Robert Cowen Investments

Growing families' wealth since 1982

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Newsletter

end November 2018

6 December 2018

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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

"We can only reach the long term by first surviving the short term."

~ *John Authors*

"You can never plan the future by the past."

~ *Edmund Burke (18th Century)*

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

RCI BCI Flexible Fund closed November at 339.82c, down 3.2% while the JSE Allshare was down 3.3%.

RCI BCI Worldwide Flex closed November at 110.67c, down 5.6% for the month.

November market moves.

Al, Di and Mike's year-end speeches - all written individually with no collaboration and surprisingly all with a similar theme.

Robert Cowen Investments will be closed from the 24th of December from 12:00pm and will reopen on the 2nd of January 2019.

Please send any requests for payments through to us by Friday 21st December 2018. As Michelle is on leave from 13th December 2018, please email requests to Christine and Di.

We wish you all a

Festive Holiday Season

and a

Happy New Year

November market moves

After a particularly punishing October (the MSCI World Index was down 7.3% in October alone!), we saw a rather tentative recovery in November - the MSCI World Index was up 1.2%, while the US equity market was up 2%, with investors awaiting the outcome of the much anticipated meeting of Donald Trump and Chinese President, Xi Jinping, at the G20 summit at the end of the month.

The rand was a surprise in November, strengthening 6%. Because of the large offshore component of the South African equity market, the strength of the currency weighed on the SA equity market performance, with the JSE Allshare down 3.3% in November.

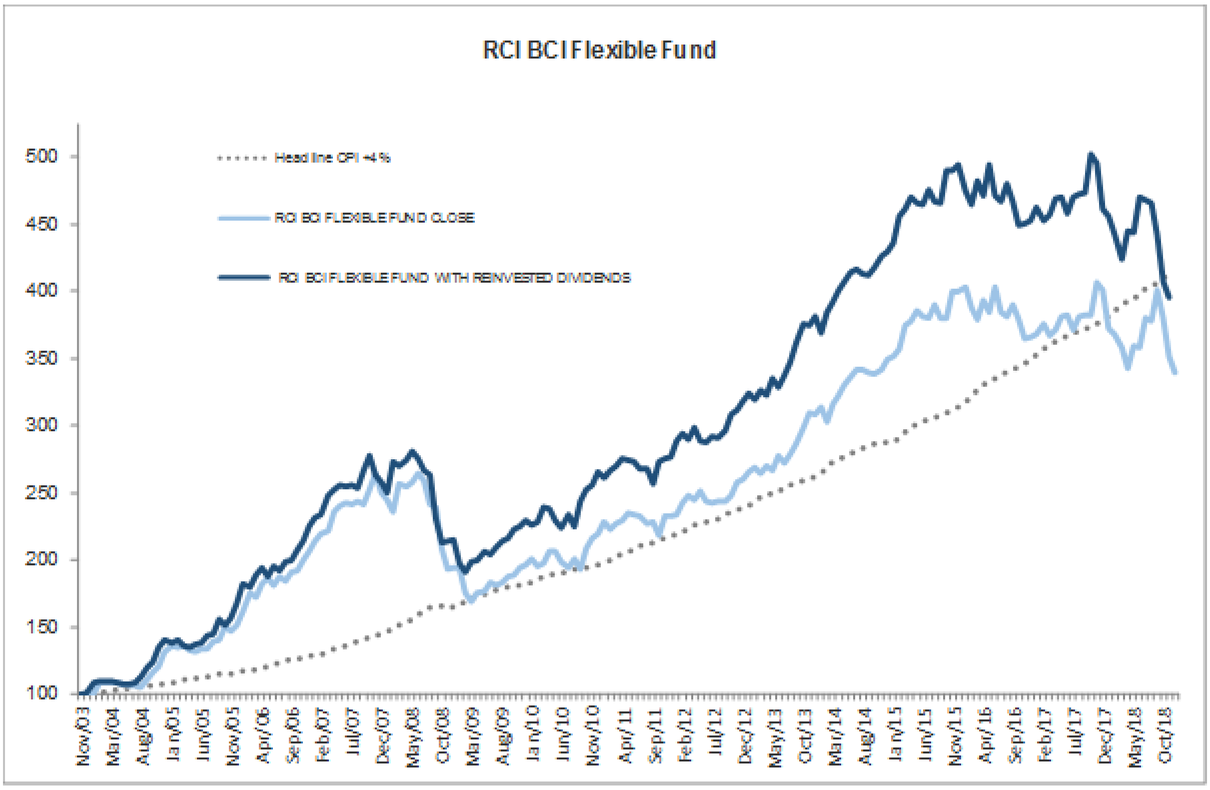
At the moment, we are experiencing unusually high levels of volatility, with the investment world seemingly fixated on clues gleaned from Donald Trump's Twitter feed.

It is perhaps a good time to allow the distraction of friends and family around us at Christmas to avoid being whipsawed by such news.

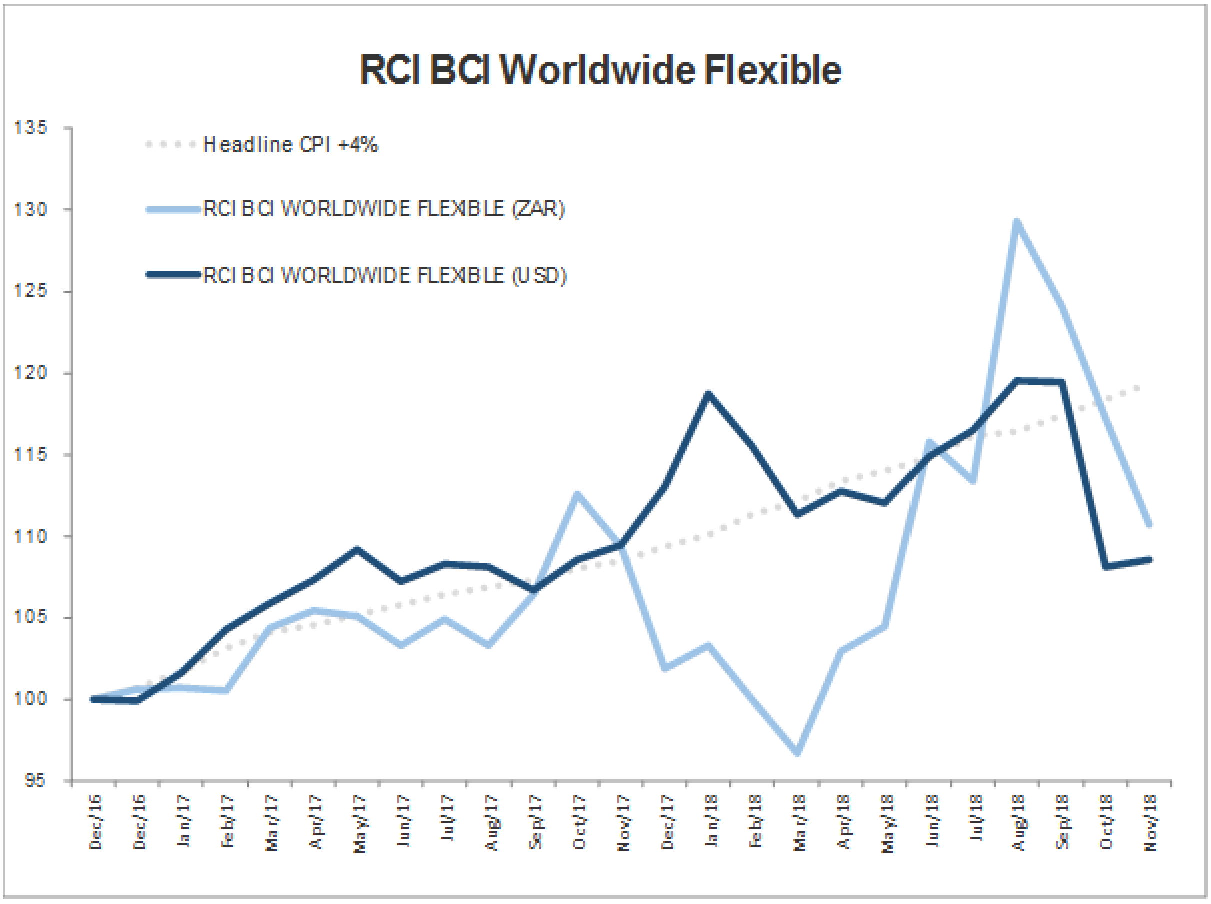
RCI Unit Trusts

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

RCI BCI Flexible Fund closed November at 339.82c, down 3.2% largely in line with the performance of the South African market.



RCI BCI Worldwide Flex closed November at 110.67c, down 5.6% for the month. The strength of the Rand more than offset the positive US Dollar performance in the month.



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.

2018 Christmas message from Alan McConnochie

"More than any other time in history, mankind faces a crossroads. One path leads to despair and utter hopelessness. The other, to total extinction. Let us pray we have the wisdom to choose correctly."

This sounds very ominous until you realize it was said by Woody Allen in 1979! That is 40 years ago, and world has survived just fine.

Since the world began, predictions of its demise have proliferated. One day, this prediction will prove true - but not tomorrow. Prophets of doom have been famous but they've all been wrong. The stock market is similar: there are many prophets who believe the end is nigh, but in the end, they have all been proven wrong and history shows it is best to invest in great companies and bugger on. Within a year or two, the market always recovers and the previous crisis becomes yet another blip in the upward progress of the long term graph of the market.

After the world expires, there will be no need of investments so there is not much point in worrying about it. Until the world ends, the logical thing to do is to learn from history and to invest after a big fall in the market in great companies that should continue to do well in the future.

For some years we have given the boring advice to "live in the sun but invest in the shade", in the belief that South Africa and the Rand would do worse than America and the dollar.

In 2018 the JSE Allshare has fallen 15%. In contrast the S&P 500 [the main American stock market] has risen by 3% in dollars and by 16% in Rand. This is why we keep saying that investing offshore is essential. We expect that the JSE Allshare and the Rand will continue to battle. I have bored you to tears telling you that the resources cycle should remain poor until about 2032, keeping the pressure on South Africa. The chance of South Africa being downgraded to junk status remains very high. The end result is that the American markets should continue to outperform.

What is the outlook for 2019?

The South African market will be influenced by what happens to its largest share, Naspers, which makes up about 20% of the JSE. Naspers has its main investment in Tencent in China. Will Donald Trump cease his trade war with China? Next weekend Trump meets with the Chinese leader in an attempt to resolve this problem but this might take many months. Thus, although Naspers appears to offer very good value, it may take time for this to emerge and for American investors to start buying Chinese shares again.

Among other large South African South African shares are British American Tobacco and Richemont, both of which now appear to offer good value. However, it is probable that the trade war must end before these share prices resume their upward march. The outlook for truly South African shares remains cloudy although we should expect a little improvement in 2019.

The outlook for American shares is more promising. Very seldom does a drop in shape prices continue if the US economy remains strong. Currently, the outlook for the US economy remains strong for the next six months at least. The shares in which we have invested your money, are mainly in low risk, high return companies who earn a substantial profit on undistributed profits which they reinvest. This low risk, high return method of investing is, we believe, the safest way to invest your funds.

I apologize for not being here today but I have just had a carpal tunnel operation which prevents me from using crutches or my walker thus I cannot manage steps for the next week or two. However, I am always with you in spirit.

2018 has been a tough year in the markets but history shows that the following year normally rebounds. Dividend flows have remained strong in your portfolios and we are waiting for capital growth to resume. There is no reason to believe that this will not happen in 2019. I wish you a Merry Christmas and a very successful new year.

Best regards

Alan McConnochie

2018 Christmas message from Mike Gresty

With Al having given his sage advice in these tricky times, as well as provided a broad overview of what he expects for the year ahead, I thought I would add a few brief observations on market performance this year and sharing some perspectives on how we are thinking about the major regions…

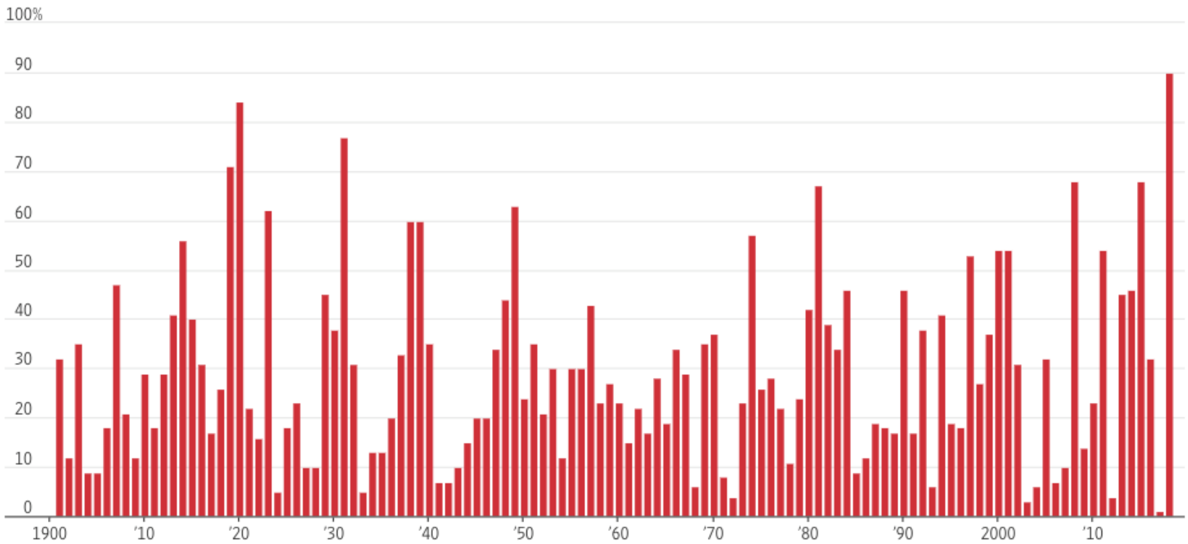
2018 – the year almost nobody made any money

With hopes of a "Santa Claus rally" fading as the Twitterer-in-Chief (or "Tariff Man" as he is now calling himself) resumes his China-bashing, a whistle-stop tour of global investment markets in 2018 looks as follows:

- The US has been the only story going - the two main indices – the S&P 500 and Nasdaq have delivered total returns of 5% and 7% respectively.
- The positive performance in US markets has been thanks largely to a small highly concentrated group of shares - 85% of the performance is explained by the FAANGs (Facebook, Amazon, Apple, Netflix & Google) + Microsoft.
- All other major Developed Market stock indices around the world are down with several falling in excess of10%.
- Of the 24 Emerging Markets that make up the MSCI Emerging Markets index – only 3 were positive and many of the rest were down <20%. The positive ones have big oil/gas exposure – UAE, Qatar, Russia – EM has been the real pain trade this year.
- Deutsche Bank produced an interesting long-term view. It tracks the performance of 70 asset classes in which one could invest. The chart shows the proportion of those that have delivered negative returns. At 90%, this is the highest proportion since 1901!

Under Pressure

A record share of asset classes have posted negative total returns this year, according to Deutsche Bank data going back to 1901.



Note: Returns are in U.S. dollars. Data for 2018 are as of mid-November.
Sources: Deutsche Bank; Bloomberg Finance LP; GFD

Turning to our thoughts on the major regions…

Europe:

We have limited exposure to this region and see little compelling reason to change this:

- In the **short-term**, Europe carries serious unresolved issues into 2019 - namely Brexit and the Italy budget stand-off.
- Longer-term, we see Europe facing structural issues:
  - An ageing population,
  - few world class companies exposed to growth areas of today – digital in particular.

Interestingly, the EuroStoxx 50 (the index of 50 large companies across Europe) is below the level it was 20 years ago.

US

As noted earlier, the US was the only story going story going for much of 2018. Valuations became quite stretched around August/September.

In the **short-term**:

- the recent market correction has brought valuations back to more reasonable levels – trading at 15.4x expected earnings, the valuation is around the average of the last 10 years.
- Concerns around interest rate increases have abated.
- Earnings growth expectations for the coming year (8% currently) looks supportive.

In the **long-term** – the US appears in many ways the antithesis of Europe – large/less fragmented market, less regulation driving dynamic, more competitive companies which dominate growth sectors today.

Emerging Markets

As I said earlier, this was that pain trade in 2018. From here though, perhaps this quote from one of the best-known investors in Emerging Markets over many years - Sir John Templeton – sums up where we are today:

> "You make the most money when things go from truly awful to merely bad."

It is, of course, dangerous to lump all Emerging Markets into one basket. However, the valuation gap relative to Developed Markets is at long-term extremes. It looks like "truly awful" is closer to being priced in after a multi-year bear market for many EMs. When one considers their younger populations, and better economic growth prospects, EM may well attract renewed investor interest in 2019. However, a clearer path towards resolving the current US/China trade dispute will likely be required before this begins in earnest.

South Africa

Long-term – The structural challenges that SA faces will require reforms that are painful and unpopular. We doubt that the broad church of ideologies that is the ANC has the cohesion or the will to undertake such reforms. We hope we are wrong, but until there is clear evidence of this, our preference remains to diversify offshore – or as Al aptly put it – "live in the sun but invest in the shade".

Short-term – One needs to remain objective despite the tough grind over the last few years – some possible signs of green shoots out there:

- The average valuation of the Top 40 listed companies in SA has fallen from 16x expected earnings at the beginning of the year to 12.5x today.
- Recent rand strength provides some respite for the consumer – starting with a lower fuel price.
- As an indicator of pent-up demand, SA consumers have been net-savers for the last 2 years, having been net borrowers throughout most of history.
- Elections should give a popular mandate to Ramaphosa to "grasp the nettle" more firmly:
    - Reform the leadership in state-owned institutions
    - Weed out the under-performers in Cabinet
    - Prosecution of those responsible for state capture

Should this coincide with increased international investor interest in Emerging Markets more generally, SA may well stand out as a notable "self-help" opportunity.

Of course, there are risks to this: will Eskom's load-shedding torpedo SA's return to growth seen recently; will SA avoid a further credit rating downgrade; what political risks await us in the lead-up to national elections?

Remain objective and keep the sage advice of Al and Sir John in mind!

From me, may I conclude by wishing you a safe and enjoyable Festive Season and hopefully we return to see the stars continue to align for a more prosperous 2019!

2018 Christmas message from Di Haiden

And now back to the future!

Thanks to Mike and Alan for their enlightening discussion on investments – as you can hear, 2018 has been a difficult and testing year! You have now heard our thoughts and comments on the markets and our expectations so am not going to provide any more insight on that now that you have heard from the best! So, I'm off on a different tack!

I started working in the investment world many years ago and was fascinated by the ebb and flow of markets, the ever changing cycles and, at that point in time, the JSE was the world we invested in. Well, things have developed since then and we now have access to all the global markets and a myriad of investment opportunities – it's now a 24x7 job!

That means that I wake up every morning and the first thing I do is grab my phone to see what's happened to the Rand and how the Asian markets are doing, then I go to work and spend the day checking what's going on in SA, then the US markets open in the afternoon so I start monitoring them and last thing before I go to bed I check on how the US markets are doing as they go into the close. In addition, Bloomberg and Yahoo finance have become compulsory reading as one tries to stay abreast of the myriad of economic and financial news that flashes across our screens.

Yesterday, I asked myself why do I do it?

Well firstly it's now in my blood (thank you Robert!) and has become part of life.

But there is more to it than that and what I am actually doing is watching history unfold in order to ascertain what's going to potentially happen in the future; history takes me back to the future!! As examples, if the US markets have closed in positive territory overnight it is likely that the following day our market will do the same, and if the Rand has strengthened our rand hedge shares are likely to weaken. The longer and the more you watch the easier it becomes to pick up the trends that are unfolding.

I am living in the present, but using the past to understand where the future is going. At RCI a large part of our modus operandi is to do exactly that. We glance behind us ALL the time, whether it's looking at the investment performance of your investments, market movements, your portfolios and their capital gains, unfolding economic and political events - the list goes on and on. We then use all this 'gathered' data and decide how to invest for the future and hopefully have more successes than failures. We know we don't always get it right and, quite frankly, this has to be the most humbling job as you can be riding the crest of the wave and be dumped pretty quickly when you thought you had been so smart!

In addition, a very important aspect of all of this is that the longer you are our clients the better we understand what your history is, what your needs and requirements are and understand how to invest for you for your future. We take cognisance of each of your individual circumstances in reaching the conclusions we do on investment strategy.

Of course, there are always curved balls which we have to watch for and some of them one can see coming but often one does not – example; Trump tweets would qualify here!! Then again life can blindside you and throw you completely off course, but one usually returns to the status quo in time OR if the 'blindside' event does not pass you learn to cope with it – it's how you cope with it that is important.

So, in summary, at RCI we use history to determine the future path of what you should be invested in; I repeat, history takes me back to the future! If I look at portfolios when I first joined Rob they were full of gold and mining shares, now the portfolios have virtually no gold and very little mining – we have had to adapt the strategy to the changing environment we find ourselves in. We are always going BACK TO THE FUTURE and, as mentioned by Mike, are hoping for a better investing environment next year!

I would like to thank our staff for all they have done this year; it's been a hard year and they have coped admirably. On my history theme many of them have now been with us for a significant period of time, and some of them even leave and come back!!

Thank you to all of you for being part of our team

Of course, one of the biggest things that happened this year is that Mike joined us as CIO to assist Al. For Mike it has been rather a baptism of fire, but he has coped incredibly well and is already making a great contribution to our investment process.

Thank you to Al and Mike for their contribution to RCI; to Al for the way he, as he puts it, continues to 'bugger on' under difficult circumstances. Thank you to Mike for choosing us and we look forward to working together for many years.

And finally, thank you to all of you for being our clients, we wish you happy holidays and a wonderful festive season. Thank you!

To conclude

We wish you all a happy festive season, safe travels and look forward to 2019 and whatever it has to offer us!

We hope to be the best family office in the country!

Best regards

Di, Alan and Mike