February 22 then losses to April 25 and then a volatile recovery to the end of October.

ShareFinder JSE Blue Chip Index: I correctly expected a brief retreat which I expect to be over by January 22 followed by gains to the end of September.

Rand/Dollar: The recovery that I correctly forecast in early October is likely to continue until the end of September but with exceptional volatility throughout.

Rand/Euro: I correctly predicted brief weakness which I still expect to last until January 26 followed by gains until mid-March.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.12 percent. For the past 12 months it has been 91.85 percent.