Our Weekly Paid Newsletter

Richard Cluver Predicts

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

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If you took the time to read my lengthy lead article in The Investor this past week, I rang the alarm bells suggesting that crunch time is imminent for the world economy and brought into question whether the world is nearing the close of the great democratic experiment.

Without seeking to minimise that issue, it's probably also the time to remind readers that in the marketplaces of the world things happen relatively gradually.....and then with sudden shocking drama. What this means for everyone who wishes to achieve a peaceful night's sleep is to take to heart the fact that even those sitting on top of the world's best data networks and backed by armies of highly-paid experts SELDOM get their market timing exactly right. Change might be imminent...but it could also be some time away because central banks are able to kick crisis cans down the road....until they do finally run out of road!

That's why you and I ordinary folk should not even try to time the market but rather position ourselves securely for safe long-term growth. Though it's great to sometimes finesse a smart trade when you buy in at the bottom and watch your choice soar, but so often it is just a question of judgement honed from long being prepared for the opportunities that the market so often drops into your lap. Still, it's a good feeling when you do get it right!

After all, I am sure you will all agree that it's far more the fun of beating the mob than shaving a few extra cents off a trade....because we humans are a competitive lot and so winning is often by far the more satisfying result than a slow ride to prosperity.

That's why this week I, and I hope most of my readers are celebrating our latest finesse.....even if it took a little time to unwind! Thus, this one started as long ago as March last year when AngloAmerican Plc was standing at an unbelievably cheap historic dividend yield of over 15 percent.

Now, of course, we all knew that the minerals boom was coming off the boil as China's voracious minerals consumption was beginning to yield to its own internal economic crisis but, as I began telegraphing to everyone that my own "vasbyt" strategy in the face of a global debt crisis was to accumulate shares with the highest dividend growth record, Anglo was simply too cheap by far!

Creating a high and reliable dividend income stream was, I argued then and I am still arguing, remains the best way to head into a storm because it gives you cash to be able to pick up the resulting bargains as they fall. So I probably moved on Anglo a little too early at R541 a share back then.

But when you are picking up such situations, it is important to have an averaging approach. Accordingly, I went back in during December at R407 and a little later that month at R426 to give me an overall average of R553.92 a share which this week had me up 15.7 percent in a bidding cycle which is likely to go quite a lot higher before it is over because Anglo sits on top of one of the world's richest copper sources with some mouth-watering other rare minerals to boot. True its platinum holdings are somewhat bombed out right now, but over time I also expect a strong rebound there as well....don't write off the internal combustion engine yet....nor fuel cells.

As a result of those purchases. The graph below illustrates, the green line sum of my latter purchases which together make me a latter day winner and, if ShareFinder is right in its projection, the price could go to R700 in the next few months.

Remembering Anglos' long-term dividend yield average of less than three percent, I think it could go far higher than that. However, once the world is past its current election phase and interest rates start coming down, I think this holding could offer a bonanza.

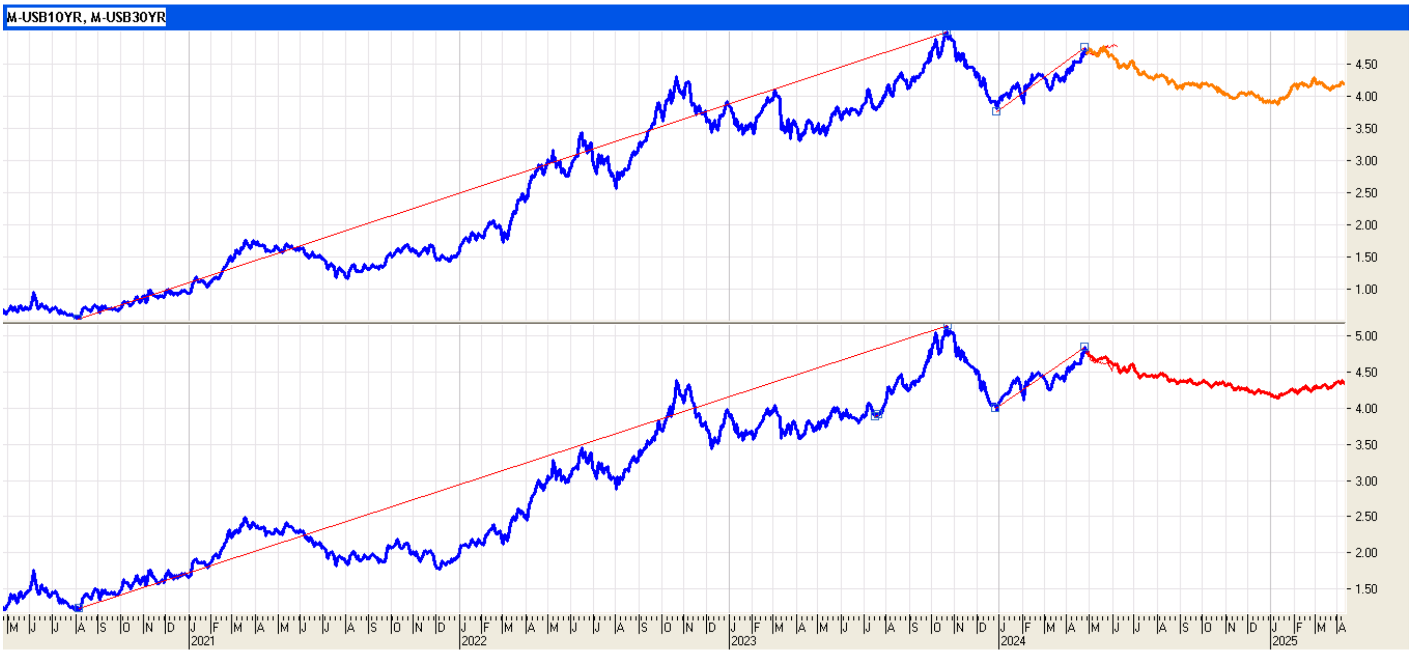
There has been quite a lot of Press speculation recently about how Anglo lost its prior market dominance with the suggestion that a series of management mistakes have relegated it to a relative minnow in the world mining marketplace. However, the long-term graph on the right makes it clear that Anglo has rewarded its long-term holders with annual price growth at compound 11.5 percent which, together with average dividends of + - 3.5 percent suggests a winning Total Return of 15 percent that suggests this should be a desirable asset in any long-term portfolio.

Now BHP which is currently mounting the takeover bid for Anglo is a powerhouse with one of the world's biggest market capitalisations, but as the second graph on this page indicates, that red trend line indicates how volatile the share price has been.

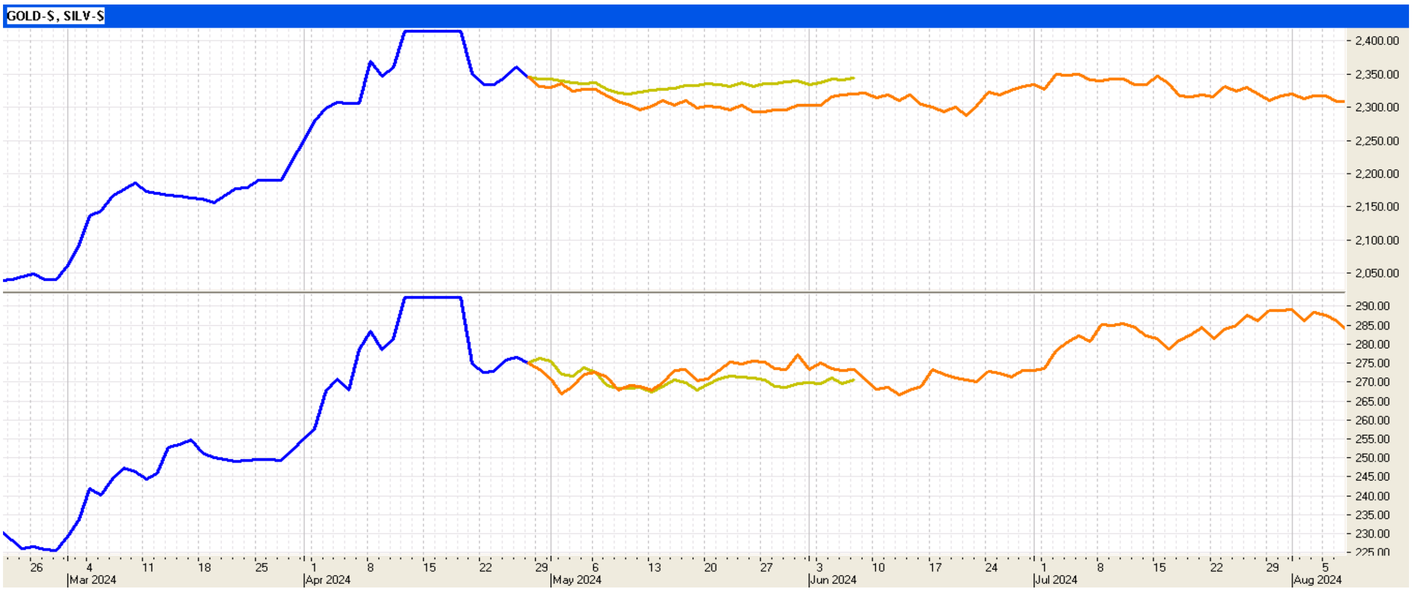
More importantly, the red line trends at a compound annual average rate of just 2.37 percent and so, I for one would not on an historic performance basis want to swap my Anglo shares for BHP.

Moving on to the current global investment climate, the best single dipstick of investor sentiment is, in my opinion, the US 30-year long bond which, if you consider the lower of the two graphs of the following composite, at Christmas lost its October to December expectation of an imminent central bank interest rate reduction and since year-end has again been in a pessimistic trend.

Now, both it and the 10-year bond in the upper graph appear, if ShareFinder is correct, to have peaked and might trend downwards for the rest of the year. That is a very bullish medium-term signal!



Meanwhile both gold bullion and silver have paused in their headlong upward rush and, though the yellow short-term ShareFinder projection suggests another up-surge is imminent, the red medium-term projection is relatively flat into the future.



In conclusion then, the immediate panic seems to have subsided to be replaced with a wait-and-see attitude. ShareFinder obviously concludes that we will have to wait and see what the elections bring both here in South Africa and in the global marketplace as well!

The month ahead:

New York's SP500: I correctly predicted the beginning the present recovery is likely to continue to the end of May followed by a two-week dip and then more gains to mid-July when another phase of weakness seems likely.

Nasdaq: I also correctly predicted a recovery the end of July ahead of a long decline well into the New Year.

London's Footsie: I also correctly predicted the start of five weeks of gains until May 27 then around six weeks down to early July and another six weeks of recovery. But the long-term trend is down well into the New Year.

France's Cac 40: I correctly predicted gains until mid-May and then declines until early July followed by gains to mid-September and then losses to year-end.

Hong Kong's Hangsen: I correctly predicted the start of an extended recovery well into the New Year.

Japan's Nikkei: I expected a lengthy sideways to weakening trend ahead of an extended recovery beginning at the end of May. Now I see the weakness ending mid-month.

Australia's All Ordinaries: I correctly predicted an imminent volatile recovery to late June followed by weakness right through to next February. Six weeks of gains are, however, likely from the end of September.

JSE Top 40 Index: I correctly predicted the start of a volatile recovery until the end of October.

ShareFinder JSE Blue Chip Index: I correctly predicted gains within a very volatile long-term recovery until mid-November. In the interim I foresaw a brief drop in early July followed by volatile gains well into the New Year.

Rand/Dollar: I wrongly predicted brief weakness now but that has been delayed for a week. Nevertheless the long-term recovery trend into the New Year is still likely.

Rand/Euro: I correctly expected gains. But that move is now likely to over with weakness ahead until early July.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.24 percent. For the past 12 months it has been 93.48 percent.

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