Sharenet Analytics Exclusive Alerts

These are ad-hoc, infrequent, but high-impact market alerts derived from the insights of our market researchers and analysts, delivered to your email inbox.

The following are 10 random samples of the types of information that gets sent.

EXAMPLE-1

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Share Code	Share Name	Dec Date	Type	LDT	Pay Date	Dec Yield*	Amount (ZAR)
CSB	CASHBIL	6/3/2018	Interim	26/3/2018	3/4/2018	1.02%	4.96
MTN	MTN	8/3/2018	Final	26/3/2018	3/4/2018	3.75%	4.5
HYP	HYPROP	2/3/2018	Interim	26/3/2018	3/4/2018	3.40%	3.763
RMH	RMBH	7/3/2018	Interim	26/3/2018	3/4/2018	2.07%	1.68
FSR	FIRSTRAND	6/3/2018	Interim	26/3/2018	3/4/2018	1.88%	1.3
SUR	SPURCORP	22/2/2018	Interim	26/3/2018	3/4/2018	2.33%	0.63
TEX	TEX	5/3/2018	Interim	26/3/2018	3/4/2018	7.50%	0.4795
MPT	MPACT	7/3/2018	Final	26/3/2018	3/4/2018	1.41%	0.4
SAC	SA-CORP	27/2/2018	Final	26/3/2018	3/4/2018	4.63%	0.2254
MSP	MAS	7/3/2018	Interim	26/3/2018	6/4/2018	2.35%	0.5236

Shares going ex-dividend today. The share prices should react downward accordingly which may prematurely hit your stops. Caution advised.

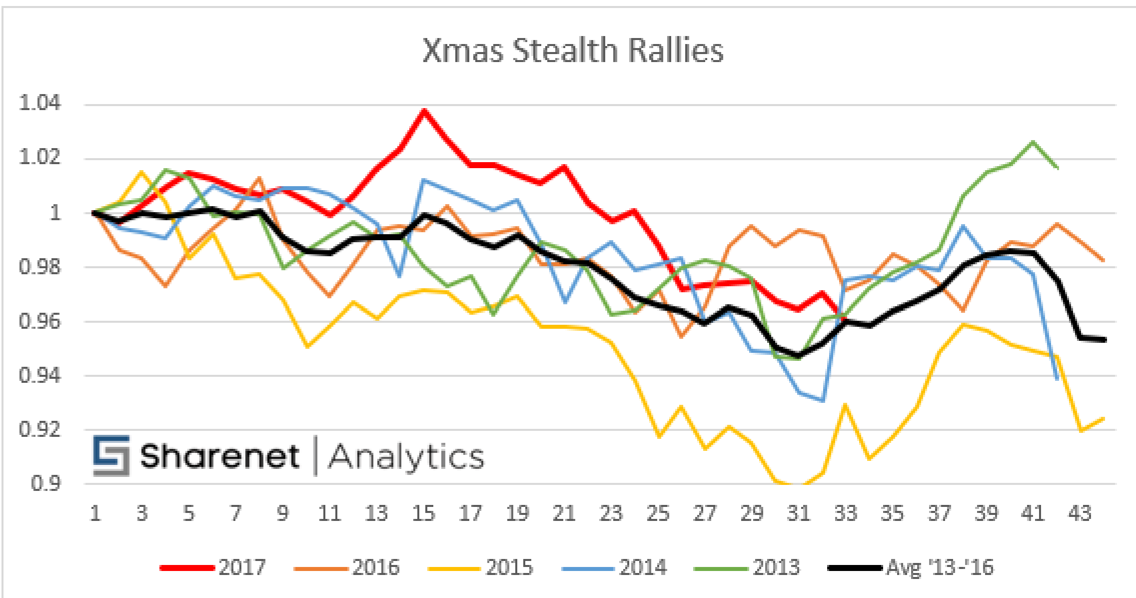
EXAMPLE-2

Well, it took a little longer than we expected (see prior emails) but a monster rally did indeed arrive and its not over. We fully expect to hit new all-time highs by mid-March.

I have not seen high-confidence BUY signal on the JSE light up like a Christmas tree since about 4 years ago, before that agonising 3 year sideways market during the economic recession. There are quite a few signals that occured on the same day, so the below image underplays the situation:

EXAMPLE-3

I’ve seen this movie many times before. A nice 6-10% correction leading into December, then everyone going on holidays, gatvol of the markets, many trading positions closed out. With the bulk of participants at their favorite holiday destinations, licking their wounds from unkind market conditions, the stealth rally begins. No big up-candles to catch any attention - just a low volume slow melt-up. The kind that looks like it’s going nowhere but 5 days later you wonder how the hell you missed it. December is normally a good month for JSE shares. I say normally as there are enough bad Decembers to not make this a sure-fire bet. But Decembers coming off steep corrections are a very different story. The corrections escalate the odds of the Xmas/New year rally right through to around 5th January. In fact, this trend has been strong since 2013 as shown below. You can see we are right on track with the playbook so far:



On a "very rough" average we bottom on the 31st trading day after the first trading day on November, which for this year is Wednesday 13th December. So, the bottom is 2 days late this year but nothing out of the ordinary given the rough averages we are using. Also, on a "very rough" average we top-out on the 40th trading day since the first trading day in November, which for this year will be 28-29th December. Coincidentally these are the two days with the least market participants (very low volumes), with everyone getting ready for the New Year’s party. My personal gut is we trough intraday Monday 18th in a classic "Turnaround Tuesday". The legend behind this phenomenon goes like this - when the markets sell off into the Friday, and we are in a "reasonably large" correction, investors mull things over the weekend and decide they are getting out on Monday. Monday selling pressure peaks when the last weak hands are out the market and voila! - with no more sellers there is only one way - up! With the peak-to-trough fall of the J200:TOP40 at 8.54%, and a nice red Friday candle, we are primed for a Turnaround Tuesday.

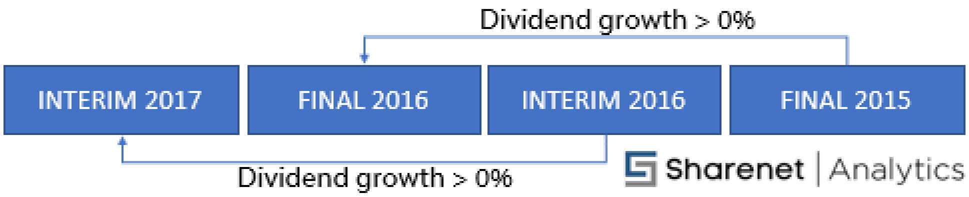
EXAMPLE-4

We are now in very rare Great Trough Territory on the JSE, last seen in 2014

The BUY signal is going to trigger any day (if not already, check the charts on your system after 9pm tonight). The J200 was down 12% peak-to-trough. Those of you who have diligently followed the training videos or attended one of our many seminars know that this is the time to be picking quality stocks on the JSE, both for investing and trading purposes.

There are many techniques we have discussed, but you recall that my favorite was always the seeking out the most consistent earnings or dividend growers on the JSE in the bowels of a large correction that had fallen at least 10%.

It's a well-known fact that consistent uninterrupted growers of dividends and/or earnings generally outperform the general market by a huge amount. The metric I have found that works well on the JSE is to seek shares that have at least a 4-year sequential, uninterrupted dividend or earnings growth, measured from like-to-like financials as depicted below (example shown for dividends)



If the two conditions above are met, then we have at least ONE year of uninterrupted dividend growth. So, requiring at least 5 years of sequential, uninterrupted growth necessitates the examination of the last 10 sets of known sequential financials, which can be a tedious task. With the click of two buttons on your JSW control panel you can find these stocks at any time of the day that have at least x years consistent dividends or earnings (or both) growth.

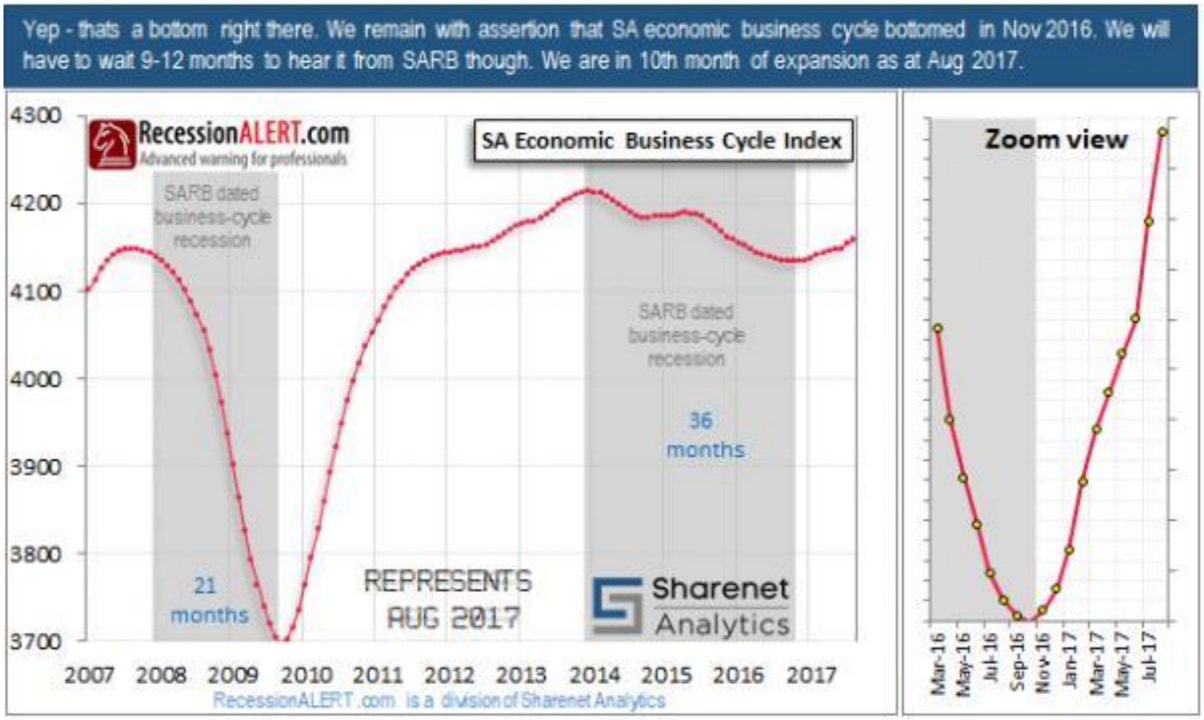
The example below shows the first 6 of the 12 best dividend payers that qualify tonight. Its the most consistent dividend growers (yrs sequential dividend increases in green column) that are down at least 10% from recent highs and ranked by % fallen from recent highs (first red column)

SHARE INFO				MOVES (As at 7 Feb 18, 17:23)*						OTHER				TECHNICALS					GURU			
SHARE	SECTOR	P	TAG	CLOSE (cents)	1D	5D	2W	HI	LO	MCAP (RMil)	IMP	LQ	AGE	M5	M20	XO	T	S	F	E	D	EY
EOH	COMPUTER SER...	+	N F	5950	-0.1	-7.0	-13.0	-55.1	32.2	9,051	0.0		191 F	✗	✗	✗			5	18	15	14.0
BLUETEL	WIRELESS TELE...	+	F	1150	-1.9	-15.4	-16.8	-39.3	0.0	10,249	-0.8		252 F	✗	✗	✗			6	4	7	10.1
FORTRESSB	REAL ESTATE S...	+	NPDF	2700	23.6	-10.2	-22.2	-36.5	23.6	23,732	22.0		38 I	!	✗	✗			2	1	6	13.2
NASPERSN	BROADCASTING...	+	F	304507	-1.9	-10.0	-17.7	-25.5	23.0	1,361,812	-101.4		130 I	✗	✗	✗			6	1	16	1.1
PSG	INVESTMENT SE...		N F	22200	2.6	0.0	-19.3	-25.3	2.6	50,063	5.1		160 I	✗	✗	✗			3	0	7	4.1
CAPITEC	BANKS	+	N	83700	0.5	4.5	-19.1	-23.8	10.7	96,301	1.9		160 I	!	✗	✗			3	14	11	4.2
MONDILTDP	PAPER	+	N F	30816	-0.5	-2.6	-4.7	-19.5	0.2	36,642	-0.7		222 I	!	!	✗			7	0	5	6.3

If you are hunting for shares you are encouraged to perform the same exercise on the Earnings growers as well. In fact, there is a list of 5 shares that qualify, that are the most consistent earnings AND dividend growers. You definitely want to be casting your eye over these gems.

EXAMPLE-5

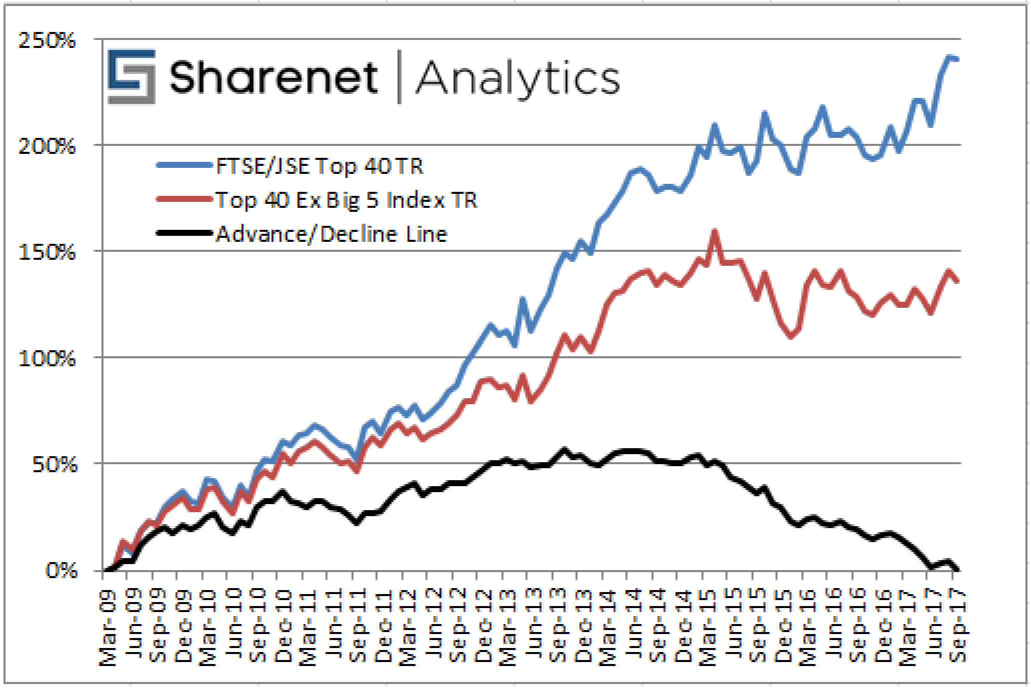
Despite what you may read, feel or think, the SA economic business cycle is expanding:



As we have stated before, ignore the commodity bull at your peril

EXAMPLE-6

Are we currently in a bull or bear market? I hate to say this, but it depends! Seriously, have a look at the chart below that depicts various aspects of our stock market since the bull market that started in March 2009, after the great financial crises:



The SA TOP40 has clearly broken out above its 3-year sideways channel to new all-time highs and looks dinkum like a new bull market. But strip out the five large-cap rand-hedges, namely NPN,CFR,BTI,BIL and SAB and a very different picture presents itself. In fact, the "real" JSE ex these big five actually peaked in April 2015 and so far is printing lower highs from the trough of Jan 2016. So, ex the big 5, the JSE looks like it is still in a bear market.

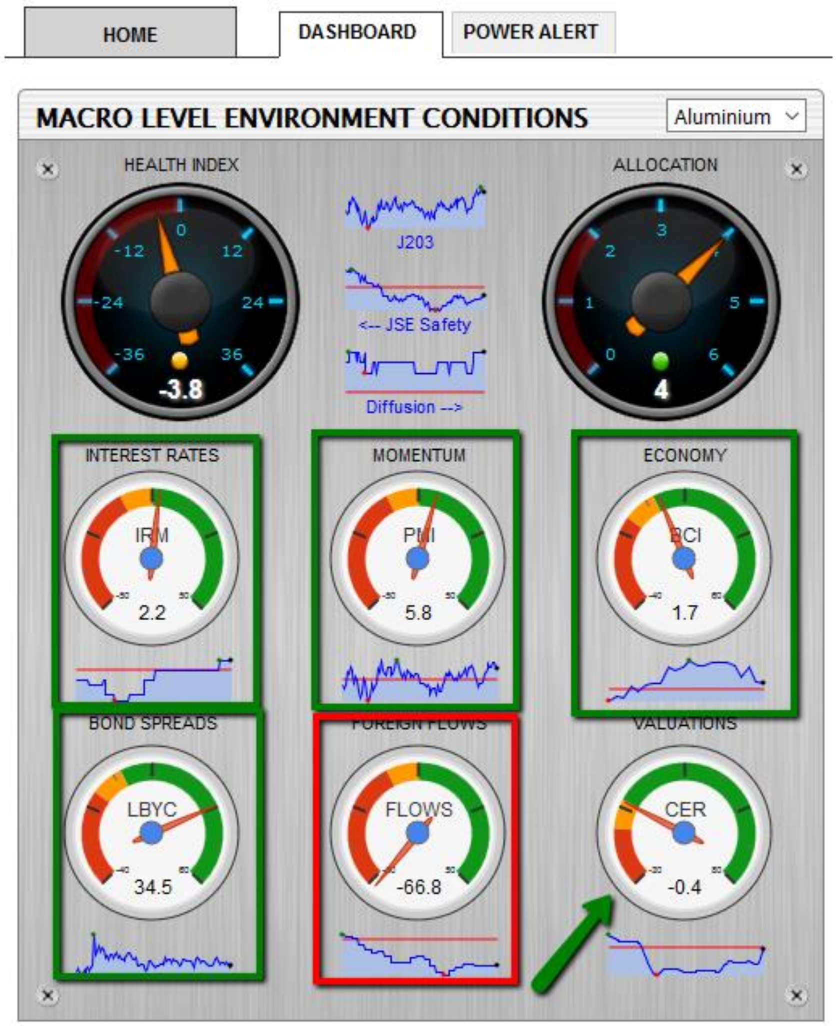
The true state of things is however revealed by the advance-decline line. Each day we take how many shares went up and subtract how many shares went down and add the result to the previous days value. This gives equal weighting to every one of the 400 odd shares in the JSE no matter how large or small their market cap. It is a very powerful breadth metric to gauge health of any stock market in the world. This peaked in Oct 2013, one month before the SARB declared business cycle recession. And this is very clearly in a bear market.

You can read an excellent research piece on the AD-LINE and its use and effectiveness on the JSE over here https://tinyurl.com/yat2uett

While you are at it have a look at our latest research piece "SA decouples from rest of world economy" over here https://tinyurl.com/ycjn6unu

EXAMPLE-7

Tonight, the Cash/Equity Macro Model that evaluates the relative attractiveness of the JSE versus fixed deposits will signal a renewed Bull Market on the JSE. This is primarily a result of falling inflation and JSE listed companies' earnings per share rising some 42% since 21 Nov 2016 which had the effect of lowering the effective JSE Stock Market Price/Earnings ratio (making the market 42% cheaper). The TOP-40 has risen only some 13% since that earning trough on 21 Nov, when the P/E was 23.84, and the P/E is now a saner 17 times earnings.



This will mean five of the six main macro models we use to signal bullish or bearish conditions on the JSE will be bullish. The only outstanding model is foreign purchases of equities and bonds which are still in negative outflows situation. Also bear in mind that some weakness may creep back into the economic leading indicators (as the cabinet reshuffle shock starts to take hold) which may pull the economic gauge back into bearish territory, but this will still leave more than 3 models in the green. If you recall, real outsized returns on the JSE are characterized by at least 4 of the six models flagging a bull market.

EXAMPLE-8

In our previous article, we mentioned how the interest rate drop by the SARB was the mother of all bull market signals, experienced about once in a decade or so. We demonstrated how well the JSE responded since 1985 coming out of the interest rate hiking cycle into a new loosening cycle, rising on average 24%, consistently, in the first year. But how did some of the JSE sectors fare, and did some sectors perform better than others? Was it best avoiding some sectors altogether?

In her excellent and illuminating article, our analyst, Joanie van Wyk, examined the performance of various JSE sectors for the first 6 months after we entered a new interest rate downward (cutting) cycle since 1998. The results were staggering, with some sectors rising, on average, 24% in the first six months. Consistently! That same growth took the JSE overall index 12 months on average! You can absolutely kill it by selecting you trading opportunities from these specific sectors. Or at the very least, you can considerably lower your risk by sticking to certain sectors and absolutely avoiding others.

I don’t want to steal the thunder of the article, but here is a sneak peek at what we mean:

Table 1: Average returns over cutting cycles

Indices	-6 Months	-3 Months	-1 Month	+1 Month	+3 Months	+6 Months
Forestry & Paper	-28.41	-20.05	0.24	8.98	-14.71	24.66
Life Insurance	-25.60	-10.46	13.22	0.03	-10.38	1.11
Top 40	-21.37	-8.44	10.73	0.66	0.42	16.01

Forestry and paper killed it with an average 24% growth in 6 months (that is like a 48% per annum rate), whilst Life Assurance was bitterly disappointing. Sticking with the SATRIX40 would have still yielded a respectable 16% but clearly underperformed many sectors. You can read the full article "Don't Miss Out On The Rate Cutting Cycle" here : http://tinyurl.com/y7tfrd6e

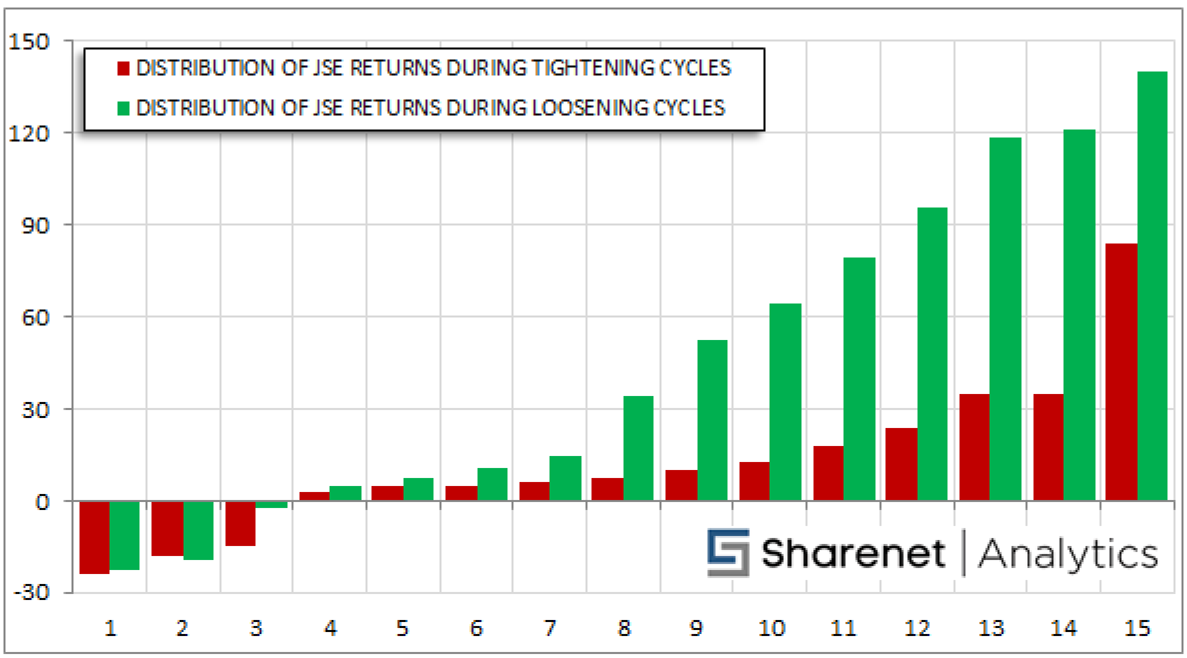
So maybe you should pick your favorite share from one of those best performing sectors and let the odds work in your favor. Not sure which shares to pick? Simple enough, some sectors that kill it are also available as ETFs. But remember, individual stocks that drive good returns in a sector will always rise much further than the sector itself, so individual stock picking may be much more rewarding. If you’re unsure, try calling our dealing desk for their opinion on your picks. Sharenet Analytics clients have it easy, just go to JSW, filter for your chosen sector and pick the highest investment graded shares that are marked for you. My favorite technique in JSW is shares that have consistent earnings or dividend growth, or both if you are lucky enough to find them. For a refresher on how to pick trading opportunities with investment grade qualities in JSW, go to this public link: http://tinyurl.com/ht4be6q

Remember, there are NO guarantees in this business, but there are odds. Stick to trading or investing when the odds are in your favor and you will be delighted many more times than you are disappointed.

EXAMPLE-9

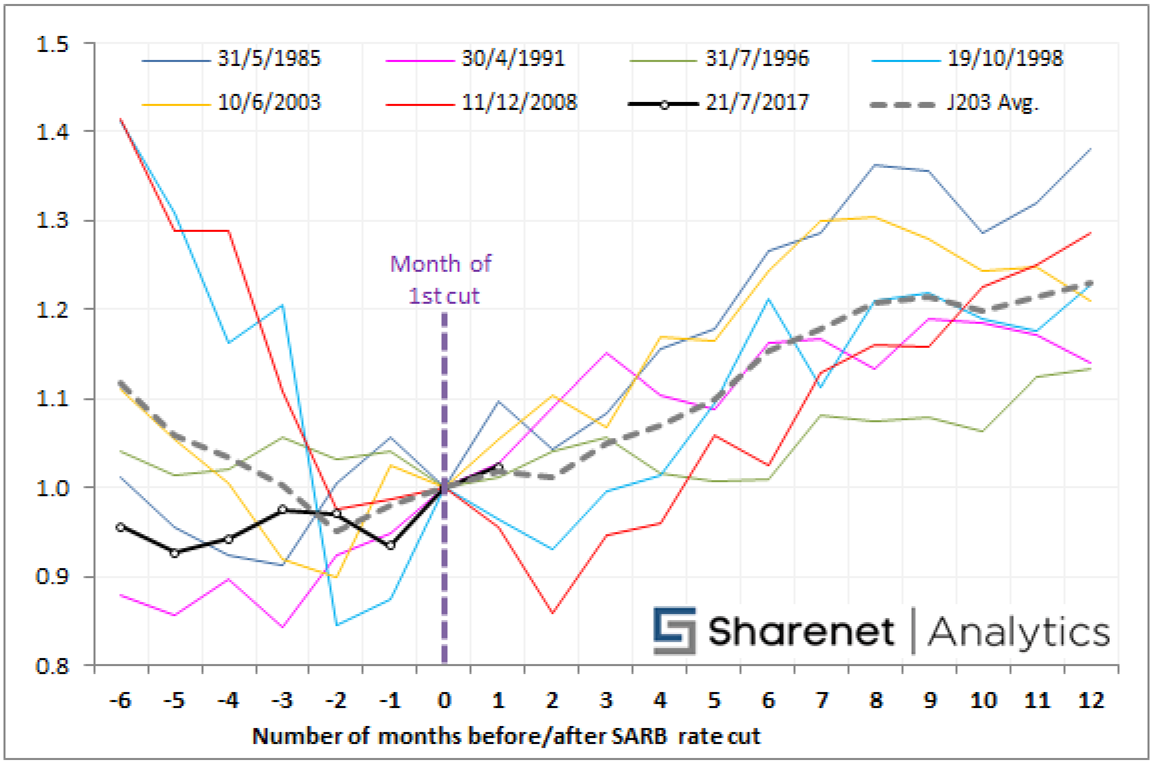
On 7th July the SARB lowered interest rates. As we have been telling clients since late 2016 at our national seminars, and in this article (http://tinyurl.com/y7svtsco) this would be "the mother of all bull market signals" for the JSE. In his famous book, "Winning on Wall Street" Martin Zweig tested a simple mechanical stock- picking strategy of buying the S&P 500 when interest rates dropped and switching to bonds when interest rates rose, from 1954 to 1996. This strategy delivered an annualized return of 15.5% versus the S&P 500 buy-and-hold\u2019s 7.9%. The interest rate cycles delivered correct timing signals a stunning 81.8% of the time!

This phenomenon is equally powerful in SA. From January 1960 to December 2013 there have been 15 rising and 15 falling cycles. We are currently in the 16th falling cycle, having just emerged from the hiking cycle initiated in January 2014. The chart below shows what returns we would have obtained investing in the JSE during tightening (rising interest rate) cycles and loosening (falling interest rate) cycles. The returns are not chronological but sorted from worst to best to allow better visual comparison:



We see that we are just as likely to incur losses investing in loosening cycles as investing in tightening cycles. The losses are slightly smaller on the green bars on the three occasions we made losses, but there were also three losses with the strategy investing in the JSE during tightening cycles. So investing in the JSE when interest rates are falling does not guarantee you will not make losses, nor does it provide you better winning percentages (how often you win or lose). However, look at the size of the green bars, which are the profits we made investing in loosening cycles. They are much higher than the red bars showing profits when we were investing in tightening cycles. Average gains in loosening cycles (46.5%) is almost four times higher than those in tightening cycles (12.43%)

Let’s look at this in another way. Below is a chart tracking the progress of the J203 (All-Share Index) for the six months before and the 12 months after the start of every loosening cycle since 1985:



It is very clear that the stock market bottoms about 2 months before the new loosening cycle starts and rises in a determined fashion, with only 1 or 2 negative months, for the 12 months thereafter. In fact, in the first 12 months after the first rate cut, the JSE averages a 24% rise. Even after 6 months, the rise is around 15% on average. The JSE is up 2% in August, bang on expectation to the average shown on that chart. It’s possible we waver a bit in September, but after that it should be plain sailing.

This only happens once every decade or so. New bull markets are never obvious. There is always some calamity. In our case it’s hard not to get downbeat after all the political shenanigans, junk downgrades, corruption scandals and recession. But if history is any guide now is the time to be aggressive in the stock market.

If the JSE can rise an average 24% you can bet some individual stocks can go up 3-5 times that.

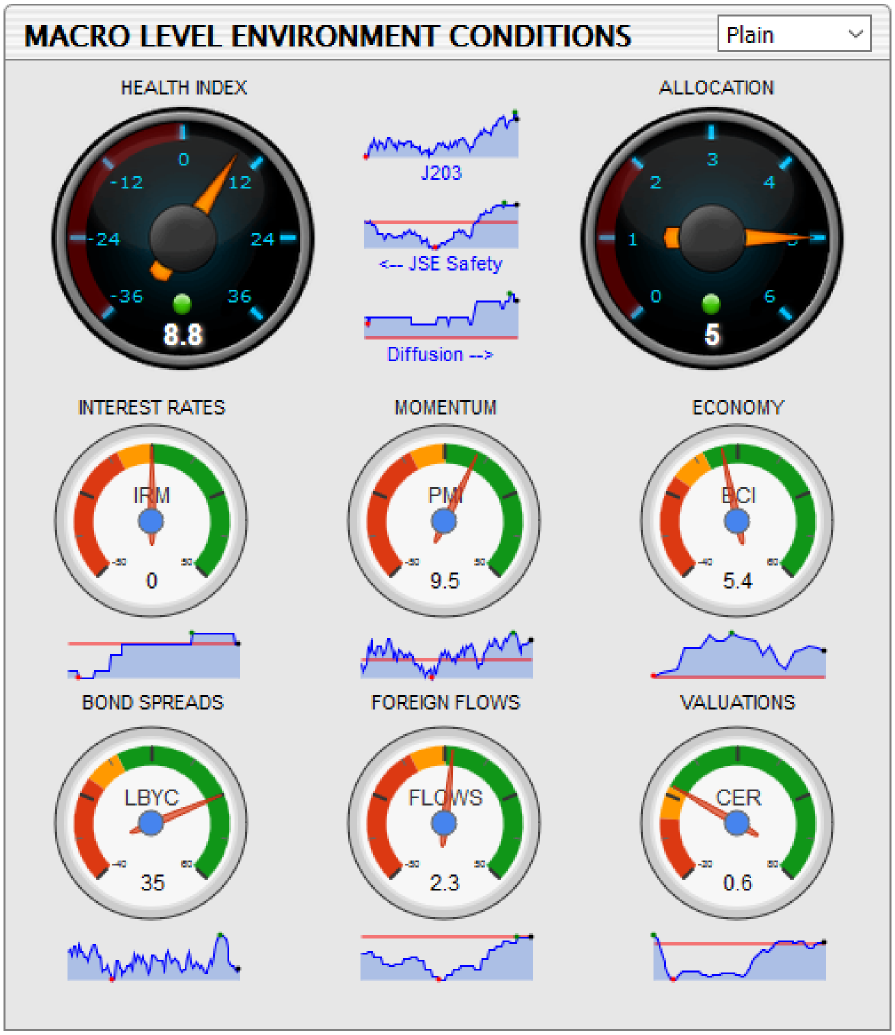
EXAMPLE-10

The last 4 trading sessions have seen almost 5% wiped of the TOP40 and we are on a support line established in June 2017

You will see from the above chart that we have also plotted the Advance-Decline Line (available in Advanced Charts to Sharenet Analytics clients) which is showing healthy structural form by confirming new highs with the J200. In fact, at the J200 top set on 24 Jan, the AD-Line was higher than the higher prior peak set by J200 on 21 November which shows much improved market breadth.

We are also at a very rare point in time when five out of the six Macro-models are giving the thumbs-up.

More recently net foreign purchases of SA stocks and Bonds on a 9-month average have turned positive which was the 5th model to turn green. All we need is one more interest rate drop and we are in full-blown bull market. However, this model went to four (the first big BUY signal) on July 10th, 2017 and the J200 is up 12% since. If you recall, the macro model moving to 4 is the first serious BUY signal after having emerged from recession and entries at these points since 1960 have yielded turbo-charged JSE gains over the decades.



We see further upside to the Rand (see https://tinyurl.com/y85zgdrw) which will boost the economy (see https://tinyurl.com/ydgnhukw) and local shares and would be underweight offshore equities until the local currency reaches around R11/$ since at this level it is doubtful the currency can strengthen further by much and would be a far less risky point to deploy strategies designed to hedge against baked-in 6% per annum Rand weakness implied by our inflation differentials with the U.S

We are faced with a very different TOP40 today than when we emerged from the Great Recession. Rand Hedges and more particularly, Naspers dominates, and so stock picking is going to be much more important this business cycle than the past three. To wit, you need to deploy your Analytics tools designed to find these companies for you or contact our dealing desk who have done much of this research work in late 2017 already.