



Our Weekly Paid Newsletter

Richard Cluver Predicts

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



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One of my deepest educational regrets is that, coming from an entirely medical family, it was always assumed by everyone that I would follow in their footsteps and become a doctor. I don't regret the science-dominated pathway which that view dictated from the time I entered high school to actually attending medical school, but what I missed out on was studying history.

Much of what I have learned in adult life has, furthermore, constantly reaffirmed the price of that lack. History is, for instance, at the very heart of the remarkable market-predictive accuracy of our ShareFinder computer system because the fundamental truth of the world's marketplaces is that history continually repeats itself: and the failure to understand that is what separates successful investors from the rest.

Thus, when my youngest son, following in my own latter footsteps, took himself to UCT to study Business Science, I used all the influence then available to me to try and have history included as a major in the syllabus – or even as an elective . But it proved to be impossible because lecture schedules overlapped in such a way that it was an either/or exclusionary situation.

Today I have become almost fanatical in the cause of learning about history for the simple observable fact that if you do not understand where you have come from – if you cannot put yourself into the shoes of those who walked this planet before you – you can have little hope of knowing where you are headed in life. So let me start this week by observing the fact that it has become a popular modern theme to try to equate people's IQ/EQ balance: the balance between your intelligence and your emotional sensitivity. I am, however, now utterly convinced that without a healthy dollop of both balancing the two it is nearly impossible to succeed in any human endeavour.

To give you an example of what I am talking about, if you as an investor are trying to work out how best to invest your hard-earned nest egg so that it is not decimated by your failure to recognise what is developing in several regions of conflict currently: if you don't understand what happened in your own back yard in your grandfather's day, you will NEVER **instinctively** understand what is happening now. Instinctive understanding, moreover, enables those who possess it to move more swiftly than the rest who have to go out and seek advice when both opportunity or disaster loom!

You might think it all happened more than a century ago, so how can the past influence modern events? The point, however, is that it happened to ordinary human beings just like you and I and, under pressure, humans always react in more or less the same ways. So, as a simple example, let us consider what happened in South Africa in 1899 and how it offers an infinite number of parallels with what is happening in the Ukraine and Palestine today. That is why it would really pay you to do some reading of our past history.

Why the Anglo-Boer War happened is totally pertinent to today because at the heart of it was economic greed. The cold fact is that, while Britain was for many years only interested in the Cape as a way-station to replenish her shipping plying the long journey to her very-lucrative interests in India - and consequently resisted all attempts to embrace settlements elsewhere - like Natal and the Transvaal - because that would represent additional cost....that is until the mining wealth of the hinterland was discovered. Hard cash was thus at the heart of the inevitable conflict.

Fast forward to the present and note that if Vladimir Putin needed a distraction in order to re-focus the attention of the Russian people away from the relative economic decline of their country compared with the

surging fortunes of the other former-Soviet allies, the Ukraine beacons with its strategic warm-water sea port and one of the world's richest agricultural regions. Arguably, if he then thought, like the British army generals did when they advised their Parliament that an invasion of the Transvaal - which began after hostilities started on October 11 1899 - that it be all over by Christmas, they then and he now got egg on their faces and, in the language investors understand, a very poor return on the cost of those military expeditions!

Vladimir Putin thought he would be able to take control of the Ukraine in just ten days. As to the cost of it, by November 2022 Russia had officially entered a recession and according to most estimates, every day of the war in Ukraine is costing Russia \$500-million to \$1-billion. War expenditure has now reached 37.3 percent of all budget spending: 2.5 times the pre-war average.

Think tank Rand Researcher's estimates that, "*Full-year 2022 gross domestic product losses amounted to between \$81 billion and \$104 billion and full-year financial capital destruction reached \$322 billion. Direct military spending may amount to almost \$132 billion through 2024. Over the long term, even with a stalemated war, Russia's economy and the standard of living of its people are likely to decline.*"

Furthermore, a Wall Street Journal report estimates that by now Russia has lost nearly 90 percent of its pre-war army: 300 000 Russian soldiers killed or seriously injured, 6 310 tanks, 11 757 armoured vehicles, 332 aircraft, 324 helicopters, 23 ships and a submarine.

And the rest of the world has also paid a price because, once the war in the Ukraine began to deny us fuel, cooking oil and wheat, the world inherited galloping inflation.

So contrast these facts with the fact that when Britain went to war with the Transvaal Republic its gold mines were producing 30 percent of the world's gold supply: When in 1899 the British were doing everything in their power to provoke war on Paul Kruger's Transvaal Republic, their generals calculated that it would cost just £10-million to take control.

According to historian Richard Steyn whose books on Milner, Botha, Smuts and Churchill are priceless textbook studies of the events of those far-off times, the war actually cost £220-million which represented 12 percent of British GDP. Against the latter figure, in 1902, the year the Boers eventually surrendered, the total gold output of the Transvaal mines was 1 690 100 ounces of gold worth, at that time, £12.14-million or just 5.6 percent of the cost of the war. The following year the total gold output was worth £12.46-million.....and of course Britain only received a fraction of that output in subsequent taxes. So in money terms it was a very poor business decision.....and arguably so is Putin's.

Of critical importance for those who still see war as a means toward profit – which is arguably at the heart of most wars - despite the wealth of the gold mines, the fortunes of the Transvaal took almost a half-century to recover. Socially and politically it took even longer.....much longer because we are still dealing with aspects of the aftermath because the human cost was infinitely greater.

The Anglo-Boer war pitted 450 000 British troops against 60 000 Boers and eventually cost the lives of 22 000 British and 34 000 Boer soldiers: nearly equalling the 22 182 British soldiers lost in the Crimean war. It also resulted in the complete destruction of all Boer-owned farmsteads, agricultural implements and livestock within the war zone and the internment of 230 000 Boer and Black people in concentration camps which in turn resulted in 46 000 known deaths.

But the truth, which in modern times Russian President Putin has clearly failed to learn from the Boer War experience, was that although the overwhelming force that Britain was able to deploy made the capture of Boer capitals like Bloemfontein and Pretoria inevitable, the British army NEVER managed to capture the countryside in the two long years of bitter fighting that followed the fall of Pretoria.

No more than an estimated 3 000 Boer commandos were able to keep a British army of close to a quarter of a million men pinned down, brought down the British Government and alienated Britain from most of Europe which viewed its imperial ambitions with grave suspicion. Arguably it was this latter fact which was a

major contributory cause for the subsequent Great War of 1914 to 1918 whose mishandled consequences saw the rise of Adolph Hitler's Nazism and World War Two which collectively almost entirely destroyed the British economic miracle.

That the relatively small Ukranian army is inflicting such incredible damage on the Russian military machine - which for half a century faced off the might of the US and NATO combined - is analogous. That Paul Kruger heavily taxed the mines in order to build up a far better-equipped military force than Britain had with far more modern weapons in a major way explains the successes of the Boer commandos. In the Ukraine, its tiny army is in reality a test bed for the most advanced weapons systems on the planet and in that sense it replicates the trial war in Spain which allowed Hitler's army to test its weaponry against a complacent West ahead of World War Two.

Heaven preserve us if the Ukraine is a forerunner to something worse globally!

Given that in the 19th Century Britain's initiation of both its empire and the Industrial Revolution had made it the then wealthiest nation on earth and the world's mightiest military power, what began with Cecil Rhodes quest to own Africa, Britain's by then insatiable greed – and the Uitlander Witwatersrand mine-owners' desires to escape the taxes and corruption of Paul Kruger's republic – set off a chain of events which by 1945 left Britain bankrupt and in debt and took it the next 61 years to finally pay off its debt to Canada and the USA. Only on 31 December 2006 was Britain able to make final payments of about \$83m (£45.5m) to the US and about \$23.6m to Canada in respect of the residue of World War Two "Lease Lend."

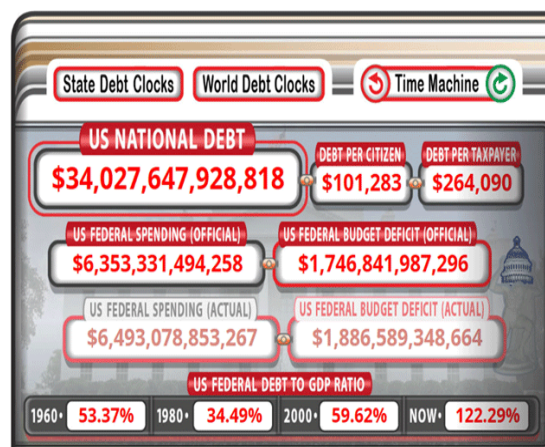
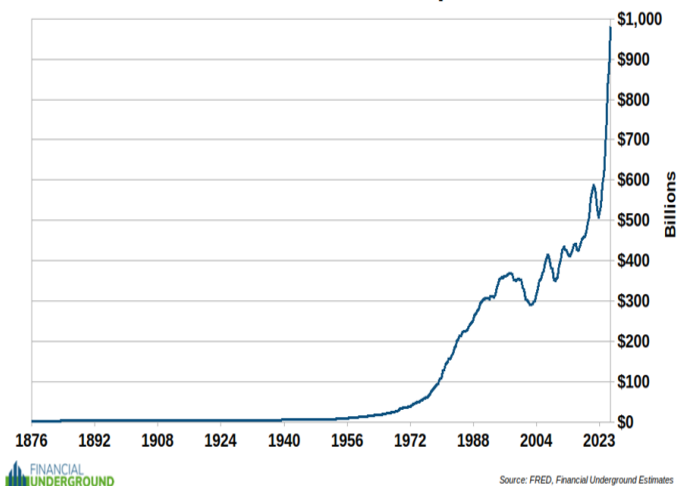
Ironically, that wartime transfer of wealth cemented America's position as the only nation able to afford to be the custodian of the global monetary system in terms of the 1944 Bretton Woods Agreement which the US Government and Federal Reserve subsequently abused to such an extent that we now stand at another great crossroads. As I have frequently detailed of late, the US is broke and the cost of servicing its debts are now going exponential

As US economist/columnist John Mauldin wrote in this week's issue of **The Investor** "The sad fact is we have no easy way out of the debt situation. Worse, we are actually choosing this fate. It's not about individual choices; none of us want the crisis that's coming. But all the solutions require joint actions we are apparently unable to take. Which means we are, by default, choosing a path which for many will be catastrophe."

We face this not just because of US government policy choices but the political process itself. It is a function of the two-party system. Our system has lost the ability to act decisively against big problems we all see coming. We are a nation of deer in the headlights.

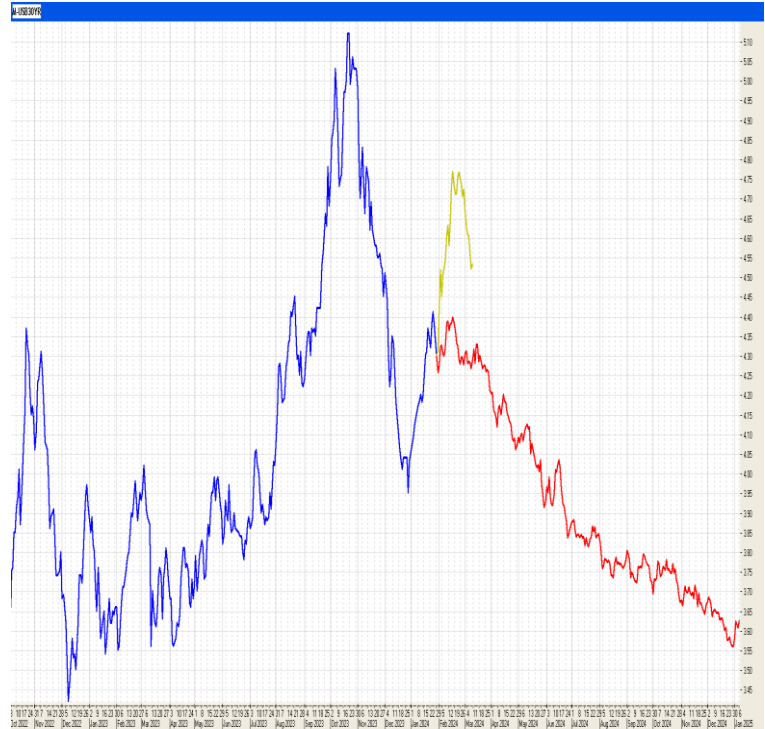
But our system won't stay paralyzed forever. At some point, we'll see action because the crisis will have become impossible to ignore. Then we'll respond. It will be a furious, poorly-planned response with massive side effects that could have been avoided unless some of us begin thinking about possible solutions in advance.

US Federal Interest Expense



And he concluded: “When the CRFB and most budget analysts talk about debt-to-GDP, they use “debt held by the public,” not counting the Social Security trust fund and similar arrangements. The all-in debt-to-GDP ratio is 122%, as tracked by that wonderful website USdebtclock.org.)

Perhaps I should conclude by taking readers to the most sensitive indicator of US economic health, the yield on 30-year US Treasury Bonds which changed direction abruptly in late December when the money men of Wall Street began to appreciate that the war against global inflation was not yet over. Note that currently ShareFinder’s short-term projection in yellow sees yields continuing to rise to peak at 4.77 percent late this month while the longer-term (red) projection senses the probability of the recovery trend continuing.



In other words, the jury is still out on the 2024 trend. US Government debt is curbing President Biden’s ability to continue providing military aid to the Ukraine which this week resulted in the European Union sending a senior emissary to plead with the US Congress. But **Pax Americana** is no longer the force it once was and minor economic groupings are beginning to act like hyenas snapping at its ankles.

Putin is thus understandably a force behind the information systems that are pushing Donald Trump towards another US Presidency because the former’s card castle is shaking. In Iran the Ayatollah Ali Khamenei is using his petrodollars to initiate the dangerous mayhem which in October ignited the Palestine war and with increasing frequency lately, has been provoking terrorist actions all over the Gulf region.

Tehran has used its proxy army of more than a dozen militias and terror groups across the Middle East with outposts around the world to help foment instability, carry out attacks, and expand the scope of the Islamic Revolution. Those groups, some with their own political parties to infiltrate or take over local governments, answer to Iran’s Islamic Revolutionary Guard Corps (IRGC), a paramilitary body formed in 1979 to protect Iran’s fundamentalist regime. Its special operations unit, the elite Quds Force, has provided arms, training, and financial support to militias and political movements across the Middle East: Bahrain, Iraq, Lebanon, the Palestinian Territories, Syria, and Yemen.

And then there is China with its own set of problems of exploding debt and failed stimulatory measures which culminated in this week’s liquidation of China’s property investment giant Evergrande which was worth just \$275m on Monday, down 99% from its peak in 2017. It owes more than \$300-bn to various creditors.

China’s debt as a share of GDP has risen to about the same level as in the United States’ 123 percent, while in dollar terms China’s total debt of \$47.5 trillion is still markedly below that of the United States which is close to \$70 trillion. But its non-financial corporate debt, representing 28 percent of the world figure is the world’s highest.

China is currently trying to defuse a financial time bomb that could severely damage its banking system. Cities and provinces across the country have meanwhile accumulated a massive amount of hidden debt following years of unchecked borrowing and spending. The International Monetary Fund and Wall Street banks estimate that the total outstanding off-balance-sheet government debt is around \$7 trillion to \$11 trillion.

It's a very uncertain world, particularly for those who ignore the lessons of the past!

- Meanwhile, if you want an empathetic understanding of the Anglo-Boer War I suggest you source a copy of James Byrom's novel **No Rules** (ISBN-10:1976478065) which was based on the real life experiences of his own grandparents.
- For the factual details read Richard Steyn's '**Louis Botha – A Man Apart**,' '**Churchill & Smuts**' – '**Milner – Last of the Empire-Builders**' and '**Jan Smuts * Unafraid of Greatness**.' All are scholarly works which every South African should read, .I thoroughly recommend them all!

The month ahead:

New York's SP500: Last week I warned that the signs were in conflict which made predictions impossible and the result was the market actually went nowhere. In the longer-term, however, the signs are for weakness from February 12 to the end of March followed by sustained gains for most of the year, and that trend is now under way.

Nasdaq: I correctly predicted an imminent down-turn likely to last until the first week of February when a brief recovery will precede a three-month decline to the end of April which will likely be the first phase of a year-long declining trend.

London's Footsie: I correctly predicted the recovery which I did not expect to last beyond this week. Now I see a brief dip followed by gains until the 14th and then it is down-hill until the end of March in a VERY volatile year with lots of ups and downs in an overall declining trend.

France's Cac 40: I correctly predicted a decline starting immediately in the New Year and lasting all of 2024. The first down-hill phase should last until April 10 followed by gains until the end of August, but overall it is likely to be a losing market.

Hong Kong's Hangsen: I correctly predicted weakness which I now see lasting until the end of March followed by a long recovery to mid-November. However uncertainty over the fallout of the Evergrande saga could substantially cloud the future for a long time!

Japan's Nikkei: I correctly predicted the decline which is part of a longer-term volatile falling trend at least until May before a long recovery begins.

Australia's All Ordinaries: I correctly predicted that while there is short-term pressure for further gains until February 20, a longer-term cycle is speaking of declines through to late March ahead of a brief recovery to mid-April and a decline until May and another recovery to the end of June when three months of declines seem probable.

JSE Top 40 Index: I correctly predicted a recovery which could last until March 5 followed by losses until April 25. Thereafter I see a volatile recovery to the end of September.

ShareFinder JSE Blue Chip Index: I correctly expected continued gains which I see lasting until mid-July followed by six weeks of declines and then another six of gains to a market peak in late September.

Rand/Dollar: I correctly predicted the start of the long-term Rand recovery I have long predicted....and I still expect it to continue to mid-March when fresh weakness could last until late May before the recovery resumes until the end of the year.

Rand/Euro: I correctly predicted gains until mid-March but thereafter I see weakness for most of the year.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.14 percent. For the past 12 months it has been 92.03 percent.

Norwich University neatly summed up the reasons behind the first world war:



The First World War began in the summer of 1914, shortly after the assassination of Austria's Archduke, Franz Ferdinand, and lasted more than four years, ending in 1918. The Great War left more than 20 million soldiers dead and 21 million more wounded, which can be attributed to trench warfare and the number of countries involved in the war.

For aspiring historians, understanding the causes of World War I are equally as important as understanding the conflict's devastating effects. Though the assassination of Archduke Ferdinand was the direct precipitating event leading to the declaration of war, there were many other factors that also played a role in leading up to World War I (WWI).

European Expansionism

In the 1900s, several European nations had empires across the globe, where they had control over vast swaths of lands. Prior to World War I, the British and French Empires were the world's most powerful, colonizing regions like India, modern-day Vietnam and West and North Africa.

The expansion of European nations as empires (also known as imperialism) can be seen as a key cause of World War I, because as countries like Britain and France expanded their empires, it resulted in increased tensions among European countries. The tensions were a result of many colonies often being acquired through coercion. Then, once a nation had been conquered, it was governed by the imperial nation: many of these colonial nations were exploited by their mother countries, and dissatisfaction and resentment was commonplace. As British and French

expansionism continued, tensions rose between opposing empires, including Germany, Austria-Hungary and the Ottoman Empire, leading to the creation of the Allied Powers (Britain and France) and Central Powers (Germany, Austria-Hungary and the Ottoman Empire) during World War I.

Serbian Nationalism

Nationalism was one of many political forces at play in the time leading up to World War I, with Serbian nationalism in particular, playing a key role. Serbian nationalism can be dated to the mid- and late-1800s, though two precipitating nationalism events are directly linked to the start of WWI. In the Balkans, Slavic Serbs sought independence from Austria-Hungary and the Ottoman Empire, and in 1878, they tried to gain control of Bosnia and Herzegovina to form a unified Serbian state. With the decline of the Ottoman Empire, Serbian nationalism continued to rise, culminating in the assassination of the Archduke of Austria in 1914 by a Bosnian Serb and officially triggering the start of the Great War.

The Assassination of Franz Ferdinand

On June 28, 1914, the Archduke Franz Ferdinand of Austria was assassinated by Gavrilo Princip. Ferdinand was chosen as a target because he was to be the heir of the Austro-Hungarian Empire. On the day of his assassination, the Archduke traveled to Sarajevo to inspect imperial armed forces in Bosnia and Herzegovina, former Ottoman territories acquired by Austria-Hungary in 1908. While Ferdinand was traveling in an open car in Sarajevo, Princip fired into the car, shooting Ferdinand and his wife Sophie. Following the assassination, Austria-Hungary issued an ultimatum to Serbia, which was rejected and led Austria-Hungary to declare war against Serbia, with German support. Russia then came to Serbia's defense, therefore initiating the First World War.

Conflicts over Alliances

In the age of imperialism prior to World War I, countries throughout Europe had created alliances. The alliances promised that each country would support the other if war ever broke out between an ally and another Great Power. Prior to WWI, the alliances of Russia and Serbia; France and Russia; Germany, Italy and Austria-Hungary; Britain, France and Belgium; France, Britain and Russia; and Japan and Britain were firmly in place. The alliance, between France, Britain and Russia, formed in 1907 and called the Triple Entente, caused the most friction among nations. Germany felt that this alliance surrounding them was a threat to their power and existence.

As tensions continued to rise over alliances, the preexisting alliances fed into other countries declaring war against one another in the face of conflict. These conflicts over alliances — which forced nations to come to the defense of one another — led to the formation of the two sides of World War I, the Allied and Central Powers. By the start of the war, Italy and the United States entered on the side of the Allied Powers, which consisted of Russia, France and Great Britain. The Central Powers, alternately, consisted of Germany, Austria-Hungary, the Ottoman Empire and Bulgaria.

The Blank Check Assurance: Conspired Plans of Germany and Austria-Hungary

The alliance between Germany and Austria-Hungary at the start of World War I is also commonly known as the “blank check assurance.” In July 1914, during a meeting between members of the Austrian Foreign Ministry, the Ambassador to Berlin, the German Emperor and the German Chancellor, Germany offered Austria-Hungary unconditional support in the wake of the assassination of Franz Ferdinand. This “blank check,” via unconditional support, sought military

and political triumph in securing the Balkans. It also gave Austro-Hungarian leaders the confidence needed to embark on war against Serbia.

Today, historians regard it as one of the most controversial decisions in the history of modern warfare, particularly because Germany failed to withdraw the unconditional support when given the opportunity. It is also widely recognized as one of the main reasons Germany is seen as responsible for the escalation and continuation of World War I.

Germany Millenarianism – Spirit of 1914

Millenarianism is a belief held by a religious, political or social group or movement that a coming major transformation will occur, after which all things will be changed. For Germany, leading into World War I, historians report that the Spirit of 1914 was high, with support from the German population for participation in the war. The German government believed that the onset of war and its support of Austria-Hungary was a way to secure its place as a leading power, which was supported by public nationalism and further united it behind the monarchy.

The success Germans saw in the opening battles of WWI provided a platform for the German government to position itself as able to accomplish more when unified and nationalistic. However, this millenarianism was short-lived, as Germany was unprepared to fight the long war, which took a dramatic and demoralizing toll on its people and later set the stage for the rise of the Third Reich, less than two decades later.

Following the events above, World War I moved into full force from 1914 through 1918, ending when peace was brokered between the German and Central Forces and the Allied Powers with the signing of the Treaty of Versailles. However, this treaty forced punitive measures on Germany that further destabilized Europe and laid the groundwork for the start of World War II. By understanding the causes of World War I, historians can develop a keen comprehension of how and why this devastating conflict began.