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

"Winners never quit and quitters never win." ~ *Vince Lombardi*

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

Comment from Alan:

"I'm not going anywhere!"

March was an 'interesting month' - aren't they all?

We explain why we are happy to be heavily invested in Naspers and BAT despite their underperformance over the past three months. If we were not so heavily invested therein, we would be buying more.

The anxiety of equity markets

Peter Armitage of Anchor looks at the future of markets

"What is my tolerance for pain?"

Charles Bilello on Value Investing

Global trade tensions and volatility weigh on the JSE in March

Extracts from the Anchor Newsletter

Unit trust performance for March

Change of Name:

Please note that the FSB (Financial Services Board) is now called the FSCA – The Financial Services Conduct Authority.

Comment from Alan

I'm not going anywhere - just been hiding at home!

Hi everyone,

Last month we told you that we had appointed a new Chief Financial Officer, Mike Gresty, who will join us on 1 June. Some people have assumed that I have fallen off the perch as I have spent most of March working from home in an attempt to see if my balance might improve. I have visited another doctor whose view was, if I can translate him into 'layman's terms', that I have 'run out of petrol' having been on a 'caveman diet' with no sugar and minimal carbohydrates, He told me to put more carbs into my diet and to halve the 9 cups of vegetables daily (I could have kissed him!). He thinks I might have been over exercising considering my condition and I have now run out of energy. So over the next few weeks I am going to enjoy my new diet and endeavour to get a bit fatter. I did some serious damage to chocolate Easter eggs this weekend.

He has also sent me to a balance physio who is working out an exercise program for me.

If you see me fatter and flourishing over the next few months, you will know that his advice worked. I will also go to work more often. Staying at home, working on my computer, was good but one tends to miss the stimulation of colleagues and the new ideas which they generate.

To sum up my position: "Head good. Balance bad" remains my position and, if anything, my balance is even worse so I often use my mobility scooter to get me around faster. This, of course, means that I walk less so my balance deteriorates even more. As long as I am sitting down, I am fine but don't talk to me while I am walking because I am too busy balancing to comprehend your important request!

I am busy preparing a "manual for Mike" to ensure that he has the best possible start and that his attention will be on finding great investments for the future in shares that should grow their dividend income solidly while trying to avoid shares with abnormal risk. This man is really smart, well trained and experienced. I expect him to be fully trained up as quickly as possible. I wish I had had similar training when I took over the job!

I hope to be around for many years yet, but at least we have a plan in place with Mike now joining us. We expect him to have the talent to take this business to 'another level'. (As you can tell, I hate people who generalise or make fashionable statements).

March was an "interesting" month - aren't they all?

In March, world markets had another abrupt fall of about 2.7% (the S&P 500) but remain just above February lows. After a 20% rise last year, this is hardly surprising. The JSE gave up a bit of its love affair with Mr. Ramaphosa and the rand stopped improving. Where do we go to from here? Portfolios remain in good shares with plenty of rand hedges. The market has moved in lock-step with Naspers since the end of November.

We seek to find you shares paying dependable dividends that rise, or at least don't fall much. Over time, as these dividends rise, share prices should rise too but in the short-term, share prices can do anything - look how well our strategy was paying off until the end of November, only to be somewhat deflated by the markets euphoric welcome of Mr. Ramaphosa. When Naspers and British American Tobacco turn up, as they are showing first signs of doing, things will rapidly improve. Both have turned down by over 20% since November, but remain great companies which should excel over the next few years. Note how every time they have fallen below their 200-day moving averages, it has been a great time to BUY, not sell.

We have marked these past buy opportunities in Naspers with a red arrow. This latest drop should be a similar buying opportunity. It is human nature to want to sell at the bottom (because the fear that something that has fallen so much will continue to fall) whereas in a fine company, this is time to BUY.

Have a squiz at the graph of British American Tobacco, one of our biggest holdings which pays high, and growing, dividends. One is about to get the fifth (and best?) buying opportunity in the past five years. It has currently fallen to 20% below its moving average, so a rise of 30% over the next year or so, plus a good dividend, is what we expect.

The anxiety of equity markets

Peter Armitage, Anchor

We might be able to do a mean spreadsheet, but that does not mean we are definitely going to make you money right now. That's because the market does not know about our spreadsheets and often the value that we calculate for a company is very different from where a share trades - at least in the short term.

This is one of the factors that often makes our jobs incredibly frustrating, but equally fascinating. There are many dynamics that influence a share price and varied skills that are required to "make the right call". In order to invest on the stock market at the very least you should be smart, analytical, balanced, intuitive and, most importantly, patient. And a little bit of luck also helps at times!

As custodians of people's wealth, our primary mission is to make money (with the appropriate risk etc. etc.). We wake up in the morning thinking about shares and we spend most of our day digging through information and vigorously debating economics and companies. Nothing brings us greater joy than seeing a share price rise and nothing makes us more anxious than a plummeting counter or simply not delivering the returns that we would expect as a client.

There are times when it just seems easy and the runs flow and then there are times when it's just downright difficult. That's the story of the market over the last few years. An equally weighted FTSE JSE Top-40 portfolio has now been flat for three years and the FTSE JSE All Share Index return over the same period has been a paltry 5% p.a. It's not a disaster, but it's just plain boring. However, this is exactly when we shift up a gear and our collective skills and experience become critically important.

So how do we respond?

First, with the understanding of context. In a 24-year career, I have personally been through several periods of equity market fatigue. It was never right to lose faith in the market. Staying invested and being in the right shares always delivers a great return over time. I always get reminded of that when I look at older share portfolios and observe the value created by owning a growing company over time. Over the last 15 years, JSE investors have, on average, made 17.5% p.a. (that's 1000% return!) and many great companies have delivered much more than that. I remember writing a report on Naspers at R16/share and Capitec at R20/share. This is the place to make money. It sounds simplistic, but the longer the market goes sideways or down, the better the chance of a great future return.

Second, we respond with passion. There are always ten shares that are going to give you an outsized return over the next year and it is our job to find them. Our analyst team hits the road and visits swathes of companies, digests the analysis and finds future gems. Opportunities are created by the performance of a company or the mispricing of a share. When the market has been moving strongly upwards it is often harder to find the latter. Equity investment is the world we chose to live in and we love what we do.

Third, we respond with patience and sticking to the plan. As we indicated earlier, shares don't always move logically and often returns come when you least expect them – nobody has the ability to predict exactly *when* returns will materialise. Our philosophy is to invest in companies that are growing and that can reinvest capital at a high return, generated in cash. If we can find these companies and identify appropriate entry prices, the underlying value of your investment will go up every year. Share prices sometimes run ahead of this underlying value and sometimes they lag but, over time, share prices follow earnings.

Fourth, we respond with a level head. We don't panic, and we always bear fundamentals in mind. Knee-jerk reactions are usually wrong. We also seek opportunities where sentiment and emotion depress prices.

It's also worth putting into context the performance of the market over the last year or so. There are two important drivers of the SA market – Naspers (given its weighting in the overall index) and the currency, especially since c. 50% of SA earnings are generated in currencies other than the rand. Running into the end of 2017, local economic prospects looked dire and "SA Inc." shares were battling – the biggest positive drivers of the market were Naspers and the weaker rand. With a reversal of the Zuma economic drag as a result of Cyril Ramaphosa's victory at the ANC elective conference in December 2017, the currency has strengthened remarkably – from over R14.50/$1 to levels well below R12/$1. This resulted in a reversal of 2017 conditions. SA Inc. shares have performed very well, but this has been more than offset by the negative moves in Naspers and rand-hedge shares. A perfect storm, in a sense, with the negatives outweighing the positives in both instances, with a muted aggregate outcome.

However, nothing lasts forever and we know that the currency will weaken over time and that prospects for SA companies have improved markedly, with the risk being the time it takes for this to materialise.

So, we will carry on doing our spreadsheets and keeping a keen eye on fundamentals, which enables us to invest with conviction. And we will apply an overlay of the other skills we have learnt over time. A healthy dose of anxiety is also not a bad thing. But most of all we will be patient and the returns will come. Our SA equity fund has now compounded at around 15% p.a. since its inception just over five years ago, but recent returns have been more muted. We are working hard to try and repeat that performance over the next five years.

"What is my tolerance for pain?"

Charles Bilello of Pension Partners (20 March 2018)

So you want to be a value investor, like the great Warren Buffett. A worthy goal, to be sure. But before going down that road you may want to ask yourself the following question:

What is my tolerance for pain?

You read that word correctly: pain. To be a great value investor, or any investor for that matter, you need to be able to tolerate a high degree of pain.

What kind of pain? Emotional, psychological and at times physical pain stemming from loss, regret, and humiliation.

Global trade tensions and volatility weigh on the JSE in March

Extracts from the Anchor Newsletter

A surge in volatility, the sell-off in US tech shares and the possibility of a trade war weighed on global markets in March as US President Donald Trump's move to impose tariffs on Chinese goods (and China retaliating by announcing tariffs on c. 130 US products), rattled markets. Trump's criticism of Amazon, the Facebook data breach scandal and the possibility of US government regulation of the tech sector also conspired to pull markets lower. For March, the Dow Jones Industrial Average lost 3.7% MoM (its second straight negative month after February's drop which followed a 10-month rally) and was down 2.5% for 1Q18. The S&P 500 fell 2.7% (-1.2% for 1Q18) and the Nasdaq, like the Dow and the S&P, also posted its second straight monthly decline (-2.9%, its biggest monthly drop since January 2016). For 1Q18, however, the index is still up 2.3% - its seventh straight quarterly gain and, according to *CNBC*, its longest winning streak since a 10-quarter rally that ended in 2015.

In a widely expected move, the US Federal Reserve's Open Market Committee (FOMC), at its first meeting with Jerome Powell at the helm, raised interest rates by a quarter point last week. In terms of economic data, US consumer price inflation (CPI) rose in February with annual inflation moving closer to the Fed's 2% target and its strongest level in 12 months, which could encourage further rate cuts this year. In addition, February's personal consumption expenditure (PCE) price index (the Fed's preferred inflation gauge), advanced 0.2% MoM and 1.8% YoY. Excluding the volatile food and energy categories, PCE also rose 0.2% MoM but by 1.6% YoY (its highest level in 10 months).

On the commodities front, Brent crude rose 6.8% MoM after surprisingly large drawdowns in US crude stockpiles, while the gold price advanced by 0.5% and platinum ended the month 5.3% down at $930.28/oz. Iron ore spot markets were lower on the back of subdued China construction activity and some production limitations along with concerns around the possible impact of global trade tensions.

Global market jitters saw the FTSE JSE All Share Index ending the month 4.9% lower (down 6.8% in 1Q18). Market heavyweights such as Naspers, FirstRand, Glencore and BHP Billiton, which together account for c. 31% of the JSE's total market cap, all posted MoM declines (down 11.6%, 9.5%, 7.4% and 3.8% MoM, respectively), on the back of lower international markets and weaker commodity prices. The lower resources prices pulled the Resi-10 2.9% down for the month (-4.4% for 1Q), while Industrials closed 6.0% in the red (-9.2% in 1Q) and financials, down 4.4% MoM (and 1.8% in the quarter), gave back most of February's gains.

Locally, optimism around newly sworn-in President Cyril Ramaphosa continued to contribute to the SA economic recovery as investor and consumer confidence improved. Ramaphosa has been moving quickly, first reshuffling his cabinet in February and firing (or demoting) several Jacob Zuma allies while also reinstating Nhlanhla Nene as finance minister. National Treasury also took the politically fraught decision in its 2018 budget to raise value added tax (VAT) for the first time in 25 years - a move seen by investors and ratings firms as necessary. Finally, in late-March, Ramaphosa suspended another key Zuma ally - head of the SA Revenue Service (SARS), Tom Moyane.

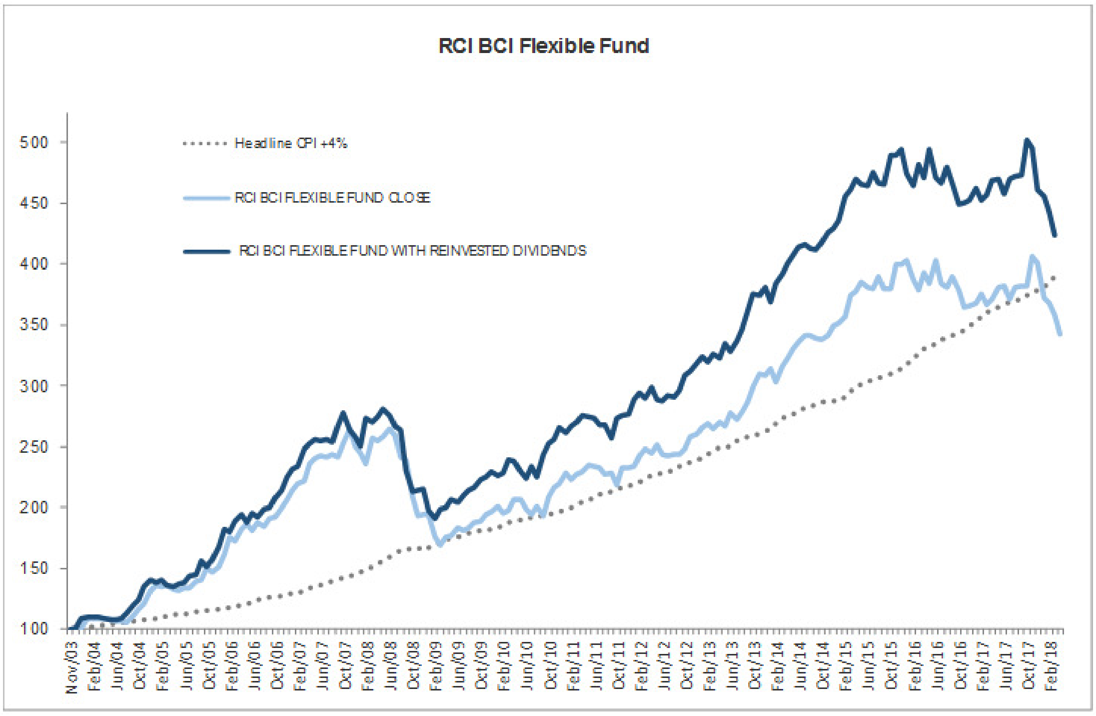
More good news came as SA escaped a third junk rating when Moody's affirmed its investment-grade credit rating and revised the country's credit outlook to stable from negative. Moody's said that a weakening of national institutions was gradually being reversed under the new ANC leadership, supporting an economic recovery.

In a move welcomed by debt burdened consumers, the South African Reserve Bank (SARB) cut its benchmark interest rate by 25 bpts last week (the first since July 2017). SARB Governor Lesetja Kganyago said that since the previous Monetary Policy Committee (MPC) meeting, risks to the local inflation outlook have subsided somewhat as the currency "… reacted positively to domestic political developments in the past months and was given further support following the recent sovereign credit rating announcement,". MoM, the rand retreated slightly against the greenback – down 0.4%. The rate cut also provided some respite to consumers under mounting pressure following the 1% VAT increase (effective 1 April) and the hike in the petrol price.

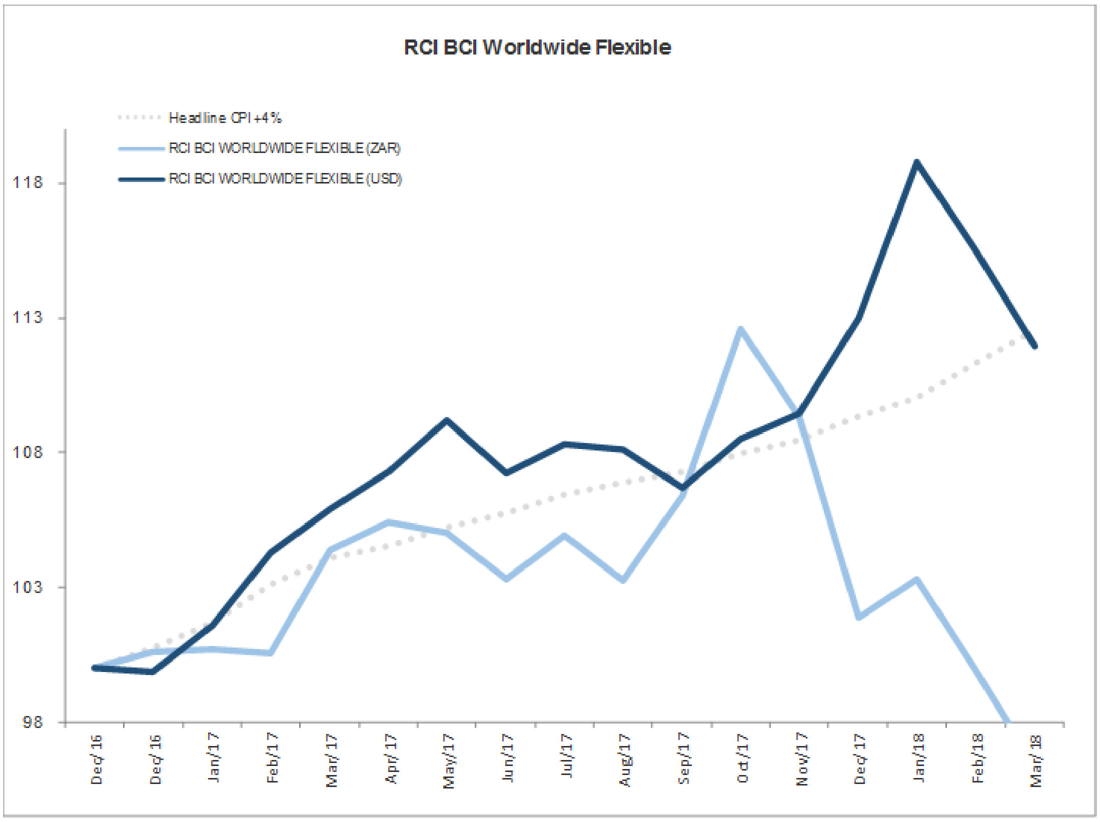
RCI Unit Trusts

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

RCI BCI Flexible Fund closed March at 342.62, down 3.89% for the month. This compares with a 5% fall in the JSE Overall Index for March. The rand seemed to have bottomed out during March.



RCI BCI World Wide Flex closed March at 96.39, down 3.6% for the month. The fund was down 3.6% for the month, caused by the drop in the foreign markets. The investments are mainly in foreign companies with very high ROCE (return on capital employed) which has normally resulted in fantastic returns with low risk investments. The S&P 500 was down by 2.7%, so a similar performance was achieved.



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

Sticking to the basics is normally the best thing to do in uncertain times. The honeymoon which Mr Ramaphosa enjoyed after becoming President continues and Moody's did not downgrade us. There are a few cracks e.g. Eskom and the consideration of land reform without compensation. Thus, we question if the rand will remain this strong. In this letter we highlighted why we think Naspers and British American Tobacco (BATS) remain great investments. We think that they will be considerably higher in share price in five years' time and the roughly 6% dividend yield in BATS should increase. These are the kind of shares we like to be heavily invested in, even if they have underperformed over the past three months. The wheel turns. Sometimes, the revolution is a bit slower than expected, but it turns … and then speeds up even faster than expected.

Thank you for being our clients.

Best regards

Di and Alan