Robert Cowen Investments

Growing families' wealth since 1982

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Newsletter

end September 2016

3 October 2016

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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

"Good friends, good books, and a sleepy conscience: this is the ideal life."
~ Mark Twain

"The purpose of life is not to be happy. It is to be useful, to be honorable, to be compassionate, to have it make some difference that you have lived and lived well."
~ Ralph Waldo Emerson

RCI MET Flexible Fund – closed September at 379.31, 2.26% down for the month and 0.40% higher than 12 months ago. The JSE Top 40 was down 1.81% for the month and is up 1.21% versus a year ago. Despite this inconsequential 12 months, we are still up 8.98% per annum over the past three years were we ranked 32nd out of 76 funds. So why this minimal under performance over the past year? We have been surprised by the strength of the rand over the past six months and were scared of political turmoil in South Africa. Suddenly with all the shenanigans over Mr. Pravin Gordhan, the rand is even more erratic.

Continued on next page.

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

Please take note:

- Moving offices to Anchor building – 25 Culross Road, (Corner of Main Road), Bryanston on the 14th of October, 2016. This is about 2km from our current offices and is across the road from Didata. We want to be close to Anchor's research teams who can generate good ideas for your investment portfolios.

Has the JSE misread the net cash flows into the South African economy?

The ongoing dilemma that South Africa's richest have left the country has prompted the Davis Tax Committee to re-evaluate how trusts are to be taxed

Nick Dennis, fund manager of the Anchor Global Equity Fund provides some insight into the current sentiment around the U.S economy and the uncertainty surrounding global markets.

Our scribe, Alan, has gone to the 'States for checkups, hence the brief newsletter, but he will be back before the next one is out!

Moving along swiftly

A reminder to all – our office move is still happening on 14th October 2016 and our address is:

25 Culross Road
Bryanston
Sandton
2191
South Africa

As with every move, there will be some logistical issues........

We will be without telephones on Friday, 14 October 2016, whilst Telkom move our 'phones to the new offices.

Please contact us on our mobile 'phones.

Sam 083 466 1548

Kate 083 381 2117

Michelle 082 673 5912 (for any payments to be made)

As from Monday, 17 October 2016, we will be back on our old number (011) 706-1420 and it will be business as usual.

We look forward to seeing you all on the flip side!!!

R88bn outflow out of South African shares

By the 26th of September 2016, the JSE has suffered an outflow of R88bn from equities during 2016 while there has been a R22bn inflow into our gilts. Surprising the JSE remains so buoyant, or has the JSE got the numbers wrong again, as they did a few months ago?

South Africa's largest export product – rich people

Magnus Heystek used to write on business for The Star many years ago. Moneyweb released an interesting article by him. He says "The uber-rich have left South Africa a long time ago" and "The rich in South Africa ... have a lot to worry about at the moment".

He mentions the automatic transfer of information from other countries to South Africa and the special voluntary disclosure programme. Then, the Davis Tax Committee is trying to change the way trusts are taxed. After that he touches on the university student demands for free education. Next he quotes New World Wealth that in 2014, SA had 46 800 High Net Worth Individuals but 8 000 have left in a year and a half.

So who will pay the tax?

We think that his report deserves to be read in full.

From Moneyweb Today, 26 September 2016:

http://today.moneyweb.co.za/article?id=616971&acid=4O93iSfl%2F5YeZeuwhd4cWQ%3D%3D&adid=OcajDJSUBKE8WkHj2%2BXORA%3D%3D&date=2016-09-26#.V_dxjvl96Uk

Do NOT Keep Calm and Carry On

Does market sentiment in the U.S correlate to the performance of the economy, and where does the sentiment rank at present? The political tussle between Trump and Clinton will influence the short-term movement in the economy, so which candidate would be the most suitable victor for us investors?

ANCHOR CAPITAL

BITS AND PIECES

Nick Dennis

Volume 24

The man who is a bear on the future of the United States will always go broke.

John Pierpont "J.P." Morgan

The bull market in bearishness

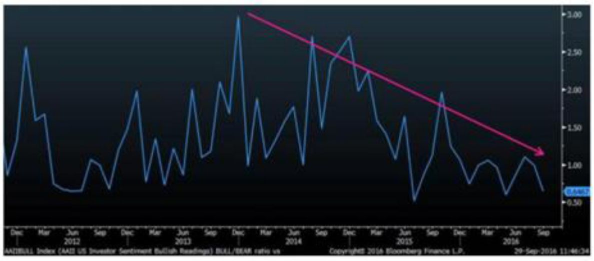
Followers of financial media could be forgiven for thinking we're mired in a global depression. Each day, there's another billionaire hedge fund manager calling for the end of the world. Commentators bemoan the tepid economy, blaming the Fed, politicians or whatever their personal bugbear happens to be.

With some justification, **bearishness is the comfortable consensus**. Any other view is seen as Pollyannaish.

The Association of American Individual Investors (AAII) publishes a weekly survey in which respondents indicate whether they're Bullish, Bearish or Neutral. At extremes, the survey is a useful contrarian indicator: pervasive bearishness typically precedes positive moves in the market (and vice versa).

The chart below plots the ratio of Bulls to Bears over time. A rising blue line means investors are becoming more bullish. A falling blue line means investors are becoming less bullish. Remarkably, **despite the S&P500 index recently hitting all-time highs, optimism has all but disappeared.**

AAII US Investor Sentiment Bullish Readings



Source: Bloomberg

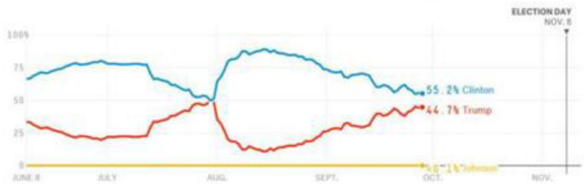
One word you'll hear repeatedly is 'uncertainty'. This is reflected in the trend of rising Neutral readings following the global financial crisis. In the two decades preceding the GFC, Neutral readings had steadily declined.

AAII US Investor Sentiment Neutral Readings

Source: Bloomberg

The latest cause of uncertainty is the US election, which is a microcosm of everything wrong with the world. The picture has changed dramatically over the last two months, as Trump reins in Clinton's lead. According to FiveThirtyEight, Clinton still has a 55% chance of winning (the chart below reflects probability of winning, not polling percentages). This one could go down to the wire.

AAII US Investor Sentiment Neutral Readings



Source: FiveThirtyEIghts

If Clinton wins markets are likely to rally. A Trump victory could play out like Brexit: a sharp selloff followed by a rebound. Of course, investors will then fret about the next source of uncertainty, whatever that may be.

Bits & Pieces – Vol 24

DO NOT Keep Calm and Carry On

ANCHOR CAPITAL

What is an investor to do in the face of such widespread uncertainty and pessimism?

Sometimes, in order to navigate the future, it's helpful to look to the past.

DO NOT Keep Calm and Carry On

The slogan Keep Calm and Carry On was created by the British government in 1939 as a rallying cry ahead of the Second World War. Two and a half million posters were printed at the time, but none were posted, and all but a few were ultimately destroyed. In 2000, one of these posters was discovered and put up in a Northumberland bookstore (http://www.businessinsider.com/the-surprising-history-of-keep-calm-and-carry-on-2015-6). Since then, Keep Calm and Carry On has become a 'thing'. Corporates have jumped on the bandwagon as the phrase has been used to peddle everything from cupcakes to real estate. Taken to an extreme, this symbol of British stoicism has lost its meaning.

Thankfully, 2016 is nothing like 1939, although there are parallels. Investors in an uncertain and pessimistic world are faced with a set of unappealing choices. **Prospective returns from all asset classes are likely to be modest. In and of itself, this is neither bullish nor bearish.** The current bull market is fairly mature and a bear market is guaranteed at some point. But then so is the next bull market after that. Nearer term, it would be unprecedented for a market peak to occur in the midst of such universal negativity.

Many investors have good reason to be fearful, as they are neither mentally nor financially prepared for lower prospective returns. Many are unprepared for retirement, and risk panicking and making damaging choices at the worst possible moment in the next bear market. However, fear on its own is a wasted emotion. **But fear can be a positive force when used as a catalyst to prepare for the future.** Investors with the right mindset, realistic return expectations, and robust financial plans, should have nothing to fear.

Despite endorsing the sentiment, Keep Calm and Carry On has become a hackneyed expression, so I'm not going to invoke it.

Another poster from 1939 should, however, be just as apt in present conditions.

I am a 'default' bull, which speaks more to mindset than return expectations. While that stance may appear naïve, the long sweep of history has shown it's the right one. I certainly don't fear the next bear market, as the Anchor Global Equity Fund is prepared for it. Just don't ask me to Keep Calm and Carry On.

Nick Dennis, CFA

Anchor Global Equity Fund

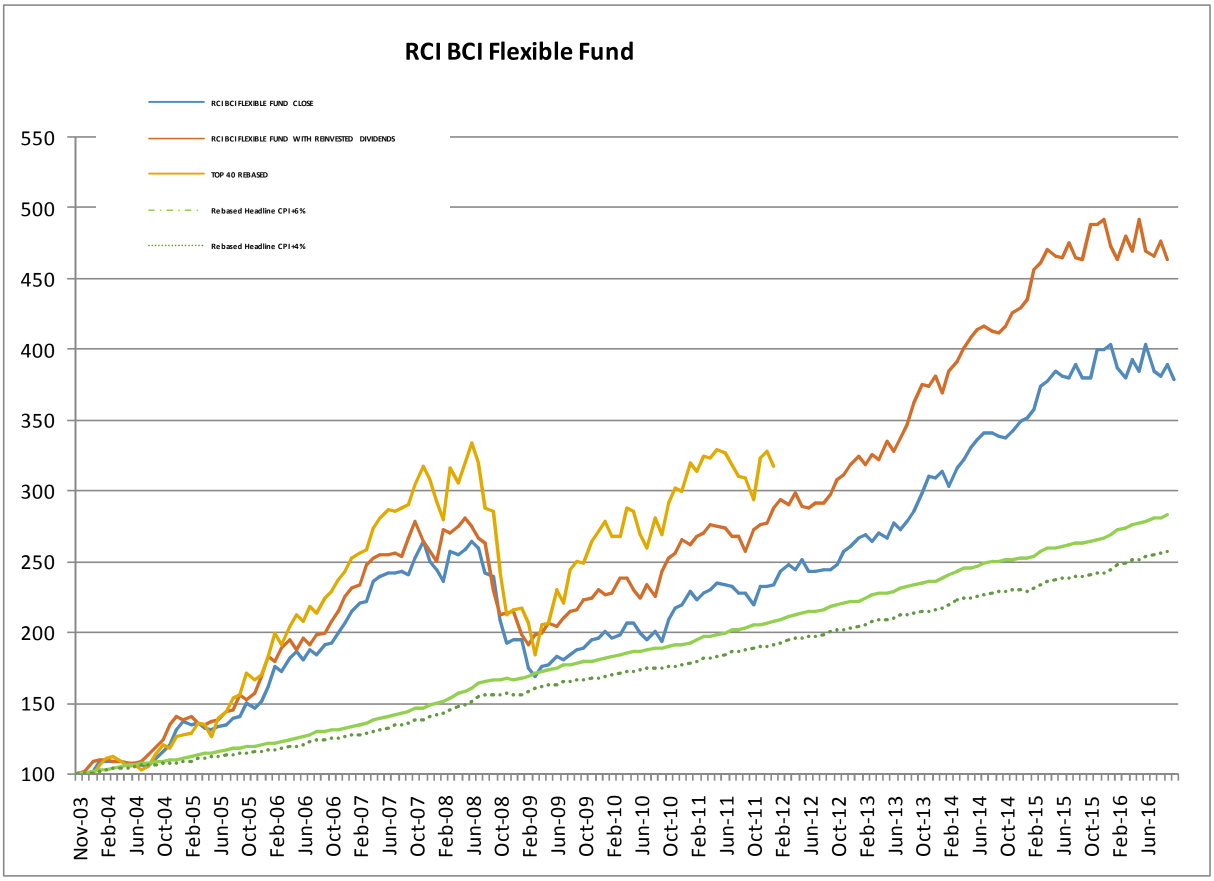
P.S. Bits & Pieces is now available on Medium - see: https://medium.com/@nickdennis10.

Disclaimer

RCI BCI Flexible Fund – Up 0.40% over 12 months which underperformed the JSE Top 40 which is up 1.21%. Our bet on a weaker rand has not yet paid off, and in the short-term, the rand could get a bit stronger

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

RCI BCI Flexible Fund fell 2.26% for September closing at 379.31c per unit. The JSE top 40 fell 1.81% for September so we underperformed this month. Over a year, the Overall Index is up 1.21% and our fund is up 0.40%. That is a 0.81% underperformance. That is not enough to make us happy. We have set up our portfolio to benefit from a weaker rand which might have a bit of strength in the short-term, now that the downgrade has been avoided and the cash must soon start flowing into South Africa to fund the SA Brews buyout .



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

The strength of the rand from the end of January to the middle of August has caught us a bit by surprise. However, we invest for three to five year performance as our guess as to what might happen in the next few months is no better than the next person's.

We believe that over the next five years the rand is likely to weaken substantially as the metal prices are likely to be weak, resulting in a weak currency and a shortage in tax revenue for South Africa. The two bright spots on the horizon are tourism and agricultural products (provided the drought lifts and an average, or better, rainfall is received). Thus we continue to invest strongly in rand hedges and in South African companies paying a high but sustainable dividend yield.

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

Thank you for being our clients.

Best regards

Di and Alan