Robert Cowen Investments

Growing families' wealth since 1982

Authorised Financial Services Provider FSB Licence No. 701

Newsletter

end November 2017

4 December 2017

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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

"If you want to test your memory, recall what you were worrying about one year ago today." ~ *E. Joseph Coffman*

RCI BCI Flexible Fund – closed November at 401.06, down 1.19% for the month. The Fund is up 11.6% for 2017. It was up8.95% year to date to the end of November, whereas the Consumer Price Index rose 4.54%. The rand strength in anticipation of Mr. Ramaphosa winning the election is affecting our favourite shares but we think he will not be able to turn things around quickly and we still expect SA will be downgraded after the Budget.

RCI BCI World Wide Flex closed November at 109.35, down 2.89% for the month. The fund is up 8.96% year to date. This unit trust is invested in about 20 world-class companies. Most have a very high ROCE (return on capital employed) of over 40% (pre-tax) whereas it is hard to find South African companies producing over 20% ROCE. These types of companies produce strong, and growing cashflows, often with a high and consistent dividend. Many are household names such as Nestlé, Apple, Microsoft, Johnson & Johnson. When they get too expensive, we trim some off the top and seek to reinvest when the price stops falling. The growth in dollars has been good over the past 10 months so when the rand weakens, we expect the performance to be good.

Robert Cowen Investments will be closed from the 22nd of December from 12:00pm and will reopen on the 2nd of January 2018.

Please send any requests for payments to Michelle Isherwood michelle@rcinv.co.za by the 11th of December 2017.

We wish you all a festive holiday season and a happy New Year.

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

Threat of the 'downgrade' postponed to after the budget – Moody's has postponed its potential downgrade to early March, wanting to see how the elective conference in December turns out and what will be delivered in the budget at the end of February. We had a wonderful Christmas party in Johannesburg on the 30th of November, celebrating our 35th birthday (and we had a party in Cape Town earlier in the month). There are some worthwhile snippets from Di's speech which have been repeated in this letter.

The digital economy

Eskom meltdown – 50% more employees, being paid almost double in real wages but no more electricity production.

US credit market – meltdown coming- interesting John Mauldin article. We ask if this would have as big an impact on the world as last time?

Bitcoin

Euro area is moving from a lost decade to growth – very important for South African exports.

Please see our Concluding message.

In Di's end of year speech

Di talked about how the world had changed over the 35 years that RCI had been in existence.

(Editor: A point that struck home was that in 1982, it took R1.09 to buy a dollar. Now it takes about R14. If this rate of change persists for the next 35 years, it will be R200 to the dollar!) We must ensure that we take the long-term view and that we can maintain your purchasing power in dollar terms, as well as showing you good growth in rands.

We always think that the world is so different, that NOW is so unique but what really changes?

	1982	**2017**
POLITICS		
Russia	Gorbachev	Putin
UK	Thatcher	May
USA	Reagan	Trump
SA	Botha	Zuma
INFLATION	13%	5%
JSE (rose by)	38.4%	17%
CURRENCIES		
ZAR/USD	1.09	13.71
ZAR/GBP	1.74	18.60
EURO	didn't exist	

Do you remember what was going on in 1982? Seemed dramatic at the time!

GLOBAL EVENTS

Argentina invaded the Falklands

Israel invaded Lebanon

Princess Grace of Monaco died

MRI machines were introduced into Britain

ENTERTAINMENT

Academy award – Chariots of Fire

Song of the Year – Bette Davis Eyes

SOUTH AFRICA

Bomb explosions and attacks – 24

IT

IBM PC was the industry standard

Compaq released their IBM compatible computer

IBM launched the double sided floppy disk drive

What has not changed? We still have a long-term horizon to invest clients' funds for long-term capital growth and to produce a constant, steady growing stream of dividends. After 35 years we still have the same investment philosophy.

Special mention was made of some of our clients who have been with us since inception and the fact that we are now looking after the fourth generation of family members. Some clients, came from afar to celebrate our with us. Thank you to them, and to all of you for staying the course with us!

Our thanks to all of you for being our clients and for being part of our journey over the last 35 years and we wish you all a very happy festive season, travel safely and we look forward to seeing you in the New Year.

Junk status call delayed to March

Last month we warned that the press was expecting that the third rating agency would rate South African debt as "junk" on the 25th of November following all the problems highlighted in the mini-budget. Well, Moody's gave us breathing space, saying they would delay the decision until after the elective conference in December and the budget at the end of February. As the budget is not expected to be encouraging, it is expected that the downgrade will come in March. Of course, some minor miracles may occur – the iron ore price might go back above $100, the gold price to $2000 (although we have so little left this would not make much difference) and our other exports could do better.

Will the outcome of the elective conference make all that much difference? The press has been vocal in supporting Mr Ramaphosa but at this point, his victory is "too close to call" according to many political commentators and there was an interesting article by Peter Bruce in the Business Day saying that Mr Ramaphosa might not be the "saviour" that business is expecting as he has many factions to reward and support. However, if Mr Ramaphosa wins in December, the rand should initially strengthen. Then we shall have to see how reality plays out – on what terms might Mr. Zuma depart his office, what policies can be instigated, will they make any substantial difference? Little can be done about weak export prices but substantial improvement could be brought about by stopping corruption, encouraging tourism and improving the confidence of business and our citizens.

Currently, our expectation is for a downgrade in March, but if that is delayed, we expect it to happen during 2018, as tough economic conditions prevail. What is to be borne in mind is that world economic conditions are benignly improving and that relative to comparable countries, South Africa is not all that bad!

If the third rating agency drops us to 'junk', many of the world investment funds will no longer be able to own South African bonds and will have to sell about R150bn that they have invested in South Africa's government bonds. This is likely to cause the rand to fall, probably to R15 or R16 to the US $. Nobody knows how much the rand will fall, partly because many other countries e.g. Brazil and Russia, are already in bad shape yet our interest rates are close to theirs, so why then should our currency fall too much in the short term? It is not very comforting to rely on everybody else being worse!

Nonetheless, foreigners could easily panic out of our bank shares, pushing them to attractive levels just as they did in the 1980's. If our bank shares overshoot by, say, 15% to the downside, some high dividend paying bargains may then present themselves. Thus, we await March with interest but we have believed for some years that the country is going over the financial cliff and it is better to be a year early, than one day late when it comes to your investment strategy!

We said last month: "Over the long term, we expect substantial pressure on the rand as mining prices should remain weak. This does not mean they will not be volatile! They can bounce along the bottom with substantial velocity as the world slowly works through its massive oversupply problem."

In Di's Christmas message, she highlighted the problems prevailing in 1982. Somehow, the problems facing South Africa (and the world) were overcome and we prospered. It is this amazing human condition, that optimism is more frequently rewarded than pessimism, that allows humans to prevail over the longer term.

Digital economy

The USA now has 35% of its GDP in the Digital economy – no wonder its shopping centres are battling! The world's digital economy has doubled between 2000 and 2016. It cannot be ignored.

From Fuller Treacy 27th November 2017

"I came across this report from Huawei and Oxford Economics the other day. I'm still reading but it really ups the argument about the effect of digital technology using what it calls the spill-over effect within and across industries.

Some of the report's key findings are:

The true size of the 2016 digital economy is US $11.5 trillion globally, or 15.5% of global GDP. This is roughly 3 times larger than traditional measurements. The base digital assets comprise 1/3 or $3.8 trillion, while digital spillover effects account for the remaining 2/3 or $7.5 trillion

The digital economy is 18.4% of GDP in advanced economies, ranging in size from 35% to 10%. The US has the largest digital economy at 35% of GDP.

The global digital economy has almost doubled between 2000 and 2016, growing 2.5 times faster than global GDP over this period. China's share has tripled from 4% of GDP in 2000 to 13% in 2016.

Over the past three decades, every dollar invested in digital technologies added $20 to GDP on average, 6.7 times higher than non-digital investments which added $3 for every dollar invested.

Assuming current growth rates of digital investments over the next 10 years, the report estimates that by 2025 the digital economy will be US $23 trillion globally, or 24.3% of global GDP, up from 15.5% in 2016.

If you download, I found the graph on 9.17, Fig 3 particularly interesting and unexpected.

Eoin Treacy's view

This is a very welcome contribution to the debate on how much the digital economy contributes to productivity growth. Some are still arguing that the productivity gains from the internet peaked more than a decade ago and use that to explain why growth has been less than impressive since. However, as the complementary evolution of artificial intelligence, automation, cloud computing, social media, 4G connectivity and Internet of Things advance they all contribute to productivity gains when viewed from a wider digitisation theme."

Eskom Meltdown

From Biznews 28/11/2017

"The folk at top rated money manager Allan Gray join the financial dots better than most. At Biznews we often refer to their graphic of South Africa's debt-to-GDP ratio – which shows a 45 degree rise from virtually the same day Jacob Zuma took office.

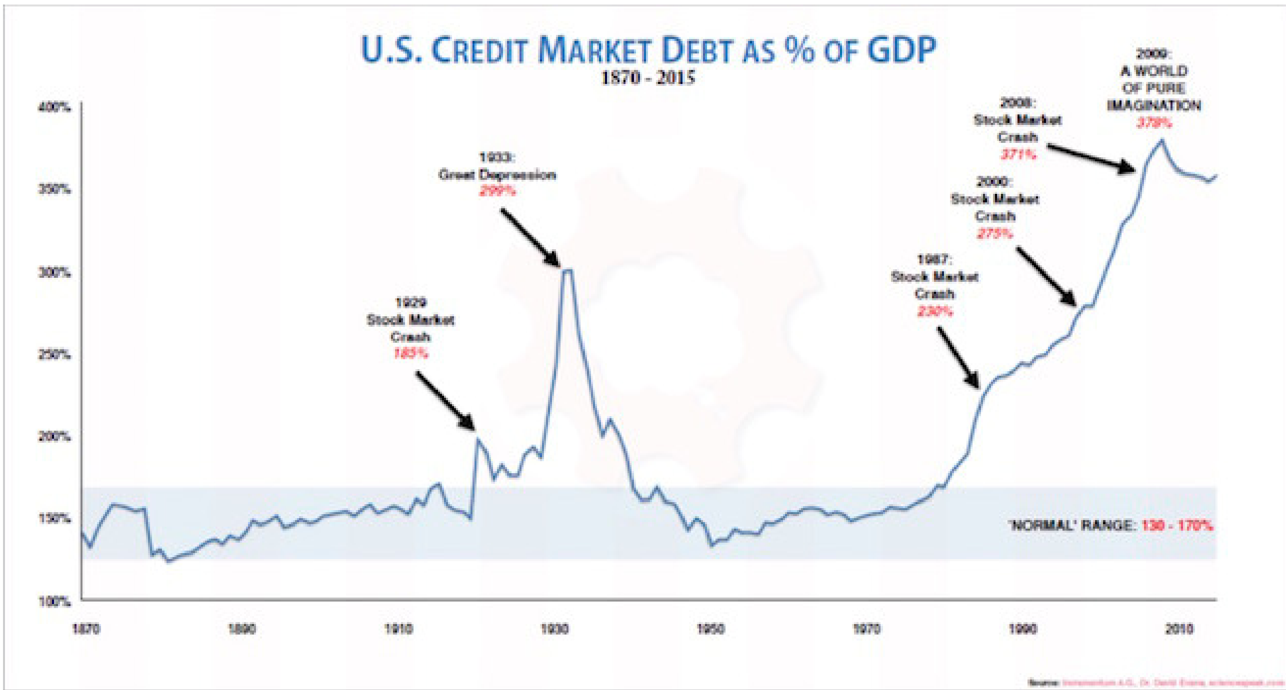
Allan Gray's chief investment officer Andrew Lapping did so again during a recent roadshow, this time drawing numbers from Eskom's own annual reports to expose the extent of the mismanagement at South Africa's electricity providing monopoly.

Lapping pointed out that in 2003, Eskom employed 32,000 people. Today that number stands at 47,600, up almost 50%. The average annual salary of each Eskom employee has risen from R220,000 to R785,000 – massively over the inflation rate (R400,000).

But here's the real crunch. Eskom's electricity production is the same as it was in 2003. In other words, today it employs 50% more people and pays them almost double the real wages of 14 years ago. Yet they deliver the same amount of power. That's called a productivity meltdown. No mystery to why taxpayers are expected to keep coughing up billions in bailouts."

U.S. Credit Market

From John Mauldin 25 November 2017, *Thoughts from the Frontline*: An interesting chart of the US Credit Market by Grant Williams.



Mauldin's comments are: "This chart is straightforward: It's outstanding credit as a percentage of GDP. Broadly speaking, this is a measure of how leveraged the US economy is. It was in a sedate 130%–170% range as the economy industrialized in the late 19th and early 20th centuries. It popped higher in the 1920s and 1930s before settling down again. Then came the 1980s. Credit jumped above 200% of GDP and has never looked back. It climbed steadily until 2009 and now hovers over 350%.

Absurd doesn't do this situation justice. We are mind-bogglingly leveraged. And consider what the chart doesn't show. Many individuals and businesses carry no debt at all, or certainly less than 350% leverage. That means many others must be leveraged far higher.

Now, the usual economic pundits tell us that the situation is safe and under control and that we all have plenty of cash and cash flow to be able to handle this load of debt. Worrying about debt is so 1900s, they say. And they may have a point, in that many of us are able to use debt in responsible ways. But how about that $1.2 trillion in student debt?

While lending has been a very lucrative business in recent decades, it's hard to believe it can last. At some point we must experience a great deleveraging. When that happens, it won't be fun."

Bitcoin

Many clients ask us about Bitcoin. Because there are no fundamentals to analyse, we cannot express a meaningful opinion. It might double, or it could halve – it is a bit like going to a casino and putting all your money on black on the roulette wheel. Herewith an interesting article from Fuller Treacy Money of 28th November. We found their comment at the bottom pertinent: about how fervent the bulls and bears are becoming, when, in reality, no one knows. Within a few days, it reached $10 000 and fell 20%. It is very volatile and unpredictable – not something in which we can invest our clients' money with any degree of certainty.

“This article by Julie Verhage, Eric Lam and Todd White for Bloomberg may be of interest to subscribers. Here is a section:

Bitcoin blew past $9,700 just a week after topping $8,000 and approached its closest ever to five figures, gaining mainstream market attention as it defies bubble warnings.

The biggest price jump since August consolidated during Japanese trading hours and vaulted the largest cryptocurrency’s value in circulation above the market caps of all but about 30 of the S&P 500 index members. The increase also buoyed its 10-day volatility to more than 15 times the level of the euro-dollar, the most traded currency pair.

Eoin Treacy's view

What I find interesting about the bitcoin market is how fervent the bulls are and how skeptical the bears are. It represents a perfect example of the sharp discrimination evident in a crowd as the polarization in performance between the winners and losers grows progressively wider.”

From Lost Decade to Golden Years: Euro-Area Economy Picks Up

Editor: South Africa exports a huge amount to Europe. It is closer to Europe than Australia is so much of its coal etc. is sent there. Our agricultural products mainly end up in Europe. Thus, it is important to South Africa that Europe should do well. Hence, this article that reflects that Europe is starting to prosper for the first time since 2008, is of vital importance to South Africa.

From Fuller Treacy 14th November 2017

“This article by Jana Randow for Bloomberg may be of interest to subscribers. Here is a section:

In a report on Monday, the International Monetary Fund said growth across the European region -- which includes the euro area as well as developing economies in central and eastern Europe -- is having a positive spillover effect on the rest of the world. It also said those brighter prospects accounted for the bulk of the upward revision to its global outlook in October.

For the euro area, economists surveyed by Bloomberg have raised their growth forecasts eight times this year. Data due Tuesday is predicted to show the region gained more momentum in the third quarter by expanding 0.6 percent, faster than the long-term trend, according to Bloomberg Economics.

“More than four years into the current expansion, most indicators signal the euro-zone economy is still somewhere around mid-cycle,” Talavera said. “Absent an unexpected shock, we should see several more years of economic growth.”

Eoin Treacy's view

The ECB has bought €2.373 trillion of government and corporate bonds since late 2014 and is only now beginning to talk about tapering. Government bond yields are at rock bottom levels and German yields are still negative out to 7-year maturities. The Euro collapsed as the introduction of QE was priced-in and even after an impressive breakout this year, it is still only a fraction of where it traded before 2014.”

RCI Unit Trusts

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

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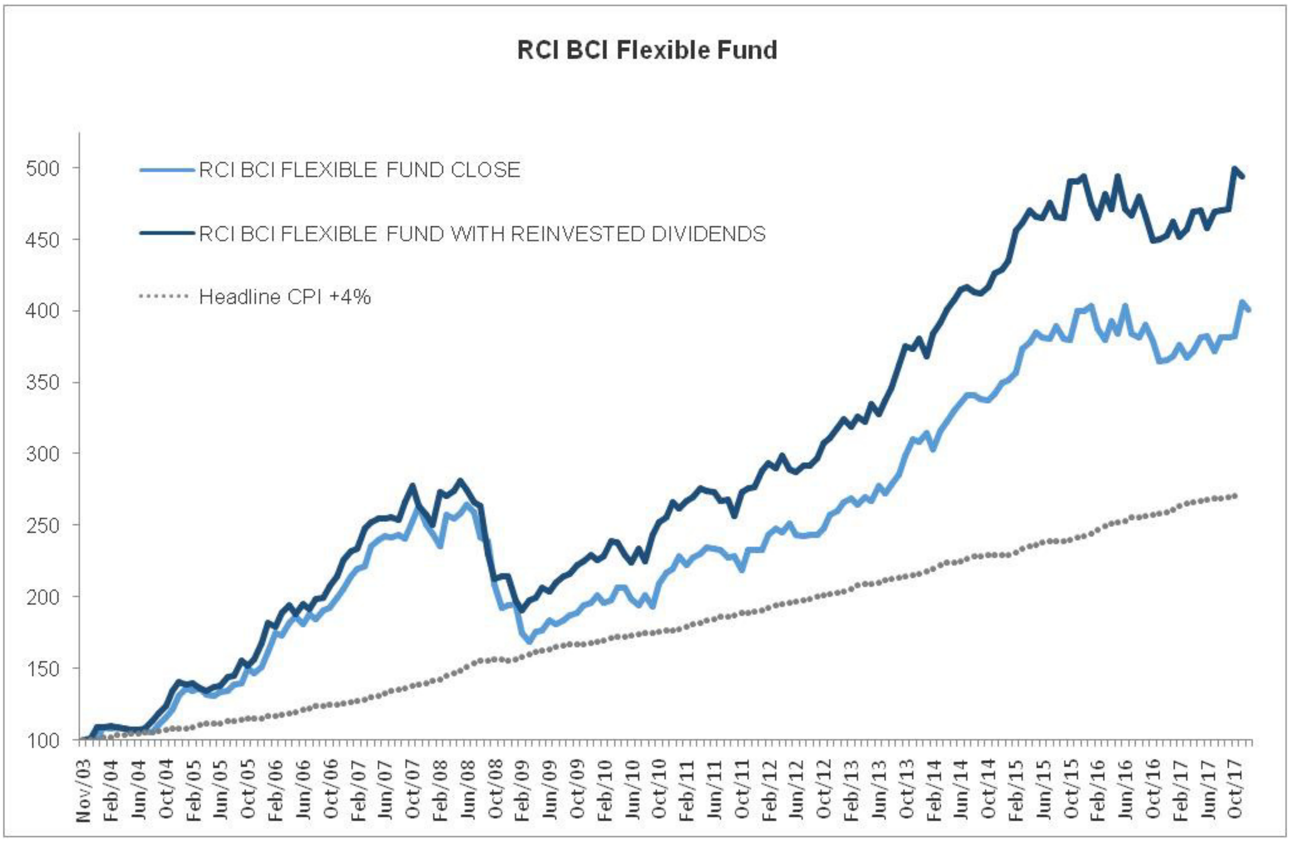
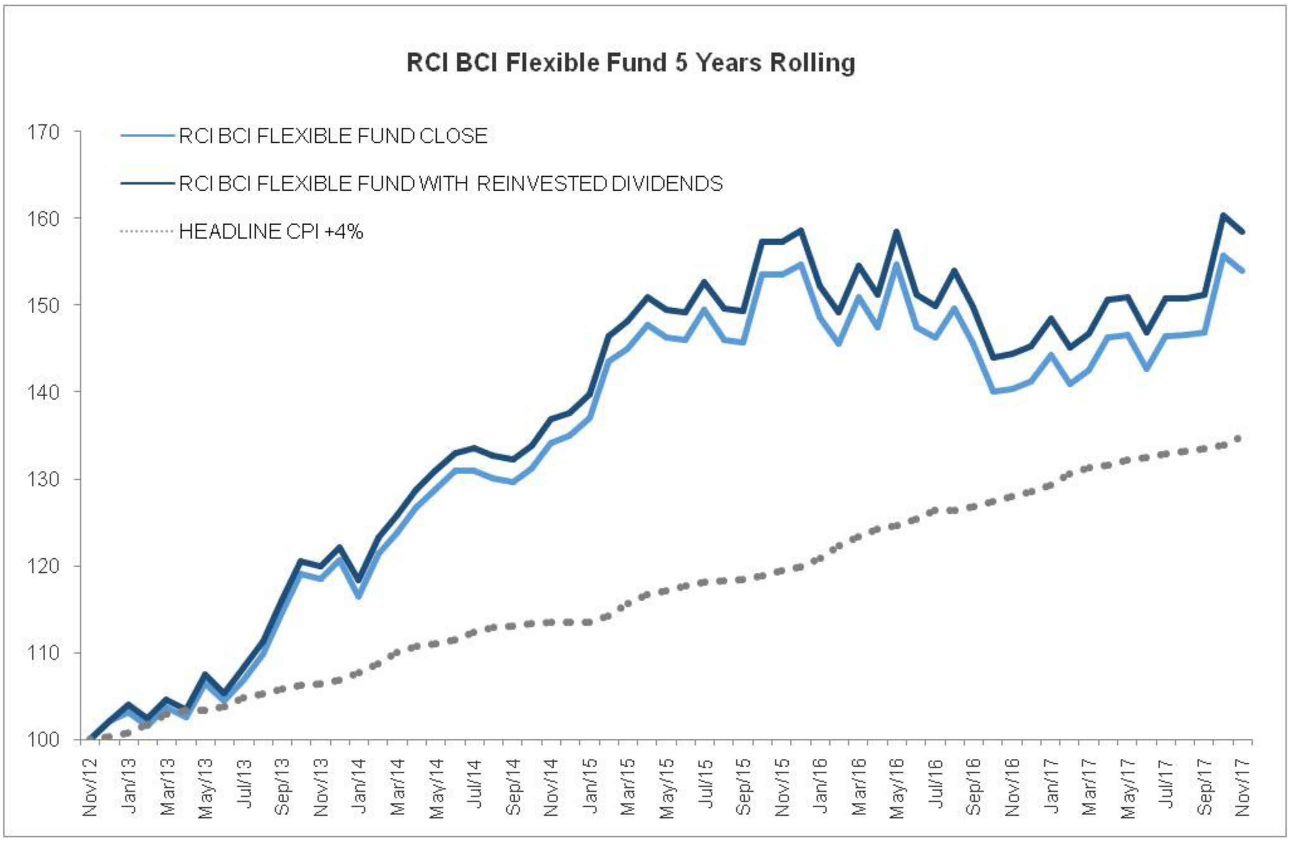
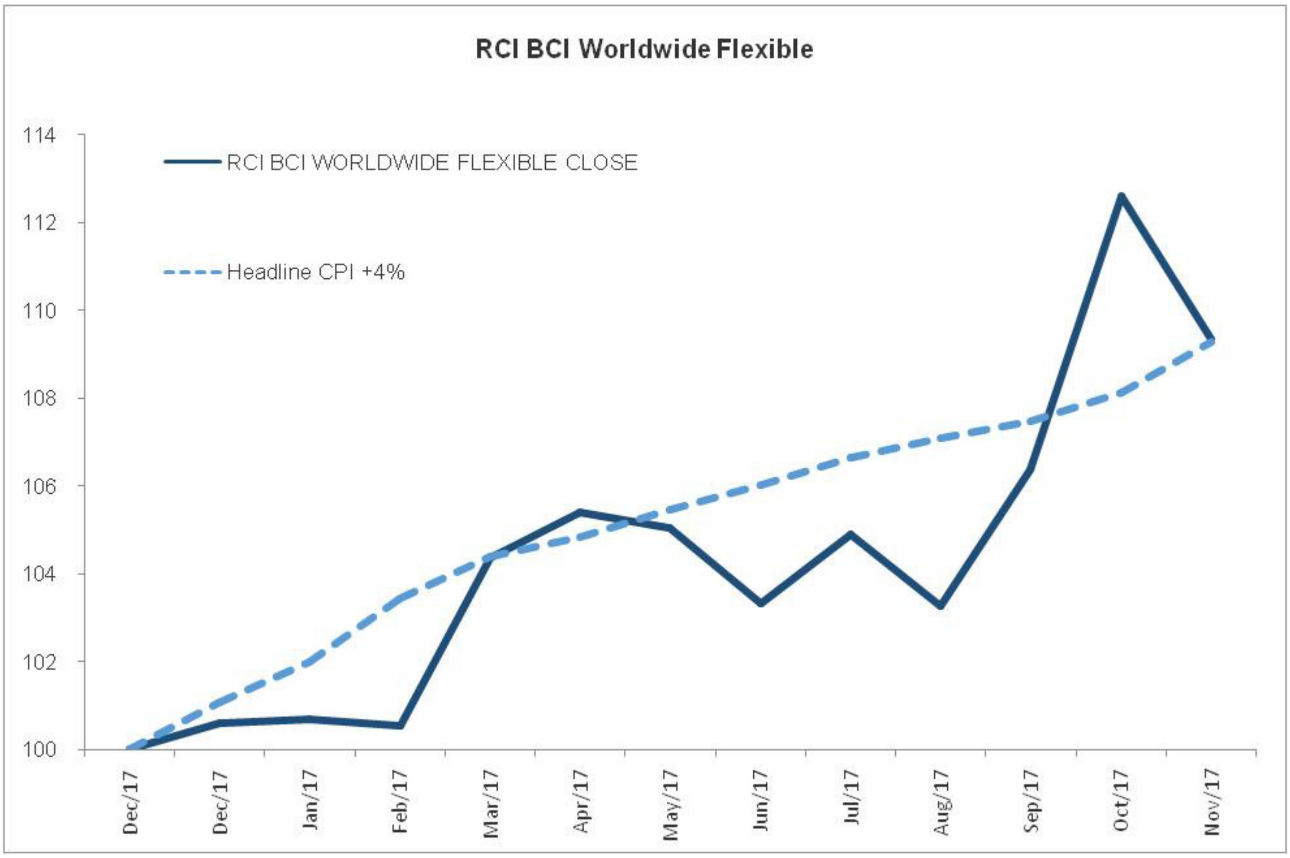




RCI BCI Flexible unit trust – up 8.9% in 2017

RCI BCI World Wide Flex closed November at 109.35, down 2.89% for the month as the rand got stronger. The fund is up 8.69% year to date.



This unit trust is invested in about 20 world-class companies. Most have a very high ROCE (return on capital employed) and strong, and growing cashflow. Most are household names such as Nestlé, Apple, Microsoft, Johnson & Johnson. When they get too expensive, we trim some off the top and seek to reinvest when the price stops falling. The growth in dollars has been good over the past 8 months so when the rand weakens, we expect the performance to be good.

RCI BCI World Wide Flex – short term performance

The graph is only available from May but the rand value has jumped over the past year from 100c to 109c. As we always say, when it comes to the rand collapsing, we would rather invest one year early than one day late!

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

Happy Christmas to you all. Once again, it has been an intriguing year! 35 years have come and gone, yet our focus remains unchanged. Our focus is to protect your capital against rand weakness in turbulent times and to be invested mainly in companies will good, reliable and growing dividends,

We provide continuity from one generation to the next, help you with your taxation and estate duty positions and provide input in how to structure you offshore investments and local trusts to best effect while, of course, charging you ridiculously low fees! It has been a privilege to see some families' wealth grow so many times over this period.

There were some interesting snippets in this newsletter, from an improving Eurozone, to the rising credit threat in the USA, to digital sales slowly, but steadily, changing the world economic outlook. To all of this, add in the intriguing political situation in South Africa. 2018, will, as always, be a fascinating year!

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

Thank you for being our clients.

Best regards

Di and Alan