

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



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

“Democracy is the worst form of government, except for all the others.”
~ Winston Churchill (was that inspired by Donald Trump?)

RCI MET Flexible Fund – closed March at 393.17, 3.63% up for the month and 4.47% higher than 12 months ago. The JSE Top 40 has risen only 0.75% in 2016 and our unit trust is down 2.5%. Why is this? Primarily because we have 25% invested offshore which has not performed due to the strong rand and weak offshore markets. As Naas Botha famously said, ‘the Currie Cup is not won in May’. There is a long way to go in 2016, and we think the Rand could weaken when the market digests that President Zuma is not going to resign and that our economy faces an uphill battle. Our aim is to fall less when the rand and local markets are weak. See more inside.

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

Last month we wrote that we had been lucky to call the turn in the US stock market. This continued in March, with a further rise of 6% but the rand has strengthened a lot, taking the shine off this performance in the short term.

The JSE has continued its strong run in the past few weeks. Our safe, boring banks are up 20% since late January. We are surprised by the strength of the rand but we don't think it can continue over the next two years.

“Why it is safe to pay up for quality” Mr Terry Smith on why you should buy great companies. Fundsmith manages some of our offshore investments. We endorse their philosophy.

What scientific knowledge is vital to pass on to future generations? Famous US scientist, Richard Feynman explains that it is our knowledge of atoms which is crucial.

Now we will balance out our creative sides with famous 60's singer, Joni Mitchell, on the creative process.

Brilliant article by Michael Vlismas on running the Two Oceans marathon describing how all races in South Africa contribute to each other and are filled with good will. It is too easy to listen to the Press claiming that race relations are in trouble and to our Government fanning the flames, trying to divert attention from its own problems before municipal elections. This personal experience is what 95% of South Africans are experiencing. The public suffers bouts of euphoria and depression. It is the investor's job to keep feelings on an even keel. Mr. Smith quotes a famous British TV detective in another article (not reproduced here), “Stick to the facts. Only the facts”.

The American SP 500 index rises another 6%



Last month we wrote that the US SP500 Index had turned, rising 7% off its bottom which we were fortunate to call. This continued in March with a further 6% rise. It probably needs a short-term break but it is only 3% above its moving average so could easily move up another 5% over the next six months.

Why it is safe to pay up for quality - excellent article by Terry Smith

Some of our offshore funds are managed by Fundsmith. We think that their way to invest is similar to the quote on democracy with which we started the newsletter i.e. it's the best way we know. Fundsmith is run by the brilliant Mr. Terry Smith, who writes a series on investments which are published in British newspapers. The following article is reproduced with Mr. Smith's permission and appeared in The Telegraph, 22 November 2013.

"Warren Buffett, the legendary investor has described compound interest as the eighth wonder of the world. Understanding its effects is essential to success in investment. Yet it remains a mystery for many people.

The simplest illustration of this is to ask how long it takes to double your capital at 10pc a year compound return.

The whole point is that we are talking about compound returns in which the gains are added to the capital sum to which each successive period's rate of return is applied. Consequently, the answer is seven years. It only takes a compound return of 7pc per annum to double your money in 10 years.

How about this example: starting with £1,000, what is the difference in final capital from 30 years of investment at 10pc a year compound versus 30 years at 12.5pc a year? I ask this because it may represent a reasonable range of outcomes from an investment lifetime in which a person saves for 30 years before retiring then trying to live on the income from investments. The answer, rather surprisingly, is that the extra 2.5pc of compound return would double the final sum – so £1,000 invested would become £34,243 at 12.5pc as opposed to £17,449 at 10pc.

At Fundsmith, we only invest in companies which make high returns on capital employed; convert most or all of their profits into cash; have high profit margins; and which have proved resilient to economic cycles over many decades.

But the valuation of such companies has become a subject of concern to investors. Their valuations have risen through the financial crisis and the "Great Recession" which has followed. This is because they produce consistent performance from the provision of our everyday necessities and luxuries, and have an ability to grow in a world in which there has been little or no economic growth in contrast to most other sectors of the market.

Since the rise in their share prices has outpaced the rise in the companies' profits or cash flows in recent years, they are certainly more highly rated than they were, but that is not the same as being overvalued. While I accept that they are not as attractively valued as they were before this recent rise, I would suggest a study of compounding should perhaps give reason to pause before moving swiftly on to the presumption that as a result they should be sold or even avoided.

We don't often look at price to earnings (p/e) ratios, the traditional measure of value, at Fundsmith as we prefer to look at cash flows, but since almost everybody else uses them it is the simplest way of expressing the relative valuation of our portfolio, which currently has a p/e about two points higher than the market – the Fundsmith stocks are on about 21 times forecast earnings and the MSCI World Index is on about 19 times.

In judging what this implies there are a number of things which you should also be aware of, namely that not all earnings (the "e" in that ratio) are of equal value. The shares in the Fundsmith portfolio produce their earnings with significantly less capital intensity (hence their higher return on capital) than the market in general, and they deliver more of their earnings in cash, which is more valuable. Their earnings are also more predictable, which brings me back to compounding.

I have taken a look at how much you could have paid for some of these companies over the 30-year period between 1979 and 2009. In particular, I looked at Coca-Cola and Colgate Palmolive. In 1979 they had about the same rating as the market – 10 times earnings. But what could you have paid for them at that time in terms of p/e and still equalled the performance of the market over the next 30 years? The answer rather surprisingly is about 40 times earnings. Why? Because these companies' total returns grew at about 5pc a year faster than the market over this period, and rather like the earlier illustration of a 2.5pc differential in compound growth, this 5pc differential multiplied the final capital sum represented by their share prices four times faster than the market rose.

Of course, the next 30 years may be different. However, if I had to guess how it would affect this calculation it would be that companies like Coke and Colgate will fare even better in terms of growth given that cyclical stocks are unlikely to get a repetition of the growth that was stimulated by the credit bubble. It is also fair to point out that quality stocks may indeed not be expensive relative to the rest of the market but that both will prove to be expensive, particularly when interest rates rise. But even so, I suggest you consider how you might have reacted if someone had suggested you invest in Coca-Cola or Colgate at, say, twice the market p/e in 1979. In rejecting that idea you would have missed the chance to make twice as much money as an investment in the market indices over that period.”

Editor: If you want to read a collection of Terry Smith's best work, buy a book called “Celebrating five years of investing in decades of success. Anthology of articles 2010-2015” By Terry Smith

What scientific knowledge should we pass on?

Brainpickings (<https://www.brainpickings.org/>) pointed out that famous Scientist, Richard Feynman (who died in 1988), gave this advice in his famous “Lectures on Physics” series:

“If, in some cataclysm, all of scientific knowledge were to be destroyed, and only one sentence passed on to the next generation of creatures, what statement would contain the most information in the fewest words? I believe it is the atomic hypothesis that *all things are made of atoms - little particles that move around in perpetual motion, attracting each other when they are a little distance apart, but repelling upon being squeezed into one another.* In that one sentence, you will see, there is an enormous amount of information about the world, if just a little imagination and thinking are applied.”

Now we will balance it with a word from famous singer Joni Mitchell

In the 1960's American singer Joni Mitchell came to prominence. A new book by Malka Marom entitled "Joni Mitchell: In Her Own Words" had some revealing interviews about artists and the creative process. Featured in Brainpickings (<https://www.brainpickings.org/>).

One of Mitchell's most defining characteristics and a pillar of her artistic success is her unflinching integrity of vision — a creative compass that seems to always be oriented to her own true north and nobody else's. Her own standards are the only ones she ever heeded and her own values the only ones she ever sought to measure up to. When Marom asks what gave Mitchell confidence through the ample rejection she faced early in her career, she speaks beautifully to the idea that the best art comes from a place of self-transcendence and is created for an audience of one:

"I've never thought of that. I guess the only thing was being witness to my own growth. You know, I would suddenly see that, yes, the music was getting better, and the words were getting better. Just my own sense of creative growth kept me going, I guess."

"My growth has been slow, like a crescendo of growth, based on my dissatisfaction with the previous project, where I thought was weak, not what the critics thought. The critics dismissed a lot of what I thought was my growth and praised a lot of what I thought common about my work. I disagreed with most of them. So I had to rely a lot on my own opinions, not to say that I wasn't constantly asking them for advice and mulling it around, not dismissing it."

She revisits this notion of creating from a place of freedom rather than normative restriction based on the ideals and shoulds of others:

"Freedom to me is a luxury of being able to follow the path of the heart, to keep the magic in your life. Freedom is necessary for me in order to create, and if I cannot create I don't feel alive."

"I had difficulty at one point accepting my affluence, and my success, even the expression of it seemed to me distasteful at one time, like to suddenly be driving a fancy car. I had a lot of soul searching to do. I felt that living in elegance and luxury cancelled creativity, or even some of that sort of Sunday school philosophy that luxury comes as a guest and then becomes the master. That was a philosophy that I held onto. I still had that stereotyped idea that success would deter it, that luxury would make you too comfortable and complacent and that the gift would suffer from it.

But I found that I was able to express it in the work, even at the time when it was distasteful to me... The only way that I could reconcile with myself and my art was to say, "This is what I'm going through now; my life is changing. I show up at the gig in a big limousine and that's a fact of life."

I'm an extremist as far as lifestyle goes. I need to live simply and primitively sometimes, at least for short periods of the year, in order to keep in touch with something more basic. But I have come to be able to finally enjoy my success, and to use it as a form of self-expression.

Leonard Cohen has a line that says, "Do not dress in those rags for me, / I know you are not poor." When I heard that line, I thought to myself that I had been denying, which was hypocritical. I had been denying, just as that line in that song, I had played down my wealth.

Many people in the rock business [have] their patched jeans and their Levi jackets, which is a comfortable way to dress, but also it's a way of keeping yourself aligned with your audience. For instance, if you were to show up at a rock and roll concert dressed in gold lamé and all of your audience was in Salvation Army discards, you would feel like a person apart."

Need a reality check of what racial conditions are really like for real South Africans? Michael Vlismas on his experience of the Two Oceans Marathon

This article is quite long, but so inspiring we have reprinted it in full. We feel South African's need a bit of boosting. (when we first typed this it came out as 'boosing'! Freudian slip?)

"You learn so much about yourself when you run 56 kilometres. And one thing I learnt in running my first Two Oceans ultra marathon this Easter weekend is that my faith in my fellow South Africans is not misplaced.

It's so easy to see the news and believe we live in a country being ripped apart across racial lines. It's easy to make the mistake and believe that South Africans are all racists who argue about colour and language and cannot live side by side.

But when you run 56 kilometres on the streets of South Africa with South Africans, you realise what a lie this is.

It's a lie perpetuated by our politicians who specialise in highlighting what keeps us apart so that we may, out of fear for each other, support whatever agenda they push onto us.

But this is not the real South Africa.

The real South Africa is what I saw during my race.

I saw South Africans of all races and languages doing exactly what this year's race asked of them – to run as one.

And they do it so easily, because ordinary South Africans are all one at heart.

I saw runners stop to help a fellow runner who tripped and fell. I even saw one runner turn around and run back after he'd heard a runner fall behind him.

As we ran through Kalk Bay, we clapped hands for the two old white rockers who'd set up in their roadside garage and were cranking out some amazing tunes on their electric guitars.

There was also a lady and her young children in their driveway making pancakes for the runners. And further on, the coloured ladies were there handing out their baby potatoes.

I heard that most beautiful way of the black man who, when an elderly white man walked to the side of the road and declared his race over, exclaimed, "Sorry Baba. Sorry". Just a simple way to say I share in your suffering. Or maybe even more significant, I recognise your suffering. You are not invisible.

When we reached the start of Chapman's Peak, I felt my legs falter at the thought of the climb to come. And then a bus came up behind me. A Cape Muslim man was at the front of it, and we took on that hill together. He carried about 50 of us up that hill, telling us when to stop and walk and then when to start running again. I know for a fact I would not have made that hill without him.

That's what South Africans do. Sometimes we run up a hill together. Sometimes we have to walk. But always we keep moving forward together.

And when we reached the top, a Kaapse Klopse band heralded our achievement with their trademark music, playing it with such passion that I know listening to a symphony in the Sydney Opera House wouldn't have come close to moving me as much as this did.

I ran through Hout Bay, where people from the squatter camp had come to join in the throngs of people lining the road and cheering us on.

When we reached Constantia Nek, I was forced to stop and walk. "Michael from Strand," said a voice behind me, reading my name and club on my vest. "Are you okay my friend?"

An Indian man pulled up next to me, and put his hand on my shoulder.

"Ja. It's just a bit eina," I told him.

"Me too, my friend. I'm also hurting. I'm just hiding it better than you. C'mon, let's go together." And so I started running again. I think about what he said. We are all hurting. Some of us just hide it better. So many South Africans hide their own hurt, but are there to help others.

During this climb, we had some help from a group of Zulu runners. We heard them from behind, their rhythmic Zulu chanting sounding like Shaka's very own warriors. Two of them had adorned their caps with impala skins, and one blew a whistle as they ran in unison.

Once at the top of Constantia Nek, there are some sneaky hills thereafter. Some runners in my club call them the "Dammit Hills" because you don't expect them.

Two Indian men were running behind me as we hit the first of these, and I couldn't help but smile as I heard him say to his friend, "No man, now I'm just bedonnerd". Bedonnerd. What a fantastic word. In that moment, there was no question of the politics of language. No tearing down statues or protesting for the rights of only one language. Just a moment of being purely South African. Words like lekker and bru and bra and eish! and yebo and so many other words that are more a part of our South Africanness than any legislation could ever force upon us.

As we sang the national anthem at the start of the race, I wondered how many of those people protesting for just one language or asking, "What is the purpose of Afrikaans or Zulu or Sotho? Why not just English?" could sing only the English parts of their own national anthem, while their brother standing next to them could sing every verse?

And as we hit the home stretch into the stadium, and we ran across the finish line, a black man who finished next to me put his arm around me and said, "We did it!"

You know what, we did.

For one day, once again, ordinary South Africans did it.

They came out in their thousands, stood on the side of the road and cheered for their fellow South Africans from the start to the finish.

They showed each other compassion, gave each other hope, inspired each other, helped each other.

Because that's who we are.

We are not the divided people our politicians would have us believe we are.

We are not a society filled with hatred.

We get on with this business that is South Africa. Sometimes we stumble. Sometimes we walk. And sometimes we run. But we always get on with it, together.

We are ordinary South Africans who do what ordinary South Africans do. We are extraordinary to each other.

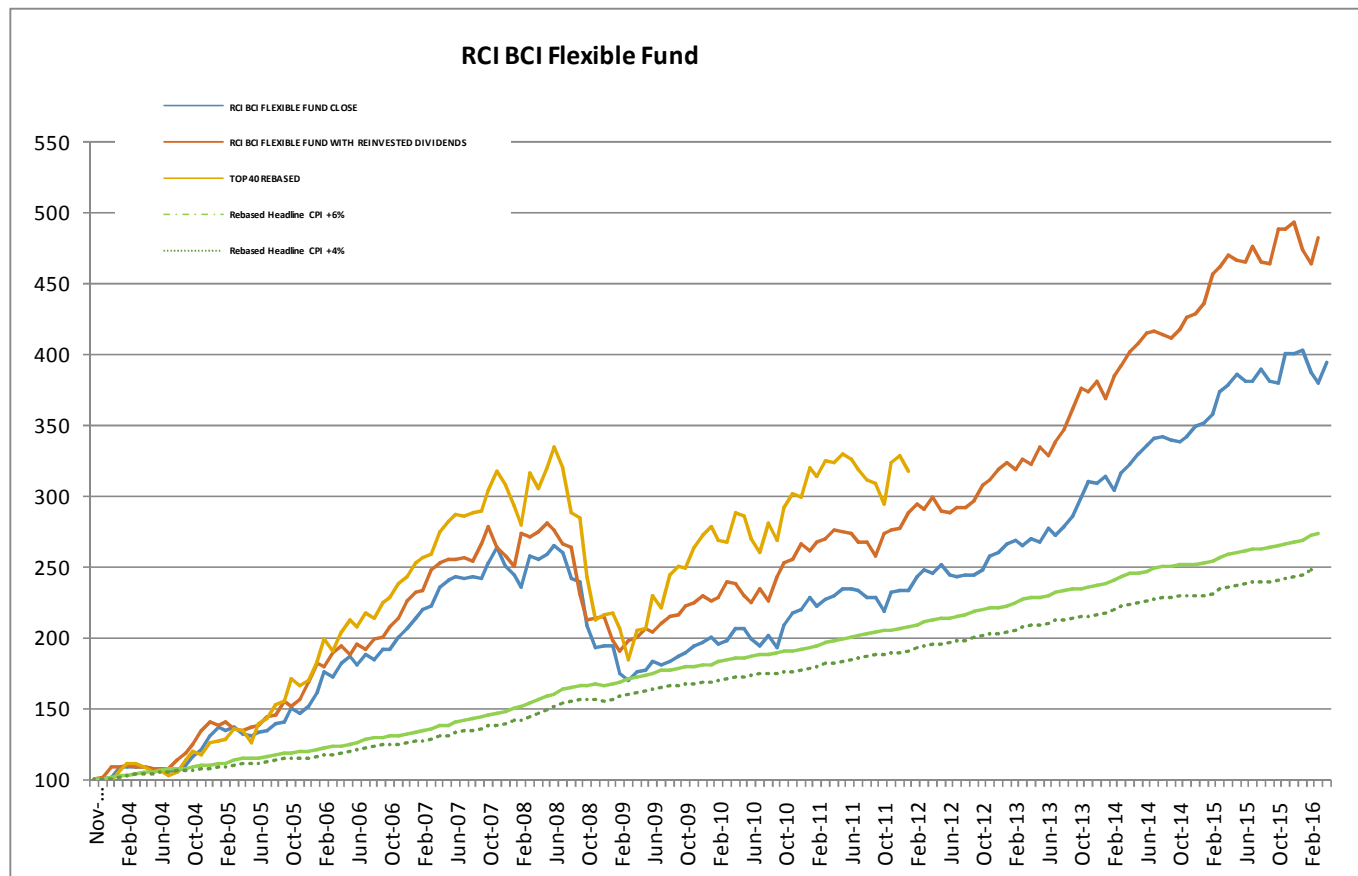
Every. Single. Day.

Best wishes,

Michael Vlismas"

RCI BCI Flexible Fund – Only 4.03% over 12 months but the JSE overall is only up 0.27%. We try to ensure that you lose less in tough times

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



RCI BCI Flexible Fund gained 3.63% for March closing at 393.17c per unit. Over a year the Overall Index is up 0.27% but our fund is up 4.47%. That is just under a 4% outperformance which makes us happy. Our goal is to double every five years - that is a goal, not a promise!

The JSE top 40 gained 5.34% for March. We underperformed for the first part of the month but the top graph below showed how well our unit trust recovered relative to the Top 40 in the last two weeks as bank and insurance shares improved and mining (which we don't have) caught its breath after being on the tear last month. What has been holding us back this month has been the strength of the rand. We have 25% (the maximum) invested offshore and plenty in rand hedges such as Astoria so their performance has been muted by the very strong rand. We do not expect President Zuma to resign. Like Robert Mugabe, we will believe it only when we see it! When the markets accept this and how poor the outlook is for our economy in 2016, we expect the rand to weaken.

Not much importance should be placed on the performance over a month, or a quarter. In the bottom graph below, we show the performance of our RCI BCI Flex unit trust of the past two years. We are not aiming to shoot the lights out – most of our investors are retired. They cannot make the money back by returning to work! We are trying to ensure that if the market falls badly, we will fall less. We are only 2.5% off our peak so we are currently very happy. If the rand weakens further but world markets continue to run, we will be well placed. If the market runs, we expect to grow. If we produce 15% per annum, compounded over the next ten years, we will have achieved our goal. That is not a promise but a wish! But we have done it in the past.



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.

Collective Investment Schemes in Securities (Unit Trusts) are generally medium to long term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. Commission and incentives may be paid and if so, would be included in the overall costs. The portfolio is registered under the license of Boutique Collective Investments, a member of the Association for Savings & Investment SA. Forward pricing is used. More details are contained in a fact sheet that is available on request.

To conclude

How quickly the world turns! The FEAR of January appears to have passed. The weak share prices and the weak currency have already been forgotten. Yet the press were in such a panic at the time? It is our job to keep our feet on the ground and to take contrary views when necessary.

The media love hyping up issues. This week it was the court ruling on Nkandla, last month the budget, and next month it will be something else. The foreign press are hyping up the risk of Britain exiting the European Economic Community (“Brexit” is their name for it). Remember how they hyped up the Scottish referendum? Very few issues affect the long term economic future of countries dramatically. Most issues are slow poison, not overnight sensations but ‘boring and slow’ does not sell newspapers or attract viewers.

Our view is that a downgrade is coming for South Africa, if not in three months, then maybe by year end or next year. What could put it off? A continued improvement in metal prices would be the most likely necessary improvement but we consider this unlikely.

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

Thank you for being our clients

Best regards

Di and Alan