Robert Cowen Investments

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Newsletter

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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

"I learned that courage was not the absence of fear, but the triumph over it. The brave man is not he who does not feel afraid, but he who conquers that fear."
~ Nelson Mandela

RCI MET Flexible Fund – closed June at 371.71, down 2.72% for the month, compared to the JSE Top 40 which was down 3.67%. The RCI BCI Flexible Fund is up 1.11% year to date, as we are invested for a weakening rand whereas the JSE Top 40 is up 3.46% year to date. (By 10 July 2017 it had improved to 377.81 from 371.71 as some rand weakness set in). So far, in 2017 the rand has been stronger than we expected but there has been some weakness in July. When the ratings downgrade finally takes place (we expect it to be in June 2018) the rand could weaken to higher than R15 to the dollar or worse.

RCI BCI World Wide Flex closed June at 103.32c. It is up 3.32% since its launch in December 2016. By 10 July it is up to 105.3c. When the rand weakens, we expect this portfolio to do well.

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

Alan survived barging without falling in!

Scared of a crash in foreign markets? We were asked an interesting question this month. It will take a long time to answer it properly for the answer is complicated. In this letter, we show you how a long-term investor should perform over longer than 12 years. In fact, we show you how he is likely to perform for 30 years. We assume that the market will mainly fluctuate between placing shares on a 2.5% dividend yield (expensive) and 3.5% (cheap). There might be periods when the market breaks out of this band but we would not expect such an anomaly to last for long

Naspers has a huge influence on the JSE - almost 20%. Here are the facts.

Bookkeeping and accounting services offered by Philippa Dissel. Philippa has been providing assistance to one of our clients for many years. As our client is winding up some of his affairs, Philippa has some time to help any client who might need her services. See inside.

Scared of a crash? How best to invest offshore?

A friend posed a great question this week. We thought that it is a question that most investors need to think about very carefully. So, we have included our answer in the newsletter. As the question is complex, we will answer it over the next few newsletters.

> "Dear RCI
>
> I was doing some reading on the stock market this morning and was rather horrified to see the predictions for guys like Davidson and Buffet of the impending global stock market crash in 2017. One of the articles below.
>
> http://theeconomiccollapseblog.com/archives/tag/stock-market
>
> Before the 2008 crash I asked our financial advisor to move as much of our money to cash from stocks and she basically told me she couldn't / wouldn't and we ended up losing a lot of money that took about 3 years to recover. This time I'm not going to just listen to her.
>
> What is your strategy to avoid losing significantly when the bubble bursts which it seems is likely sooner than later? Can one move from stocks to cash and then buy back into stocks once the market collapses and if so, how is this done?
>
> Your thoughts?
>
> Thanks D."

Mr. D. is 48 years old, so should have an investment horizon to at least age 80 - i.e. another 32 years!

Our Answer: (Part I) **We have checked that he is asking about offshore investments – South African investments have their own specific risks beyond the scope of this answer**. Predicting a crash is never easy. Most 'prophets of doom' who successfully predict a crash are then seen as 'gurus' and are then called upon frequently by the ignorant press to make future predictions. The sad success rate for most of them is to predict 33 of the next three crashes!

Most 'prophets of doom' who predict crashes are normally way too early and the market tends to continue to rise. When it finally crashes, it normally falls but only to a level still well above the price at which the 'expert' first made the dire prediction. If you fear a fall in 2017, how much are you expecting it to fall? Although shares are, no doubt, in expensive territory, what is the alternative? Your one commentator says gold. With interest rates currently being so low, and world markets not offering a great alternative, where are American investors going to put their money if not in the SP500?

We would suggest that the first thing you should do when you hear a scary prediction is to Google that 'prophet of doom' to see how often he (it is almost always a "he") has been correct in the past. Are they really worth listening to? How many times have they made false predictions? What biases and beliefs do they have? Are they gold bugs? What alternative are they suggesting? Are they taking current economic circumstances into account? In future letters we will examine the effect of being too early.

Many very smart investors such as Peter Lynch believe that you cannot predict a crash. Expect a 10% fall every two years, a 20% fall every ten years and a 30% to 50% fall once in an investment life-time. That is normal behaviour and should not scare you. The answer is usually to be in great quality stocks that pay good and growing dividends and they should recover from any set back quite rapidly. For this letter, we will presume that Lynch is correct: that you cannot predict the market. In future letters we will examine other strategies.

"Too late smart, too soon old" is a wonderful motto for investing. Most investors only appreciate the true power of taking the long-term view and enjoying the great reward of compound interest when it is too late to do much about it. You should have at least 30 years so do something about it!

Particularly as Mr. D. is only 48, he needs to invest with a very long-term horizon. We think he must expect that with the breakthroughs in medical science he or his wife will live until they are at least 80. Thus, what happens in the short-term should be of very little importance - it is the 30-year growth we are looking for.

Outcome if fully invested

Points to bear in mind: Mr. D is 48 so has12 years of earning ahead of him. He does not need his dividend income to live on until he retires so it would be reinvested. We have not taken this into account but if we did, it would significantly increase his returns.

We are not assuming that he will have further money to invest. However, it is likely that sometime in the next twelve years, his business will turn up and he can then add something to his investment pot. This would greatly increase the total return.

We assume that the funds are invested in solid, reliable companies which will grow dividends at 5% per annum. Bear in mind this is assumed growth in current dollars.

	Capital	**Div received**	**Capital value range based on DY%:**		
			Expensive	**Average**	**Cheap**
Year	**Invested**	**Growing at 5%**	**2.50%**	**3.00%**	**3.50%**
1	100	3.00	120	100	86
2		3.15	126	105	90
3		3.31	132	110	95
4		3.47	139	116	99
5		3.65	146	122	104
6		3.83	153	128	109
7		4.02	161	134	115
8		4.22	169	141	121
9		4.43	177	148	127
10		4.65	186	155	133
11		4.89	195	163	140
12		5.13	205	171	147

The above table covers the period until he retires so he can assume that for every dollar he invests now, he should be earning $5.13 on retirement. That is calculated by the companies paying out a $3 dividend at the end of year one and growing this at 5% per annum. The value of the shares should have grown from $100 to a range of between $147 if the market is cheap in 12 years' time and $205 (if it is expensive then); whereas if the market is at average value (3%) then it should be worth $171.

The longer term – even more important.

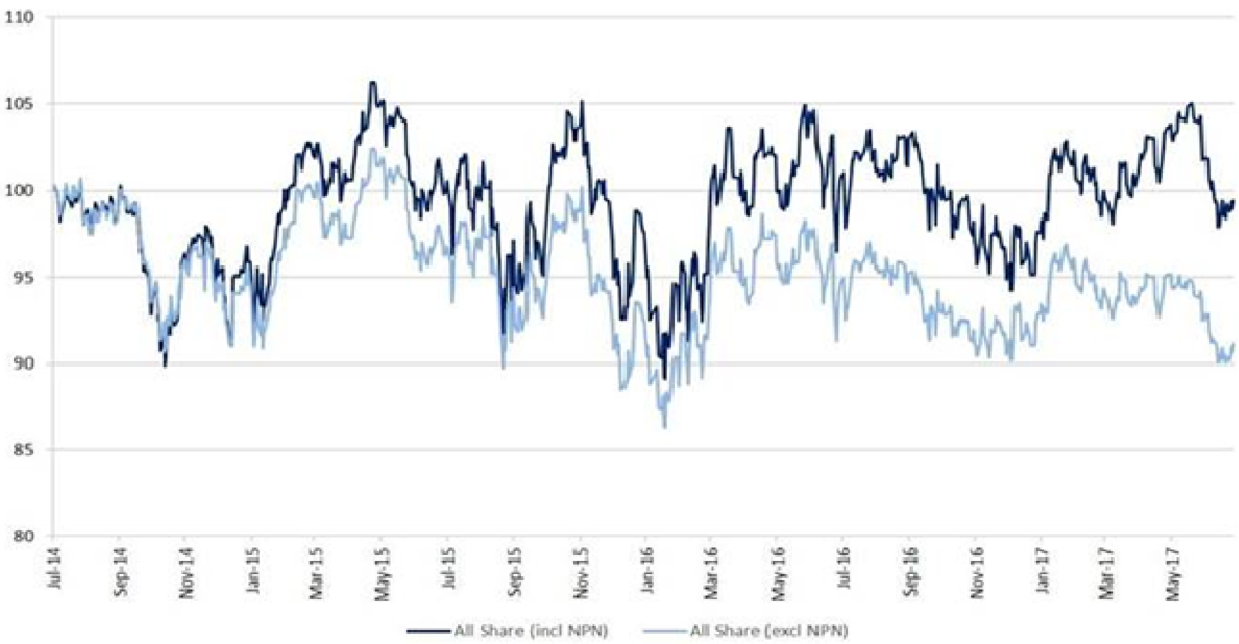
At the beginning of the article we told you that it was very important that you assume you will live to 80 – about 30 years' time. You should even look out further. You want to leave your descendants the most possible. i.e. Do not sell your shares and invest in cash or gilts - think about what the portfolio might grow to. If the portfolio stays untouched, other than for income, for 60 years, your grandchildren will inherit a probable amount of between $1525 and $2135 for every $1 you invest now. If the market is at average values (3% dividend yield) this would be $1779! So 17 times your money! This shows the wonderful effects of compounding.

Longer term returns				
	Div received	Capital value range based on DY%:		
		Expensive	Average	Cheap
Year	Growing at 5%	2.50%	3.00%	3.50%
20	7.58	303	253	217
30	12.35	494	412	353
40	12.97	519	432	370
50	32.76	1,311	1,092	936
60	53.37	2,135	1,779	1,525

What should strike you is that the dividend you should then be receiving has grown from $3 to $53.37. This is what we believe is really important - that dividends show reliable growth for the majority of the portfolio. If dividends grow, share prices, sooner or later, catch up!

Note that it is relatively unimportant if his portfolio occasionally takes a 10% or even a 20% hit. The effect of a 40% or 50% drop is substantial but 2008 showed that it is not insurmountable. We will examine in future letters the steps you could take to mitigate the damage of a drop. e.g. you could create a stop loss policy at say, 12% below the running portfolio value or you could decide to hedge with futures and guarantees. We will also take a look at selling the most expensive shares and replacing them with cheaper shares.

JSE All Share Performance Including and Excluding Naspers



	Including Naspers		Excluding Naspers	
Since 03/07/2014	Price Return	Total Return	Price Return	Total Return
Cumulative Return (%)	-0.6	8.6	-8.9	-0.5
Annualised Return (%)	-0.2	2.8	-3.1	-0.2

The above graph and table shows the performance of the JSE All Share, both with and without Naspers. As Naspers constitutes about 20% of the JSE All Share, one can see how the performance of the JSE All Share is heavily influenced by fluctuations in the Naspers share price.

If you were not invested in Naspers over the past two years, you would have heavily underperformed the JSE All Share by as much as 9%. It also means that because Naspers earns roughly 90% of its earnings from its investment in Tencent (the Chinese e-commerce giant), roughly 18% of All Share index earnings are influenced by Tencent alone. Another way to look at it - nearly 1/5 of our index's performance is dependent on kids playing Chinese mobile games such as "Clash of Clans".

From a portfolio investment view, Naspers becomes a double-edged sword. As an investor, it is extremely risky to invest 20% of your portfolio in one share, but without being invested in Naspers you run the risk of heavily underperforming the JSE All Share if it performs well.

Are you looking for a bookkeeper or and administrative assistant? Philippa could be your answer

One of our clients has had a loyal and useful bookkeeper helping him for many years. As he is winding down his business, she now has some free-time to take on other clients. She might be of assistance to you in passing on to RCI which accounts they should pay on your behalf or in helping you with accounting or filing services.

Philippa Dissel writes:

> "After working for many years as the accountant for Bradford McCormack, the company was bought out by the International firm JLL. I was asked to take over the accounting function of the several smaller private companies owned by the Bradford family. Apart from the financial planning and forecast reporting to the family, I also assist Mr Bradford senior in managing his daily activities, from monitoring his calendar, attending business meetings with him to performing administrative filing and other duties, as well as working to manage other basic business needs, and assisting the family with whatever they may need.
>
> However, Mr Bradford is now limiting his business activities and we have agreed that my working time with him will be substantially reduced as at the end of the year. I am therefore seeking additional clients who may need similar services on a daily or weekly basis.
>
> Thank you,
>
> Philippa Dissel"

Please contact Philippa at 082 453 9035 or email her at Philippa@dissel.co.za if you want to discuss any work you might want her to do for you.

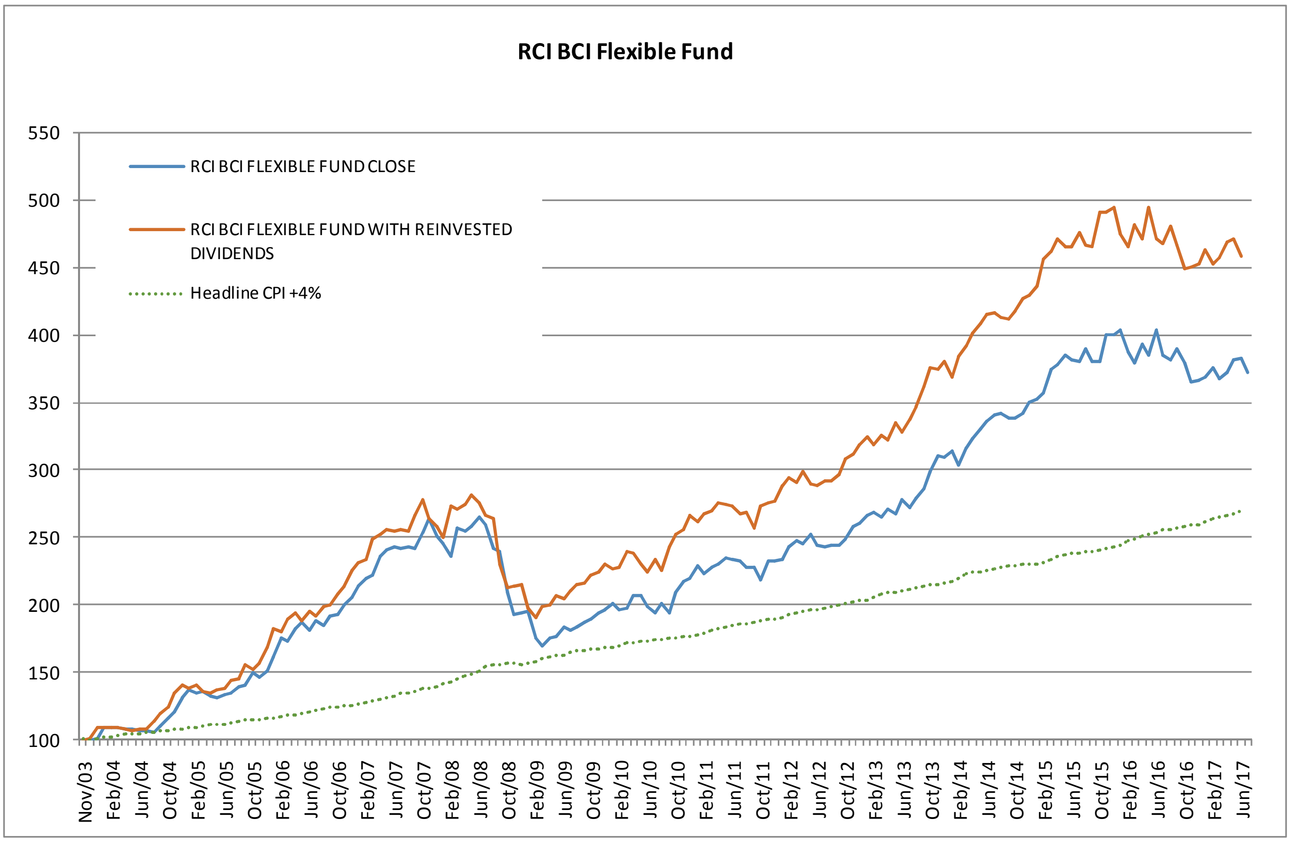
RCI BCI Flexible Fund

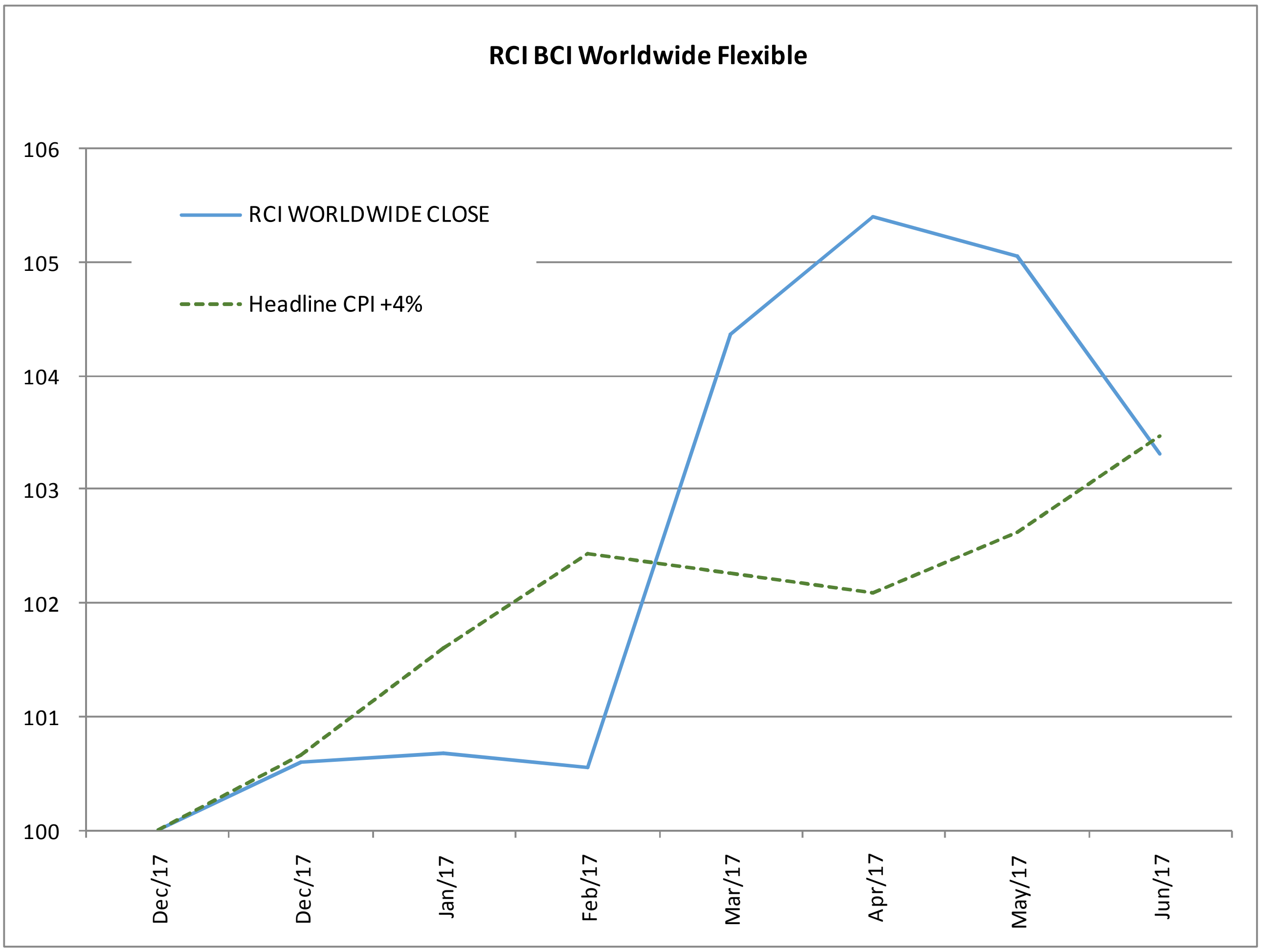
Please contact Maggie on 011 591 0578 for any help on your unit trusts.

RCI BCI Flexible Fund closed June at 371.71, down 2.72% for the month, compared to the JSE Top 40 which was down 3.67%. The RCI BCI Flexible Fund is up 1.11% year to date, as we are invested for a weakening rand whereas the JSE Top 40 is up 3.46% year to date. (By 10 July 2017 it had improved to 377.81 from 371.71 as some rand weakness set in). So far, in 2017 the rand has been stronger than we expected but there has been some weakness in July. When the ratings downgrade finally takes place (we expect it to be in June 2018) the rand could weaken to higher than R15 to the dollar or worse.

RCI BCI World Wide Flex closed June at 103.32c. by July 10th it was up to 105.3c with more gain to come on rand weakness. Much of the short-term performance will be dependent on the outlook for the rand.

We are investing for the long-term in companies that should enjoy reliable growth in earnings and dividends. Sooner or later, this should be translated into good share price growth.





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 R25 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

In the last few days, we have seen the rand weaken over the possibility that the Reserve Bank may be taken over by the Government. We think this is a 'non-issue' as they control it anyway. So we would expect the rand to strengthen again in the short term. At some point, probably in June 2018, the country is likely to be downgraded with a resultant weakening of the rand. That is when we expect ACTION. It is possible that the currency will start to anticipate this move, hastened by weak metal prices and continued problems in our politics.

We enjoyed writing our answer to 'D' about his question on offshore investments and what to do about fears of crashes in offshore markets. We have put out the effects of being fully invested for 12, 20 and 30 years. The power of compounding, and keeping an uncluttered head, is remarkably illustrated in the returns which the market is likely to deliver if you live only on your dividends only. In future letters, we will discuss hedging, selling (all or part) and trying to protect yourself in other ways.

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

Thank you for being our clients.

Best regards

Di and Alan