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 the tricks of owning a long-term share investment portfolio is to learn not to worry unduly when prices go into a seasonal retreat like they are doing at present.

That is particularly so for investors who try to regularly replicate my Prospects Portfolio and have thus seen an 83.1 percent gain since last December taking it from a total value exactly 12 months ago of R4.468-million to R8.188-million on Tuesday before falling to R8.077-million today.

That's a fall of R110 828 in a few days. For those of us long into retirement that is more than we once earned in a whole year. Come to think of it, when I bought my first home in the 1960s, I could have bought up the whole neighbourhood for little more than R110 000.

So it is hard not to get emotional about such swings. But let's try to put everything into perspective by considering the performance of the Prospects Portfolio since our first investment of R1-million back in January 2011 and, for a moment, ignoring the extraordinary gains since June. Onto the graph I have superimposed an orange trend line which depicts the 'least squares fit' process which is another name for the price 'mean.' Then I have drawn purple (upper) and green (lower) parallel lines in order to roughly encompass the upper and lower average market turning points:

The purpose of the exercise is to create what is known in the trade as the 'Snake in the tunnel.' Note that that upper line was only breeched twice in 14 years and the lower line similarly twice during exceptional times like the Covid crisis which, as you can plainly see was an event which piled a social calamity upon an already-developing economy economic crisis that had its origins in US monetary policy.

Now please note that, although relative to recent events the growth rate of those three trend lines might appear graphically pedestrian, the fact is that they were already outstripping the market

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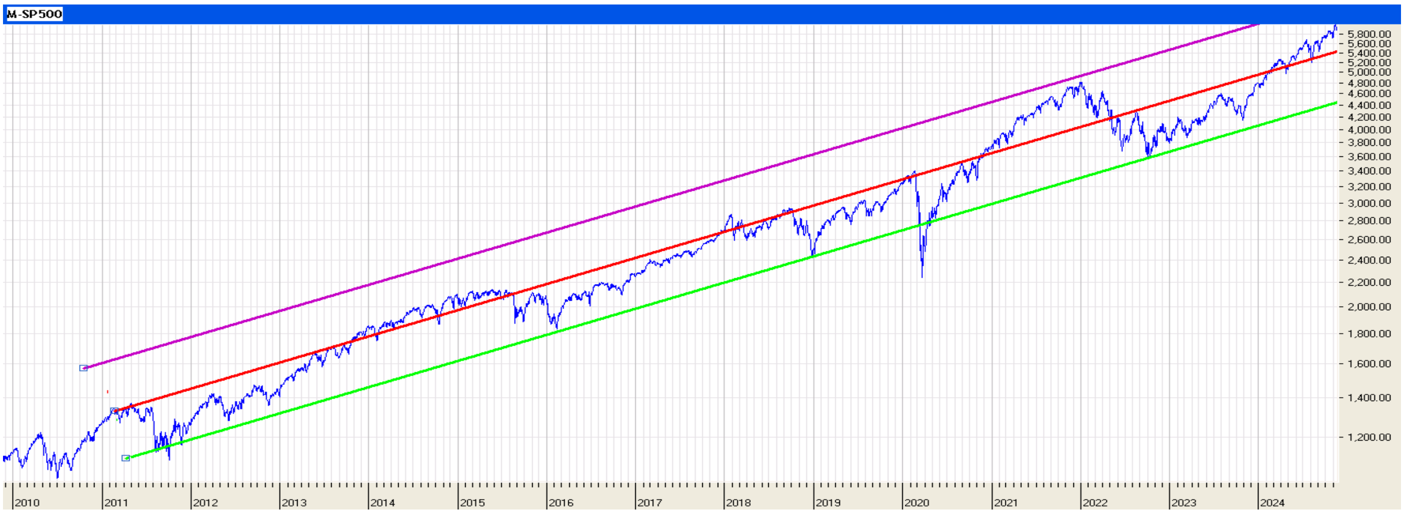
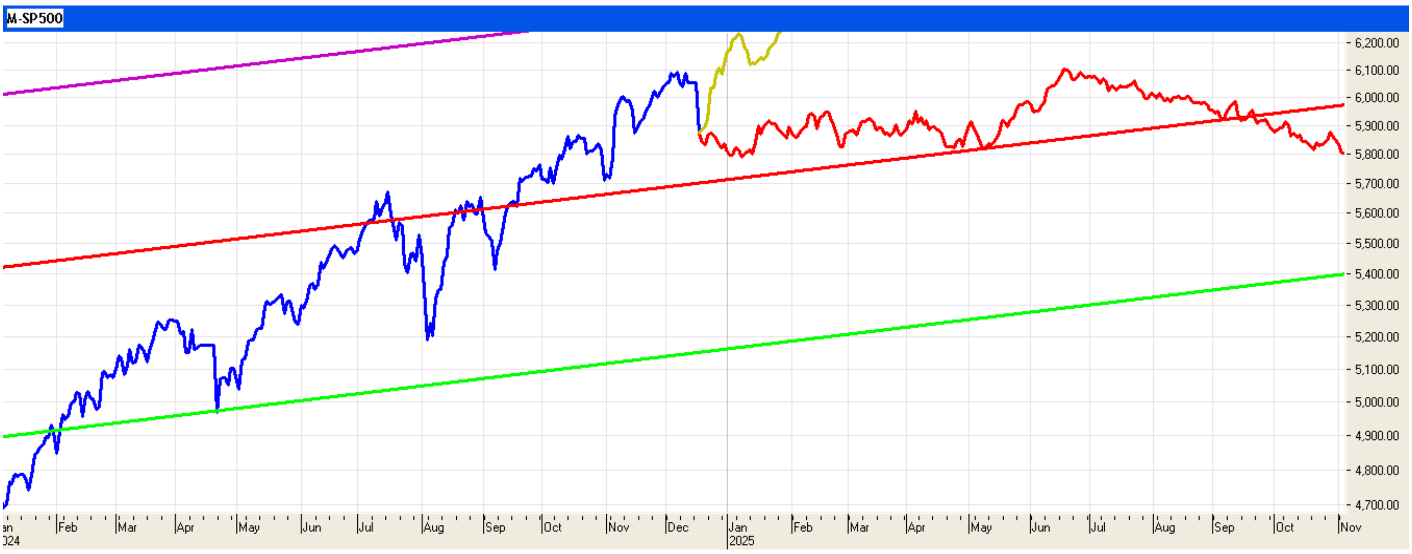
average in a record-breaking fashion at a compound annual average of 20.2 percent. So what are we to make of what has happened since June?

Of course we got the Government of National Unity. And that came at exactly the right time because the “War on Inflation” was coming to an end and so portfolio managers everywhere knew that record level interest rates would be coming down, fortunes would be made in the bond markets and that money would be looking for a home in the share markets. Meanwhile, local market-watchers knew that 30 years of ANC misrule and capital flight were coming to an end and, on a yield basis, our Blue Chips were cheaper than they had been for decades. Nevertheless the subsequent gains have been remarkable!

So let’s turn to New York’s most representative share index, the S&P500 for context with the same parallel line in place: Note that in November last year New York was just turning upwards on that interest rate hope and that in March it had breached its long-term (Red) mean line. So, in other words, once the US Federal Reserve began rate-cutting New York moved into the optimistic zone above the red line at exactly the time that South Africans realised that a new political era of hope was beginning!

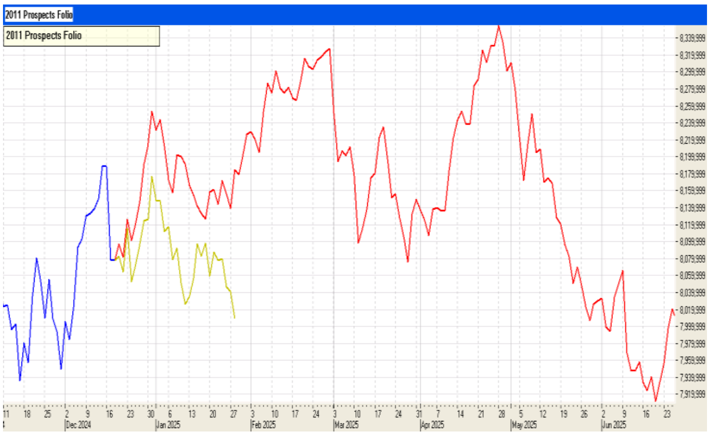


Now let’s blow up that New York graph below and use ShareFinder’s AI projection system to see what the future likely holds. And here is a curious observation. The yellow (short-term) projection sees the market reversing its current seasonal losses and continuing its upward trajectory while the red (medium-term) projection sees a wait-and-see sideways trend which is very much in line with the uncertainty surrounding the implications of Donald Trump’s return to the White House.

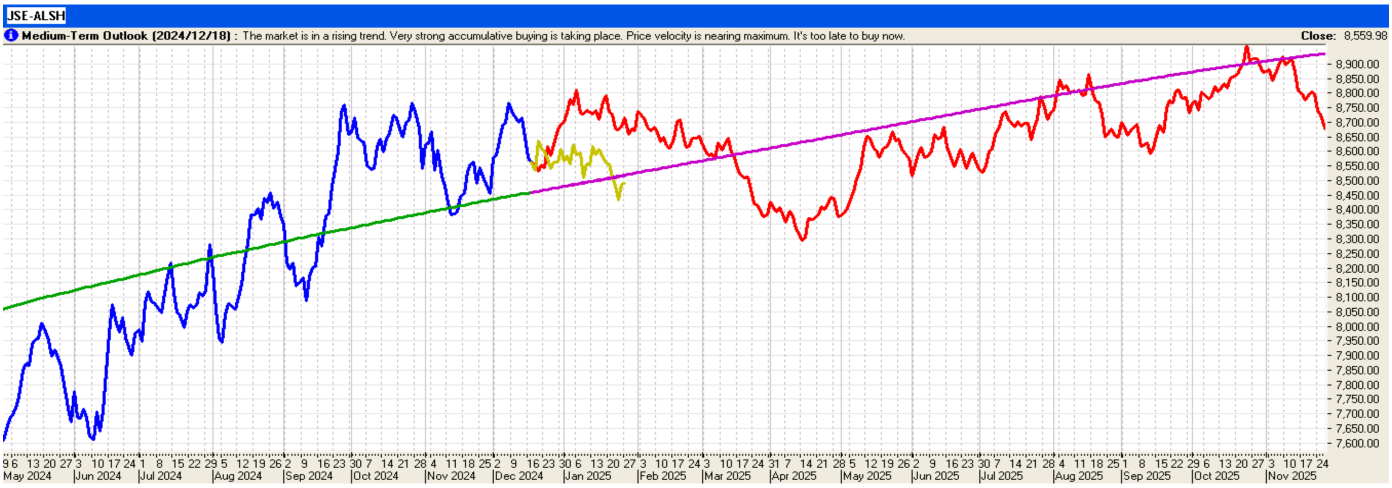


At a time when even the US Federal Reserve is telegraphing great caution, projecting at best just two more interest rate cuts in 2025 while keeping a wary eye on the inflation numbers which will very likely soar out of control if Trump makes good on his import tariff threats, this projection dichotomy is entirely appropriate.

Turning back to the Prospects portfolio in the graph on the right, here ShareFinder expects the gains to continue, at least until the end of April – though March looks like being wobbly. But from May some retreat seems probable at this stage:



But to give that context, I have reproduced below what ShareFinder expects of the JSE All Share Index below which (note the green turning purple long-term projection) sees the JSE remaining part of a very long-term recovery cycle well into 2026. Both the red (medium-term) and yellow (short-term) projections however remain negative until mid-April) which could be in keeping with the need for the GNU to complete its National Dialogue and formulate a clear economic growth path which everyone except the vulture parties – MK and EFF – might buy into:



The month ahead:

New York's SP500: I correctly predicted the onset of weakness lasting until early January.

Nasdaq: I correctly predicted declines until about January 8. Thereafter I see a sideways trend until June and then prolonged weakness.

London's Footsie: I overlooked the probability of a seasonal retreat now within a volatile overall recovery continuing until August at least.

France's Cac 40: I correctly predicted that weakness would resume this week until early January when a long recovery is likely to continue perhaps as long as until next September.

HongKong's Hangsen: I correctly projected the start of a brief recovery followed by weakness to late January when four months of gains should start.

Japan's Nikkei: I wrongly expected the brief recovery to last to month-end within a long decline far into 2025. However I believe the short gains will only start mid-January for a month within the long decline.

Australia's All Ordinaries: I correctly saw declines until late December followed by gains until January 17 and then volatile declines to mid-February.

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

ShareFinder JSE Blue Chip Index: I correctly predicted weakness which I now see lasting to mid-January followed by gains until late February followed by prolonged weakness!

Rand/Dollar: I wrongly predicted a long-term recovery resuming. Now I see that delayed to mid-January but I still see long-term gains but with very increased volatility

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 2002 has been 87.45 percent. For the past 12 months it has been 94.68 percent.