Robert Cowen Investments

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Newsletter

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Contact us:

Alan McConnochie
+27 11 706 1420
083 378 3463
alan@rcinv.co.za

Di Haiden
+27 11 706 1420
083 308 7928
di@rcinv.co.za

The Family Office

You are welcome to pass this newsletter on to friends who may wish to learn more about investment.
To be added to our email, contact alan@rcinv.co.za

"No good decision was ever made in a swivel chair." ~ General George S. Patton

RCI MET Flexible Fund – closed April at 384.37, 2.24% down for the month but 0.23% higher than 12 months ago. The JSE Top 40 gained 0.72% for the month but is down 3.58% versus a year ago. We do not think we have outperformed enough but our portfolio is set up to benefit from a weaker rand which may be starting to fall again. See more inside.

Visit our website: www.rcinv.co.za for back copies of the newsletter, background information, etc.

South Africa is a mining country. It remains hostage to the resources cycle. This graph shows that when a mining boom ends, it usually takes 20 years to return.

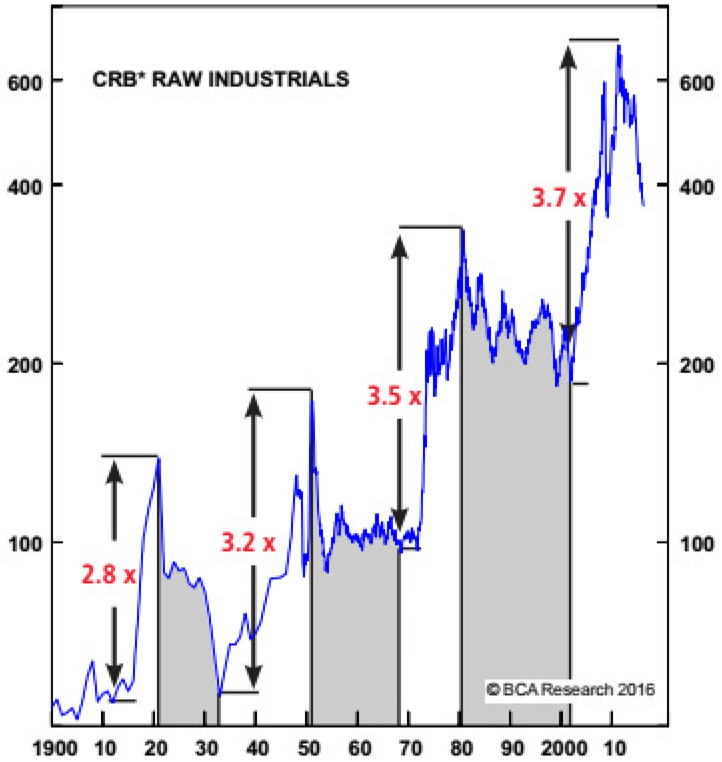
Is inflation on its way? Efficient Select had a good article by Ryan McCaughey of FactSet that we thought may be of interest to you.

TreasuryOne had a view of the rand. Written on 19 April, before the rand started falling again. At RCI we are concerned that commodity prices are going to fall again. the rand is going to weaken again and the threat of a downgrade for South Africa is going to hang over the nation for the foreseeable future. Thus, this topic commands much of our attention.

Are you part of the Super Rich? It sure does not feel like it. An article from Momentum puts South Africa's wealthy into perspective.

Why are we so terrified of commodities?

In 2016, commodity prices have had a good jump. Unfortunately, we do not think this is going to last. The following graph shows that during the last 100 years there were four major bull markets in commodities and when each ended, it took about 20 years for the next one to start. The last one ended in about 2010. Would we be wrong to expect this bear to last until about 2030?



* COMMODITY RESEARCH BUREAU INC.
NOTE: SHADED AREAS REPRESENT BEAR MARKETS.

When bear markets start in commodities they last for about 20 years.

In 2001, demand from China for raw materials rose so dramatically that a strong bull market developed in most commodities. Think of China adding, in just five years, all the steel and cement used in America in the last century! Think of China having to house 300 million people who moved off the farm and into the city.

Iron ore became South Africa's largest export! Then the Chinese needed coal for heating and power stations (so did India) so coal became our second biggest export. South African gold almost run out but never fear, demand for platinum shot through the roof as its use in exhausts was dramatically increased (no one thought about what would happen when the exhausts were recycled in ten years' time and 90% of the platinum was recovered).

The cure for high prices is 'high prices'. Trite, silly, but true. The dramatically higher prices led to a huge number of new mines and shafts being sunk, particularly in Australia and South America. Resource producing countries boomed. From 2008, South Africa ran out of electricity and railroads and harbours so we could not expand our mines (well, not much anyway). The Chinese responded to the economic crisis of 2008 by increasing infrastructure and the party in commodities continued.

For every ton of steel used by the rest of the world, China used one too! For most commodities, Chinese demand was growing 6% per year but the rest of the world was growing only 1% per year. Thus, average demand was growing about 3% per year.

Eventually, even China was exhausted. They borrowed as much as they could to build apartments which are still standing empty and new highways that are largely empty. New railroads and airports with few customers. Chinese demand has dropped to 3% according to the optimists, and has dropped to negative growth according to pessimists.

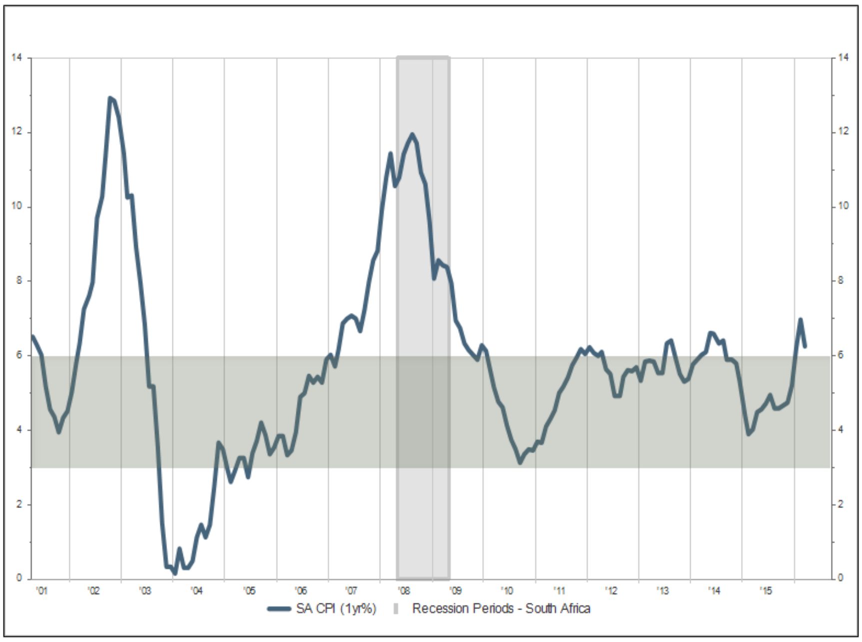
Thus, if there is 25% oversupply it should take over 10 years for the world to grow into it, or at least 10% or 20% of world production must go insolvent to tighten up the imbalance between supply and demand. Thus, we think this graph will have a similar pattern over the next at least ten years, as happened in the past.

As we have said before: we are worried that quite a few South African mines may be casualties. If the rand falls enough, the useful lives of our mines will be prolonged.

Is inflation on the horizon?

By Author: Ryan McCaughey

Source: FactSet – From the Efficient Select newsletter of 25 April 2016



We look at South Africa's CPI inflation over the past fifteen years, with reference to the South African Reserve Banks's inflation target bands. In March, SA CPI inflation rate dropped back to 6.3% year-on-year (y/y), from 7.0% y/y in February. The lower petrol price (drop of R0.69 c/l in March) helped to pull inflation lower despite some upward pressure from food inflation (rise of 9.8% y/y). South African inflation is forecast to remain above upper end of the inflation target of 6% over the next couple of months, largely due to the weaker exchange rate, food inflation and the cost of fuel (petrol price hike of R0.88 c/l occurred in April). Higher inflation will create concerns for the Reserve Bank, adding pressure for the bank to continue raising interest rates.

TreasuryOne Weekly Market View 19th April

Editor: The rand strengthened a lot in the past two months. Then suddenly, a week ago, it started to weaken again. TreasuryOne wrote this article before the latest weakness began. At RCI, we believe the rand has been too strong in the last two months. The following graph reflects that it might have turned weaker again. We thought their article would be of interest to our readers. Interesting that on 19 April it was looking strong at 14.30 to the dollar and is now flirting with 15 again.

The Rand has lived up to its reputation of being the most unpredictable currency in the world. From a position of doom and gloom of a couple of months ago the Rand has indeed crossed the post Nene-gate river with some of its reputation still intact. The question though is whether this is a short-term rally or has the ZAR turned the hairpin bend.

It is important to have a look at where this sudden Emerging Market (EM) and in particular Rand flavour has come from:

One of the biggest drivers of the moment is the US Fed and the overall sentiment that the US is not in a position to hike rates this year. After expecting four hikes this year, it is looking more and more likely that they will only hike once this year, with the safe money on a June hike. The dovish nature of the Fed in recent weeks has been brought upon by weaker than expected retail sales and inflation numbers. With the US near full employment, economic theory states that the closer you are to full employment the higher your inflation should be. So far the inflation has not been forthcoming, and that is worrying for the Fed.

- The current surge in commodities, with Oil leading the way. In recent times, Oil and EM currencies have had a direct relationship as global risk taking ticks up. With Oil picking up, EM currencies has caught the tailwinds and surged with the Oil price. The problem with this relationship is that with Oil going higher it will increase the inflation rate in the US and help the Fed in economic decision making. Other commodities have also surged, and commodity currencies like the Aussie Dollar have gained as well. Although the Rand is not directly linked to commodities, it is usually lumped in with these currencies and enjoys/suffer the fate of commodity currencies. There was no resolution in Doha this weekend regarding whether Oil producing countries will agree to a production freeze. The initial reaction to this was for the price to fall and the Rand to reach 14.7400 on the back of it. The speed of which this no resolution, was quashed by the market suggests that there is something different afoot in the market.
- The other effect is that with the SARB hiking interest rates, it has in fact created a market where overseas investors will climb into South African bonds looking for some yield pick-up. With the South African financial system being a first world system, it is very easy to transact in the market. This makes the Rand volatile for as easy as it is to invest money here, it is as easy to withdraw. Should something happen again that is South Africa specific we could see the Rand jump higher very quickly.

Looking at the above "facts" it seems that there are no real fundamental changes in the South African economy. It is much the case of "hot money" flooding in South Africa, due to international conditions not being as favourable as expected. There is still the possibility that developed markets can turn the corner and show improved economic conditions and in doing so, put South Africa back where it was a month or so ago.

Some key levels have been triggered along the way with the Rand trading below the 200-day moving average which suggests that there is further scope for Rand gains, and we can see a test of R14.00 in the near future. Normally when the Rand has done a lot of work, there is a phase of consolidation which could halt the Rand gain until new momentum is found.

The week ahead is a bit light on data, but there are a couple of important dates on the calendar. The first one is tomorrow (Wednesday) when the South African CPI data will be released. The number is expected to be above the 6% inflation target level which the SARB has as its monetary policy. The higher the number prints, the more is the likelihood that the SARB will raise interest rates at the next meeting. A "bad" number could lead to some Rand strength and vice versa. Speaking of which, the effect of the latest Rand rally on inflation will need to be taken into account at the next MPC meeting and could bring some relief if rates are kept on hold. There is also a fear that should the SARB keep hiking rates it could plunge South Africa into a recession and definitely into a rating downgrade.

The other important event of the week is the ECB rates decision on Thursday. Although no change is expected after Draghi dropped a couple of bombs at the last meeting, it will be interesting to hear what Mr. Draghi will say about the way forward for the Eurozone and what other measures he could take to restore some growth in the Eurozone. Expect a dovish Draghi to lead to a weaker Euro and we might test the R16.00 level on the Euro, post press conference.

All in all, it looks quite rosy for the Rand in the short term before the market will start to look for Rand specific reasons to strengthen even further. This is also an excellent time for the importers to climb in and start buying cover for commitments.

Currently, the Rand has broken back through the pre Nene-gate levels and is looking very pretty on its perch at R14.30 with more bias toward the Rand running stronger as the EM currencies are riding the global wave.

Are you part of the Super Rich? It sure does not feel like it.

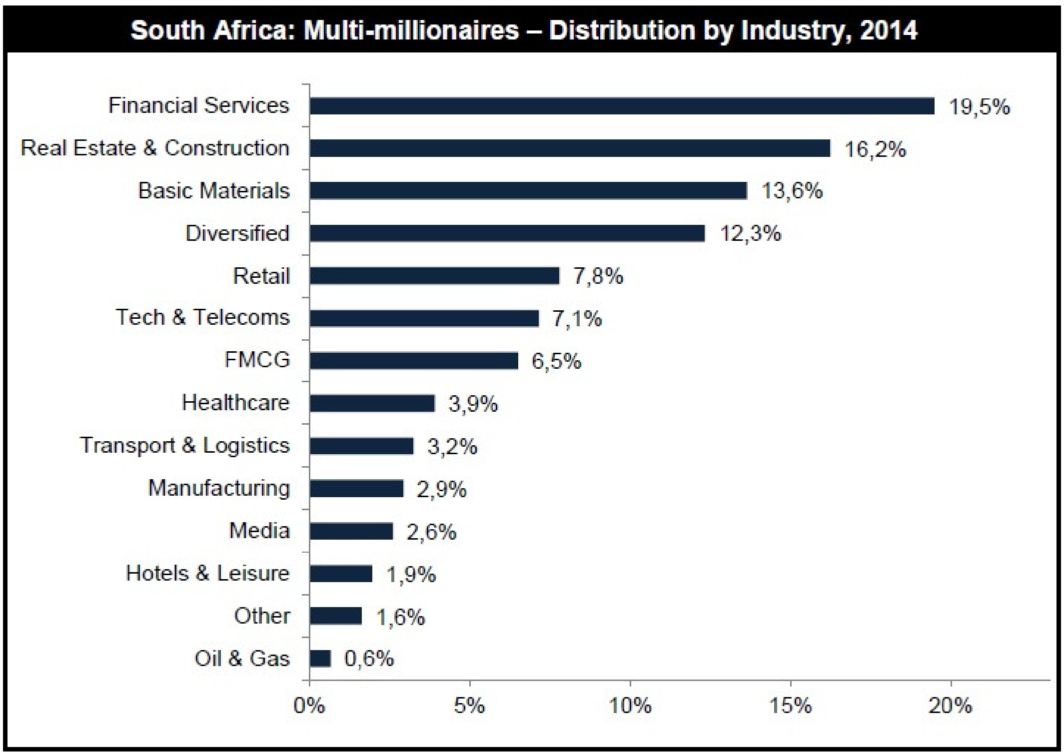
The following article was sent to us by Momentum

At the end of 2014, there were approximately 46,800 high net worth individuals (HNWIs) living in South Africa, with a combined wealth of US$184 billion. HNWIs are defined as people who have a net worth of US$1 million or more, according to metrics used by research firm, New World Wealth. This equates to roughly 31% of South Africa's total individual wealth. But who are the wealthy? Where do they live? How did they make their money?

1. How the rich make their money in SA

A report published by New World Wealth revealed the industry from which South African multi-millionaires have acquired their wealth. Unsurprisingly, the financial services industry is the primary source of wealth for 20% of local multi-millionaires.

NWW defines wealth as the net value of assets, which includes financial holdings, business interests and tangible assets. The group excludes primary residences from its valuation.



2. Where the rich live

Johannesburg is home to the highest population of ultra-rich billionaires in Africa when it comes to cities on the continent. In fact, the 2015 Knight Frank Global Wealth Report (http://www.knightfrank.com/wealthreport) shows that the South African economic hub has almost twice the number of multi-millionaires – people with a net worth exceeding $30 million (R365 million).

3. South Africa's rich vs. the world

Financial services firm Credit Suisse estimates that 63,000 South Africans are part of the top 1% of global wealth holders – and 47,000 of these individuals are dollar millionaires. According to the group's data, about 920,000 people (2.8% of the adult population in SA) are worth over US$100,000, fitting comfortably within the top 10% of wealth holders in the world.

4. Richest streets in SA

Lightstone Property revealed which streets in SA command the highest average sales transfer prices. The affluent suburbs of Cape Town dominate the list, with four of the five richest streets found in areas such as Clifton, Fresnaye, Llandudno and Bishopscourt.

Gauteng, too, accounts for many of the top addresses, with streets in Hyde Park, Bryanston and Sandhurst valued in the tens of millions.

#	Street	Suburb	Average Value
1	Clifton Road	Clifton	49 000 000
2	De Wet Road	Fresnaye	43 000 000
3	Steenways Road	Llandudno	40 000 000
4	4th Road	Hyde park	34 000 000
5	Upper Sidmouth Avenue	Gardens	29 200 000

5. The best age to be rich

According to NWW, the average age of a multi-millionaire in SA, namely an individual with wealth of at least US$10 million, is 55 years. This is slightly below the worldwide average of approximately 56 years. The majority of them, 37%, are aged between 51 and 60 years, while 20% are between the ages of 61-70, and 9% are 70 and older. In South Africa, the country's billionaires (http://businesstech.co.za/news/wealth/81641/these-are-south-africas-richest-people/) are aged between 50 (Stephen Saad) and 77 (Allan Gray). The richest man in the country, Johann Rupert, is 67 years old.

Interestingly, however, 34% of the country's multi-millionaires are actually under 50, with 28% between 41-50, and 6% under the age of 40. This would suggest quite a reasonable amount of entrepreneurial activity in the country.

6. What the rich buy

Super luxury watches are a booming market in South Africa. Not long ago, when one thought of exclusive men's watches one would probably think of brands such as Rolex, Breitling, Omega, Tag, Cartier, IWC, Panerai, Jaeger Le Coultre and Longines.

However, a whole new world of exclusivity has emerged, giving rise to new 'super-luxury' watchmakers according to New World Wealth (http://businesstech.co.za/news/general/78553/most-popular-luxury-watches-in-sa/).

In November 2014, a Patek Philippe Super-complication pocket watch sold for an astounding $24 million at a Sotheby's auction, following a previous record of $11 million in 1999.

7. Home, sweet second home

Approximately 990 of all SA's multi-millionaires have a primary residence in Johannesburg, with 380 in Cape Town, 115 in Durban, and 105 in Pretoria. The super-rich choose to live in areas such as Sandhurst, Hyde Park, and Houghton – but many also have a second home in coastal regions.

#	Town	Area	No. of super-rich with second homes
1	Plettenberg Bay	Garden Route	260
2	Umhlanga & La Lucia	KwaZulu-Natal	250
3	Knysna	Garden Route	230
4	Stellenbosch	Western Cape	170
5	Franschoek	Western Cape	70
6	Wilderness	Garden Route	60
7	Hermanus	Garden Route	30

8. Elite banking

The super-rich also have their own way of banking. Issued by Nedbank Private Wealth, Centurion is a credit card available by invitation only or upon appointment to a select group of individuals in South Africa.

The Centurion Card is made of titanium, one of the world's most precious metals. After being heated to a temperature of 1,688°C, the metal is carefully handcrafted and emblazoned with the Member's name in individually set lettering – making it the only one of its kind.

See other elite cards in SA here (http://businesstech.co.za/news/banking/44333/south-africas-black-card/)

9. The rich get going

Rich South Africans are spreading their roots as they leave local shores. Between 2000 and 2014, approximately 8,000 HNWIs have left the country. South African HNWIs tend to move to places like Australia, the UK, Cyprus, Mauritius, the USA and Canada, NWW said.

10. South Africa's richest people

Forbes listed seven South African billionaires worth a combined $28.6 billion, up from $25.4 billion in 2014.

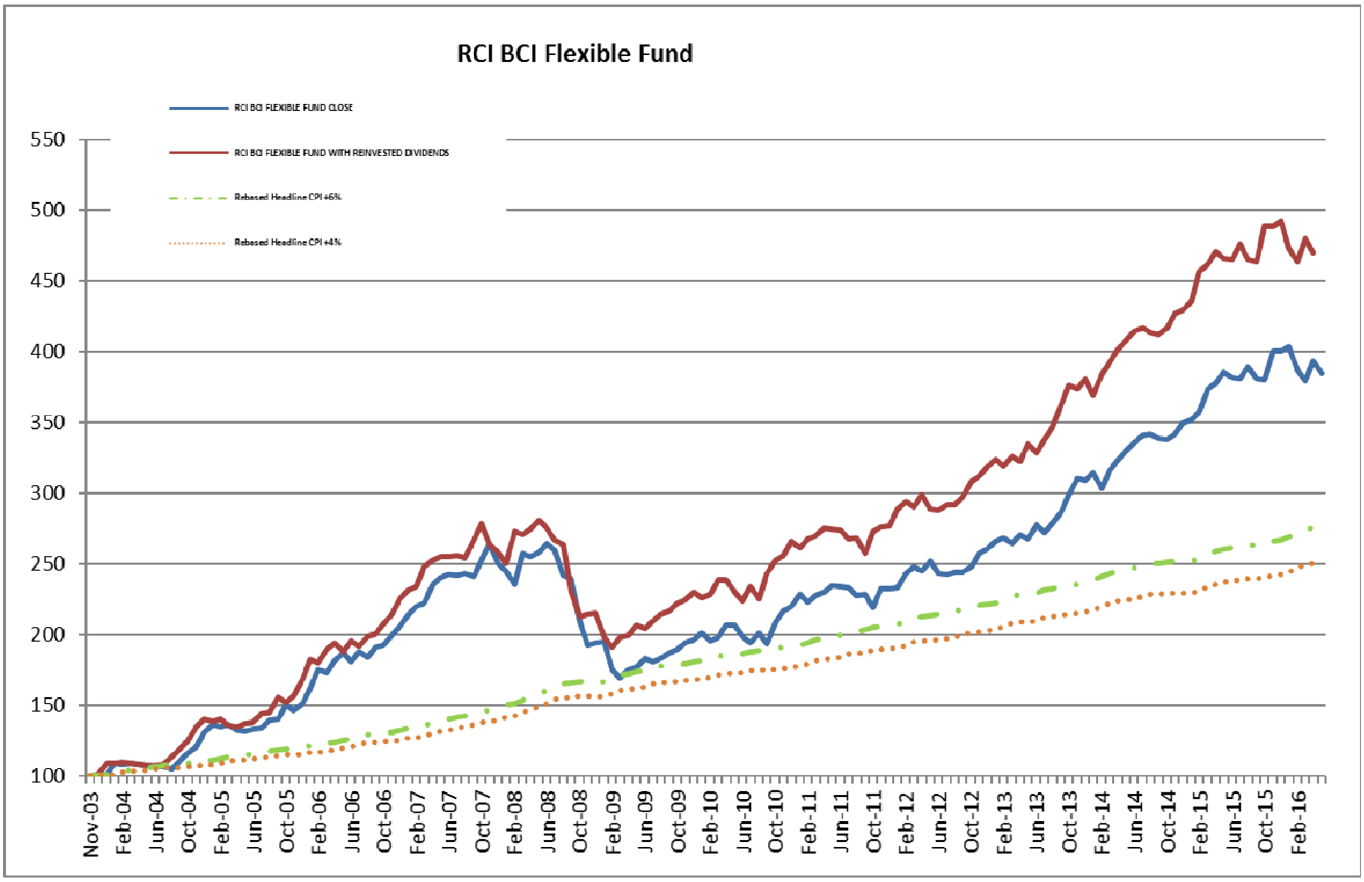
South African luxury goods tycoon, Johann Rupert remains the country's richest man with a net worth of $7.4 billion.

Rank#	Name	Net Worth 2015	Net Worth 2014	Change
179	Johann Rupert	$7.4 billion	$7.6 billion	-2.6%
201	Nicky Oppenheimer	$6.7 billion	$6.7 billion	0.0%
225	Christo Wiese	$6.3 billion	$3.2 billion	97.0%
810	Koos Bekker	$2.3 billion	$1.3 billion	76.9%
847	Patrice Motsepe	$2.2 billion	$2.7 billion	-18.5%
894	Stephen Saad	$2.1 billion	$1.3 billion	61.5%
1226	Allan Gray	$1.6 billion	$1.3 billion	23.1%

RCI BCI Flexible Fund – Up 0.23% over 12 months but the JSE Overall is down 3.58%. Our bet on a weaker rand has not yet paid off

Please contact Maggie on 011 706 1420 for any help on your unit trusts.

RCI BCI Flexible Fund fell 2.24% for April closing at 384.37c per unit. The JSE top 40 gained 0.72% for April so we underperformed this month. Over a year, the Overall Index is down 3.58% but our fund is up 0.23%. That is over a 3% outperformance. That is not enough to make us happy. We have set up our portfolio to benefit from a weaker rand which might finally be starting.



Unit trust has flexibility – happy to take small amounts

The unit trust has the flexibility to buy and sell shares and to change weightings more frequently than in an individual portfolio. We are happy to take small amounts into the unit trust (from R1 000 per month or lump sums of R10 000). As you will not pay commission to any agents there is no cost to get in and out of our fund. On selling, the amount you receive back will depend on our performance.

To conclude

South Africa is winding up for the municipal elections so politicians are saying some weird and wonderful things. Of course, Donald Trump winning the Republican nomination makes our strange politics seem quite normal.

Reading the book “No Outspan” by Denys Reitz about SA politics of 100 years ago makes one realise that it the issues have hardly changed, only the hue of the politicians. As Reitz was not a Nationalist politician, he was never mentioned in our history text books but he gives a fascinating account of our history and we thoroughly recommend it.

We run the risk of the country being downgraded by the rating agencies. Minister Gordhan is doing his best but his ongoing battle with President Zuma’s allies is well documented and it remains to be seen for just how long he can put off the evil day. We are concerned that our politics is aggravating the economic effects of the resources downcycle which is unlikely to turn for over ten years.

This has led us to slant our portfolios towards a weak rand. The last two months were exceedingly strong but the rand appears to have started to weaken again in the past few days. It is too early to know if the turn has definitely occurred by we think that in a year or two’s time, the rand is likely to be considerably weaker than it is now.

The rest of the world is not in great economic shape but we think the USA looks better than SA. Sometimes, the least worst alternative is the only game in town!

Follow this link (https://www.farnamstreetblog.com/2016/05/b-h-liddell-hart-truth-history/) to B.H. Liddell Hart and the Study of Truth and History - "History can show us what to avoid, even if it does not teach us what to do".

We aim to be the best family office in South Africa.

Thank you for being our clients

Best regards

Di and Alan