Our Weekly Paid Newsletter

Richard Cluver Predicts

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

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Eight of us gathered for lunch at the weekend in a friend's gated community home. We sat in a magnificent landscaped garden, secure behind high walls and protected from the harsh reality of 2024 South Africa, sipping a vintage chardonnay and safe in the knowledge that the greatest threat to our immediate security was the possibility of a misdirected golf ball.

Yet there was no escaping the hints of anxiety that tinged our conversation as we pondered how realistic were the fears of some political observers that the future of South Africa could lie in a coalition between the ANC and its champagne-socialist doppelganger, the EFF? Since then I have been pondering, from the perspective of an outside observer, how deeply absurd are the feelings of security which permeate these tiny pockets of luxury within a continent awash with deepening poverty and ruled by the whim of AK47-bearing thugs where the rule of law is a luxury few understand and most merely pay lip service towards?

What is abundantly clear to me and to most others who try to keep their fingers on the economic pulse of the country is that a potential melt-down stares us in the face if the ANC is returned to power in June. Nothing in Cyril Ramaphosa'a latest election manifesto offers anything like a positive plan to re-grow the economy, create jobs and get our failed utilities working. Analysts have, furthermore, been extremely hard-put to find anything that has not been offered many times before and then forgotten by once re-elected comrades thereafter content to watch essential services decay while living opulently off what little fat remains in the country: consuming the last of that vital element of free capital which urgently needs to be re-directed towards growth initiatives rather than salary increases for already overpaid incompetents.

Worse, if an EFF coalition is the consequence, then an unrestrained kleptocracy will positively guarantee the ultimate decline into something like a larger Zimbabwe or, worse, Félix Tshisekedi's chaotic Democratic Republic of the Congo which, despite sitting on mineral wealth estimated to rival the combined GDP of the USA and Europe, is forced to import basic needs like eggs and milk.

I believe that the heart of the ANC's complete inability to effectively manage the economy lies in its struggle history; when it's now aged leaders were smuggled into the old Soviet Union and indoctrinated with the concept of central command economics coupled with the idea that trusting private enterprise to optimise the use of the savings of private citizens was an evil which led to exploitation of the masses.

The Communists argued that only a State which was in total command of ALL the resources of a nation was able to see both the big picture and consequently fairly deliver the most effective economies of scale....except that it never did. However you can see why it was so eagerly grasped by the political class because it was a beguiling concept which had its roots in the observation by the "Father of Economics" Adam Smith (1723-1790) who - using the practical example of how ten men working as a team in a pin factory proved to be 4 800 times more productive than an individual working on his own - laid the foundations of the Industrial Revolution and modern economic cooperation.

Smith also argued that competition between businesses prevented exploitation of consumers by ensuring fair prices and quality products, encouraging constant economic innovation, and satisfying consumer demand. In short, competition keeps everyone honest, because customers treated unfairly by one business can always patronize another instead.

So industrialisation and competition proved very effective in keeping prices down, but it did not necessarily protect employees from exploitation. Indeed the Industrial Revolution was notorious for its ‘Sweat Shops.’ Thus it fell to Karl Marx (1818-1883) to refine the theory: to one whose clashes with the ‘Capitalist Class’ helped shape a rebellious anti-establishment philosophy. Historians have noted *‘...he was jailed for public drunkenness as a college student; his home and personal appearance were unkempt; and he spent income frivolously, causing his family to frequently live on the brink of poverty.’ From Marx’ perspective ‘....capitalists, in competition with each other for profits, squeeze as much work as possible out of the proletariat at the lowest possible price.*’

History has of course taught us that at the heart of every successful economy lies the small businessman who understands that the efficient use of both capital and labour represents the difference between prosperity and failure. Fostering small business rather that viewing the sector with hostility is the surest guarantee for any government that its people will prosper and gain full employment. And although workers occasionally need to be protected by the State against exploitation, modern business practice has overwhelmingly shown us that “happy workers are productive workers.”

Most importantly, the Soviet Union’s nationalising verve which gave the world the great Communist experiment was a spectacular economic failure, largely because of the massive inefficiencies of centralised planning. More to the point, however, exploitive bosses were replaced by politicians who soon began living the same exploitative lifestyle as the Russian aristocrats they had replaced. The fact that the Soviet Union survived as long as it did was entirely the result of massive social repression. After all, the Berlin Wall was not built to keep the Capitalists out. It was built to prevent the residents of Communist countries escaping to the West!

Now the current ANC leadership is intent upon leading us down the same path of repression and the symptoms are plain to see in its consequences; such as South Africa being blighted by the world’s highest unemployment rate and one of the world’s lowest economic growth rates. If you doubt that the ANC still clings to the failed Soviet economic model, consider the words of our Electricity Minister Kgosientsho Ramokgopa in a piece he penned for the Sunday Times last weekend which realistically noted that Eskom’s strained financial resources are preventing it from raising sufficient capital to end our power crisis. This has resulted, he said, in “a critical need to explore competitive and alternative solutions.”

However, rather than let go of control, the ANC would rather see the lights go out and what remains of South African business go to the wall, leaving us with an inevitable failed state! If you doubt that contention, note his words in the Sunday Times article: that, “The most suitable model for South Africa must recognise that full or partial privatisation will render a strategic and key national asset no longer under government oversight. This is an untenable situation that cannot and must not be countenanced.”

But playing as a latter day King Canute and trying to command the tide of business progress is clearly doomed as is, most South Africans must sincerely hope, the ANC’s stranglehold on our formerly vigorous economy.

The new reality, as we all know, is that the dramatic surge of private investment into power generation and distribution already guarantees that Eskom will be obsolete within the foreseeable future. As long ago as May last year former Eskom CEO Andre de Ruyter said that, “The notion of a vertically integrated monolithic monopoly that meets most of the power needs of a country is as superannuated as a state-owned telephone company.”

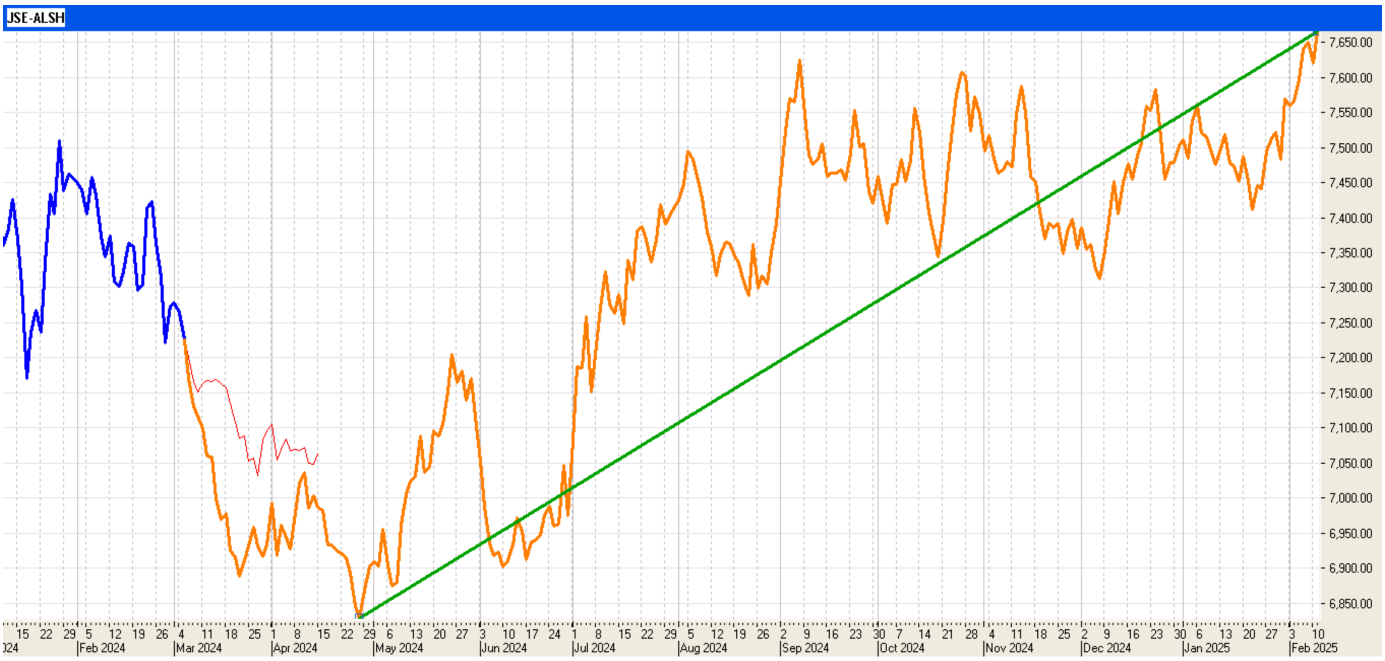
Noting that South Africa has imported over R16.5 billion worth of solar panels in the first nine months of 2023, equal to over 4,500 MW in generation capacity (that’s the equivalent of one Medupi power plant) de Ruyter opined last month that as its paying customers opted to install rooftop panels in order to replace their increasingly unreliable Eskom power source, bankruptcy loomed for the utility which would quite soon end up with its only customers from the townships who traditionally do not pay.

The transition furthermore makes sound economic sense. In my own home experiment I late last year invested R120 000 to install 12 solar panels and additional battery backup. Now six months in and with the clearest sun days still ahead, I have already generated R6 200 worth of electricity. On an annual basis that return of 10.33 percent is, as I predicted at the time in this column, one of the best investments I could have made. Adding in the fact that over the past 15 years Eskom's tariffs have increased by 653 percent – that's a compound annual average rate of 13.33 percent which makes my panel investment likely to give me a Total Return average of 23.66 percent.

The panels themselves cost just R3 000 each so a R36 000 investment in the actual generation capacity thus equates to an annual return of 34.44 or a Total annualised return of 47.77 percent which implies that they will have paid for themselves in another 12 months. It has to be the best investment on the planet!

If you want a comparison, readers all know our Prospects portfolio pictured above has consistently outstripped every managed South African portfolio since its inception in 2011 by delivering a compound annual average growth rate of 14.1 percent and an average dividend yield of 4.1 percent to make for a Total Return of 18.2 percent. That implies my panels are performing a whole 163 percent better than that record-breaking portfolio.

No wonder South Africans everywhere are scrambling to convert to solar! Meanwhile, here is my countdown to the election forecast provided by ShareFinder's artificial intelligence projection which continues to sense a recovery of the JSE All Share Index beginning from April 26 to peak on May 24, plunging after Election Day and then beginning a sharp recovery from June 20.



I have not shown it here, but ShareFinder actually senses continuous gains through to April 2028 at compound 8.7 annually. If the software is correct that is likely to be one of the greatest recovery stories of modern investment history!

Just saying!

The month ahead:

New York's SP500: I correctly predicted the present weakness which is now under way and likely to continue until the end of March ahead of a brief recovery to April 8 and then another decline to the end of April ahead of a three-month recovery to a new market high.

Nasdaq: I also correctly predicted the down-turn which I still expect to last to the first week of May followed by two months of gains and then further declines to the end of the year.

London's Footsie: I correctly predicted the dip which I now expect to last until year-end with brief recoveries during April and May and again in June.

France's Cac 40: I correctly expected losses to start around lasting until mid-April followed by a volatile period of overall gains to the end of August before another steep decline gets under way.

Hong Kong's Hangsen: I correctly predicted weakness which should last another week ahead of a month-long recovery and another one of weakness thereafter within an overall year-long recovery.

Japan's Nikkei: The phase of strong recovery which I correctly predicted is now giving way to six months of a more sideways trend culminating in a mid-November peak.

Australia's All Ordinaries: I correctly warned that the market was topping ahead of weakness to late March ahead of a brief recovery to mid-April when another brief drop is likely before gains resume until late June. Thereafter I see declines to the end of the year.

JSE Top 40 Index: I correctly predicted weakness until the end of April and then a long volatile recovery until the end of October.

ShareFinder JSE Blue Chip Index: I correctly expected continued gains amid considerable volatility which I now see lasting until late September. Thereafter I see two months of weakness before growth resumes.

Rand/Dollar: I correctly predicted a recovery followed by weakness from March 13 to April 11 followed by two weeks of recovery and then fresh weakness until Election Day. Thereafter I see a volatile period of continued gains into the New 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 87.18 percent. For the past 12 months it has been 92.03 percent.