Our Weekly Paid Newsletter

Richard Cluver Predicts

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

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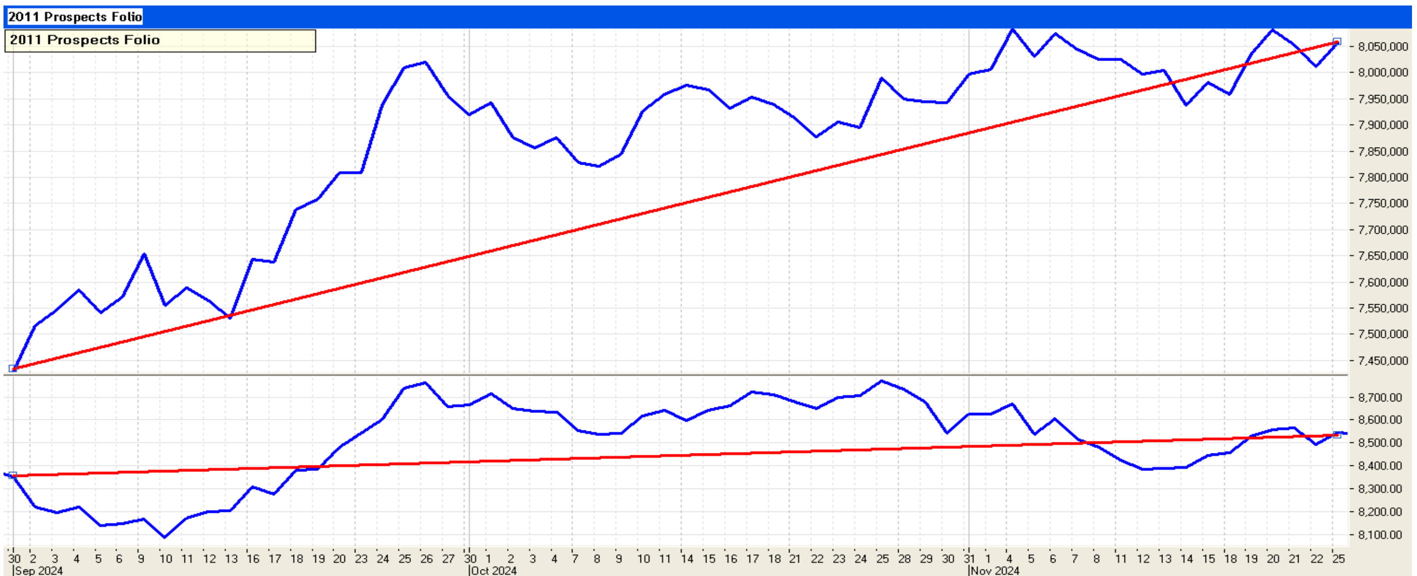
It is three months since I converted my four Prospects virtual portfolios to the partial control of a computer algorithm that ShareFinder International created to mimic my own share selection techniques; and the consequences have been startling.

The South African Prospects portfolio is as a consequence outperforming the growth rate of the JSE All Share Index by an astounding 532 percent.

Here is a comparison graph illustrating an annualised 41.5 percent growth rate for the SA Prospects Portfolio compared with, in the lower panel, the JSE All Share Index which managed an annualised 7.8 percent:



To explain, most readers well know that all four prospects are world-beaters, only failing to top the Morningstar best performers lists because they are not commercially-registered funds. I am, however, set on correcting that problem by planning to register the SA Prospects Portfolio as a Unit Trust during 2025.

If, in open competition with South Africa's most popular funds, it is able to maintain its lead, I assume that it will soon become the country's number one fund in terms of total invested capital. Thereafter, it should not be difficult to follow up with a series of international funds to mimic the other Prospects Portfolios.

Given that, if you read the latest issue of **The Investor** which was published on Wednesday, you will now know that the four prospects portfolios have on average outperformed the Morningstar 'Best of the Best' funds in all four countries covered by the Prospects series by over 50 percent annually over the past five years, all four should surely become future Morningstar winners!

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Of course logic is not always the defining logic in the investment business where marketing hocus pocus can often fool many folk because big money is at stake. But that is the plan anyway.

Nevertheless, simple logic was what originally drove me as a young journalist in the 1970s to draw up a list of what the pundits of the time had long declared were the most important attributes of the share market's Blue Chips: the safest long-term market performers. Not surprisingly, back then when most stockbroking advice was based on the 'Old Boys Network' rather than empirical data, I very soon made a name for myself because my advice made money for readers…lots of money!

Moreover, the development at that time of the personal computer together with the success of my investment columns in the old Argus Group of newspapers, together enabled me to put together a team of computer programmers with whose help I was able to test which attributes mattered the most and to assign each a performance weighting. Then the success story began.

From that simple beginning came my best-selling book **Investment Without Tears**, the **ShareFinder** software and, among others, this column that you are reading today. Surprisingly however, in this era of highly-trained portfolio management, my portfolios continue to outperform the rest and that to me is a genuine puzzlement. However it is demonstrably so and thus, with the obvious success of the Prospects portfolios over many years came in time the invitation to convert them into unit trusts. But by now my own mortality became an issue.

Granted I am still 'hale and hearty,' but what would happen to these funds if anything happened to me? Thus began the project to create a computer algorithm which would systematically go through the same share selection steps that I have habitually gone through but do them more frequently, more systematically and, hopefully more accurately than I. Here, to compare with my opening graphs is thus another depicting what my old SA Prospects portfolio would have managed during the same period:

Switching over created a less-volatile portfolio which, for example, avoided the early-September market dip which is clear in the graph above. Moreover, the new portfolio is simply better! Thus, while the new portfolio gained at an annualised rate of 41.5 percent, the old Prospects Portfolio only managed an annualised 9.61 percent between September 1 and the present, implying that the new algorithm is proving to be 432 percent better than I would have managed.

The results of the hand-over are thus, plain to see from this first three months of algorithm-control. They have been spectacularly successful!

The team has created a computer system which can be safely locked up in what is described in the trade as a "Black Box." That is a sealed system, which can only be accessed by suitably-authorised folk in order to remove the risk of someone mischievously tampering with the output. Accordingly, it

only requires a constant supply of accurate market data which, in turn, means that it only requires a small team of data-capturers to keep it working years into the future where I am no longer around.

The programme will daily recommend which shares to buy and which to sell and its instructions will go to a well-known and very long-established fund administration company which will handle matters like the actual share trading together with client relations, dividend payment and the like.

Here on the left for those who wish to compare, is the old SA Prospects Portfolio. On the right is the very-much slimmed-down new version:

Old SA Prospects Portfolio
BATS
CASALES
GLENCORE
HYPROP
ITLTILE
KALGROUP
MONDIPLC
MRPRICE
MUSTEK
PSGKST
RENERGEN
RICHEMONT
SABCAP
WEBUYCARS

New SA Prospects Portfolio
AFRIMAT
CAPITEC
CLICKS
FIRSTRAND
HUDACO
NASPERS-N
REINET
SANTAM
SHOPRIT
STANBANK

Now for readers wishing to convert existing portfolios in order to emulate the new Prospects Portfolio, one of the greatest obstacles is the Capital Gains Tax implications of selling long-held holdings.

That is why creating a unit trust is so useful because one of the great advantages of converting a personally-managed share portfolio to a Unit Trust is that such trusts are allowed to accept a portfolio of shares in lieu of cash.

Though the original acquisition date and price will still apply if you eventually decide to sell off units, there is no CGT impact if the unit trust management sells shares within its portfolio. The cost-benefit implications are thus obvious!

That is why, apart from seeking to ensure that my personal investments will be well-managed in the future, I have sought to create a series of Prospects Unit Trusts and why I have been asking readers to write to funds@sharefinderpro.com in order to provide us with an idea of what sums they might be prepared to commit to such a trust when we go ahead and launch it. We need to know how much public interest there would be in such a unit trust because the prospective administrators I have been in discussions with logically want to know that there would be sufficient sums available to warrant the management costs.

Such responses are thus for information only, with no other commitment needed on readers' part, and so, happily in that regard, I am able to tell you that so many of you have responded positively that we are nearly there!

Donald Trump

Meanwhile, I cannot let this column pass without turning to the US where the prospect of a trade war emerged this week after President-elect Donald Trump announced he is planning major tariffs against products from America's three largest trade partners: Mexico, Canada, and China.

If he goes ahead and enacts them they will almost certainly do worse than the Covid19 global supply chain logjams. They will furthermore substantially raise consumer prices for the already hard-pressed US taxpayer – increasing the woes voters hoped Trump would solve when they elected him. They would also devastate Mexico's and Canada's economies.

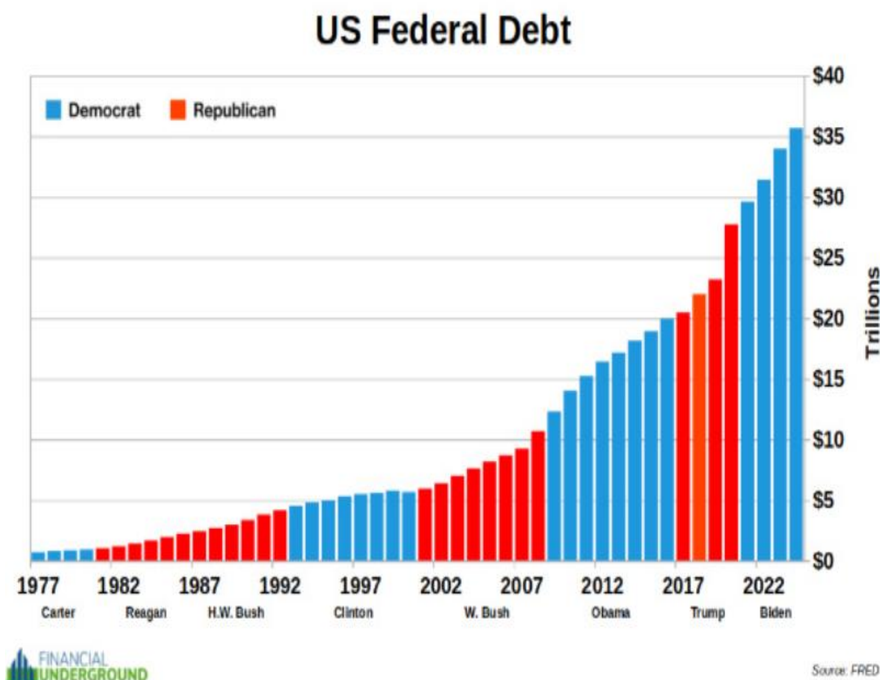
Trump announced he would impose a 25% tariff on all goods from Canada and Mexico if they don't curb the flow of migrants and illicit drugs across their borders with the US. He also pledged an additional 10% tariff on Chinese products as punishment for not cracking down on fentanyl traffickers. The tariffs would, he said, remain in place until those countries heeded his demands.

To understand the consequences for the North American bloc, 83% of Mexico's exports went to the US last year, as did 75% of Canada's exports.

In retaliation, Mexican President Claudia Sheinbaum has written to Trump suggesting she would retaliate with tariffs of her own, while Canadian Prime Minister Justin Trudeau has phoned to discuss cooperation. China has in turn announced that "no one will win a trade war."

As I have previously reminded readers, the real hardship of the Great Depression was NOT the consequence of the Wall Street crash but rather the trade war that subsequently erupted nearly a year later when the US Congress went ahead with its Smoot-Hawley Tariff Act on June 17 1930. It imposed high tariffs on imported goods, making them more expensive for consumers. As a result, other countries retaliated by imposing their own tariffs on American goods, which reduced international trade, ultimately putting the whole world into depression!

I might add that in 1929 the US was nowhere near as indebted as it is now with its currently unprecedented 123 percent debt to GDP ratio, or 36-trillion dollars, which many eminent economists believe could precipitate the US Government going into default quite early in the Trump administration. I do recommend you read Nick Giambruno's report at the end of this column to add perspective to this view!



But also take note that in 1929 the US Government owed just $17-billion representing 16 percent of GDP at that time!

Enough said!

The month ahead:

New York's SP500: I correctly predicted weakness until early January but within that I correctly saw gains from now to the second week of January.

Nasdaq: I correctly predicted a down-week followed by gains to month-end and then five weeks of declines. From about January 8 I see a fortnight of gains but then it is likely to be downhill for the rest of the year.

London's Footsie: I also correctly predicted the start of a decline that should continue until the second week of December followed by three weeks of gains and then five more down before the start of a very volatile year-long recovery.

France's Cac 40: I correctly predicted a decline likely to last until early January before a sustained recovery sets in.

HongKong's Hangsen: I correctly projected the start of a recovery which I expect to last into the second week of December followed by weakness to late January. From then to late May I see a modest recovery before everything heads south once more for most of 2025.

Japan's Nikkei: I correctly predicted a recovery which should continue to month-end all within a long decline far into 2025.

Australia's All Ordinaries: I correctly saw declines from mid-week until late December followed by gains until January 17 then down to mid-February and a recovery to mid-March and down again to late April.

JSE Top 40 Index: I correctly saw brief gains followed by weakness which I expect it to last until mid-year.

ShareFinder JSE Blue Chip Index: I correctly predicted weakness which should now be over ahead of gains until the end of February and then a three-month decline.

Rand/Dollar: I correctly predicted a long-term recovery resuming about now and lasting until August.

Rand/Euro: I correctly predicted a resumption of the recovery lasting until the end of February when another three months of weakness seems likely.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.45 percent. For the past 12 months it has been 95.21 percent.

The 'Empire Killer' Strikes Again

by Nick Giambruno

One of the most potent and underappreciated forces responsible for the downfall of the most powerful empires throughout history has been debt.

While military defeats, political upheavals, and external invasions often dominate historical accounts of the fall of great powers, excessive debt—the "Empire Killer"—has quietly but relentlessly eroded the foundations of empires across the centuries.

From Rome to the Soviet Union, the over-extension of resources, poor financial management, and the inability to service massive debts have led to economic collapse, social unrest, and, ultimately, the demise of these once-mighty empires.

Understanding how debt has played a role in the fall of these empires gives us insight into the role it could play in the collapse of the US Empire.

Here is a summary of some prominent historical examples of this clear pattern.

The Roman Empire

One of the most iconic examples of debt's destructive force is the Roman Empire.

At its height, Rome was the center of the known world, controlling vast territories, including much of Europe, North Africa, and parts of the Middle East.

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Maintaining a vast empire required immense financial resources. The Roman government needed to fund its sprawling military, build infrastructure such as roads and aqueducts, and support the grandeur of its capital city.

Emperors financed the resulting debt by debasing the currency—reducing the silver content in Roman coins.

However, this led to rampant price increases and economic instability.

The more the Roman government tried to print its way out of debt, the worse the problem became.

As debt and inflation strangled the Roman economy, the empire struggled to pay its soldiers, undermining military morale and effectiveness.

Weakened by internal financial collapse, Rome became vulnerable to external threats. The combined weight of financial mismanagement, social unrest, and military decline led to the empire's collapse.

The Spanish Empire

In the 16th century, the Spanish Empire was a global superpower.The discovery of the New World brought an influx of gold and silver, filling the Spanish government's coffers beyond imagination. However, this newfound wealth bred complacency and extravagance.

The Spanish monarchy became embroiled in costly wars across Europe—including the Eighty Years' War with the Dutch and conflicts with France and England—and indulged in lavish expenditures without regard for fiscal sustainability.

Spain borrowed heavily from European bankers to finance its ambitions, accruing enormous debts. At first, the influx of colonial wealth allowed Spain to service its debts, but as wars dragged on, the costs began to outstrip the income from the New World. But Spain's creditworthiness diminished as the debts mounted, and the economic decline became irreversible.

The inevitable consequence was a series of bankruptcies in 1557, 1575, and 1596. Each bankruptcy weakened Spain's creditworthiness, making it more difficult to borrow money on favourable terms. The once-dominant empire lost its influence, illustrating how an abundance of wealth, when mismanaged and coupled with excessive debt, can precipitate a rapid descent from power.

The French Monarchy

The fall of the French monarchy in the late 18th century provides another stark example of how debt can destabilize a powerful country. France's involvement in costly wars, such as the Seven Years' War and the American Revolution, strained the country's finances.

Meanwhile, the extravagant lifestyle of the French court, epitomized by King Louis XVI and Queen Marie Antoinette, drained the treasury further. France was deeply in debt, and the government struggled to service its loans. By the late 1780s, the French government was spending more on interest payments than its military.

The French monarchy imposed heavy taxes on commoners to pay the cost of its debts, while the nobility and clergy were largely exempt. It led to widespread anger among the population, fuelling social unrest. In 1789, the situation reached a tipping point, igniting the French Revolution.

The Qing Dynasty

The Qing Dynasty was the last imperial dynasty of China. It was a leading world economic power, but spending and foreign borrowing in the 19th century was a significant factor in its decline.

The Qing Dynasty faced enormous financial strain due to prolonged conflicts, including the Opium Wars, the Taiping Rebellion, and the Boxer Rebellion. These wars forced the Qing Dynasty to borrow heavily from foreign lenders.

The Qing government increased taxes on peasants and small landholders to manage its debt. The tax burden, widespread corruption, and inefficiency in the imperial bureaucracy led to social discontent and weakened the central authority's control over the provinces.

Debt was a critical factor that exacerbated the already unstable political and social situation in the late Qing Dynasty.

The British Empire

The sun never set on the British Empire at the height of its power. However, the two World Wars strained the empire's resources beyond its limits. The cost of fighting in WW1 and WW2 left Britain deeply in debt, particularly to the US.

The financial strain of debt made maintaining control over its vast territories impossible, and Britain's role as a world superpower diminished. The pound ceased being the world's leading reserve currency.

How Debt Destroys Empires: A Familiar Pattern

The typical pattern in these examples of collapsing empires (and numerous others I didn't have time to mention) is:

Stage #1: Empires achieve success and become overconfident.

Stage #2: Overconfidence leads to extravagant spending on luxuries and wars.

Stage #3: Empires finance this lavish spending by going into debt.

Stage #4: The debt grows to an unsustainable level and creates a crushing burden.

Stage #5: Empires finance the debt through taxation and currency debasement.

Stage #6: The populace bears the brunt of debt repayment as empires raise taxes and debase the currency—to the maximum extent—until it causes internal instability.

Stage #7: Empires cannot finance their militaries because of their debt burden. This is usually the tipping point.

Stage #8: Underfunded militaries plus internal instability make empires vulnerable to foreign invasion, domestic revolution, civil war, and other existential dangers.

Stage #9: The empire collapses.

The US federal government has the biggest debt in the history of the world. And it's continuing to grow at a rapid, unstoppable pace.

While the US government can extend the charade of solvency longer than any other entity on the planet, not even the most powerful empires in human history can do so forever, particularly when they start to struggle to pay the interest costs.

The situation has reached a tipping point. That's because the federal debt's annualized interest cost exceeded the defence budget for the first time earlier this year.

It's on track to exceed Social Security and become the BIGGEST item in the federal budget. As a result, the US Empire is somewhere between **Stage #6** and **#7** in the empire collapse pattern I described above.

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