Robert Cowen Investments

Growing families' wealth since 1982

Authorised Financial Services Provider FSCA Licence No. 701

Newsletter

end January 2019

6 February 2019

Contact us:

Alan McConnochie
+27 11 591 0551
083 378 3463
alan@rcinv.co.za

Di Haiden
+27 11 591 0572
083 308 7928
di@rcinv.co.za

Mike Gresty
+27 11 591 0571
083 455 4408
mike@rcinv.co.za

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

"A human being should be able to change a diaper, plan an invasion, butcher a hog, conn a ship, design a building, write a sonnet, balance accounts, build a wall, set a bone, comfort the dying, take orders, give orders, cooperate, act alone, solve equations, analyze a new problem, pitch manure, program a computer, cook a tasty meal, fight efficiently, die gallantly. Specialization is for insects." ~ *Robert A. Heinlein - Time Enough for Love*

"To be absolutely certain about something, one must know everything or nothing about it." ~ *Henry Kissinger*

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

RCI BCI Flexible Fund closed January at 336.75c, up 0.3% while the JSE All share was up 2.7%. With 30% of the fund invested offshore, the 7.7% strength in the rand negatively contributed to the overall fund performance.

RCI BCI Worldwide Flex closed January at 106.8c, down 0.7% for the month. Over the past year it is up about 3.4% while the JSE Overall is down about 9.0%.

Inside:

- John Mauldin "Bull markets end when optimism peaks." What could cause market melt-ups?
- Fuller Treacy Money: "Central banks are serious bubble blowers". "The Fed has killed more bull markets than all other factors combined."
- American shares recover during January.
- Why is Naspers (still) our biggest holding?
- Why do we keep telling you to live in the sun but invest in the shade? Is this working?
- Artificial Intelligence should have a huge influence in the future.

Thoughts from the Frontline

by John Mauldin, 2 February 2019, had some interesting paragraphs:

Our inability to foresee the future is both a problem and an opportunity. While I'm confident in my 10-year forecast of increased volatility and eventual bear market, I can't rule out a shorter-term market melt-up before the meltdown. Bull markets end when optimism peaks, because at that point everyone who is going to buy into the market has done so. Then prices have nowhere to go but down.

What could cause a market melt-up? What if the Trump administration announces a resolution with China and the May government in the UK announces a successful Brexit deal? Combine that with recent Federal Reserve dovishness, and a relief rally could quickly evolve into a melt-up. Of course, if all those circumstances turn negative, you could see the opposite.

As Benjamin Graham taught us, in the short run markets are a voting machine; in the long run they are a weighing machine. The short-run voting machine analogy is just another way to talk about optimism.

Fortunately, we have a way to measure optimism, beyond just a self-reported emotional state. Earnings multiples tell us what people are willing to pay for the expectation (but not the certainty) of future profits. High P/E ratios signal confidence. Very high P/E ratios signal overconfidence.

David Fuller of Fuller Treacy Money newsletters died in January. He was one of our favourite commentators on the market

A couple of gems from Eoin Treacy from 2 February 2019:

David had more than a few ways of highlighting the importance of monetary policy ranging from "Central banks are serial bubble blowers" to "the Fed has killed off more bull markets than all other factors combined", "bull markets don't die of old age; they are assassinated by central banks" and "monetary policy beats most other factors most of the time". A related but opposite sentiment is "happiness in the markets is having the trend and the central bank on your side".

American shares recover during January

Last month we speculated that the American shares looked as if they were about to turn around and go up again. This is exactly what happened, and you can see in the bottom graph below, how much share prices actually improved in dollar terms. The overbought/ oversold indicator almost returned to the zero level (top chart). This 8% increase was almost as much as we had been anticipating for a whole year, so we do not expect too many fireworks in the American market for the rest of 2019.

Source: TimBukOne

Why is Naspers (still) our biggest holding?

With private client portfolios we believe that one cannot get in and out of the shares without incurring capital gains tax. Furthermore, it is difficult (if not impossible) to get short-term trading correct. In the chart below at the bottom, you can see how well Naspers has done over the past five years. With hindsight, at the end of 2017, it might have gone up too much, too fast and 2018 was a year in which it had to catch its breath. It bottomed out at R2500 in about October and rose 1.8% in January 2019. Its major asset is Tencent in China, so while the American trade war with China continues we do not expect the share price to run too hard. However, the business in China continues to do well, so once this problem is resolved, we expect further gains in Naspers. In the event that the US/China trade dispute is not resolved, the consequence is likely to be that China does poorly in its exports. In turn, this is likely to mean that imports of raw materials will also suffer. As China imports over 50%of all raw materials. this should result in South Africa's exports falling and the rand being weak. Either way, we believe that we simply must be patient for Naspers to resume its upward trend.

Source: TimBukOne

Why do we keep telling you to live in the sun but invest in the shade? Is this working?

For many years we have told you to invest offshore? Why? Is this working?

We have been concerned about the economic future of South Africa for some time. We believe that the country is likely to be downgraded to junk status within the next few years. South Africa is a resource producing country and the history of the last century reveals that resource booms normally start about 20 years after the previous boom ends. This implies that the next boom in resources will likely start around 2032. What would have happened if all your funds had been invested in the American markets rather than the South African market? We contend that South African shares are not cheap enough yet. In contrast, for the past five years we have been advising investment offshore. In the following table we show that over the past 10 years (to the end of December), the S&P rose 182%. Because the rand depreciated from 9.47 to the dollar to 14.36, the rand value rose by 327%. Over that period, the JSE Overall rose just 148%.

Over the past five years the S&P rose 36% in dollars but 86% in rands whereas the JSE rose only 14%. Over the past year the S&P fell 6% but, as the rand fell even more, the rand value rose 9%, whereas the JSE fell by 11%.

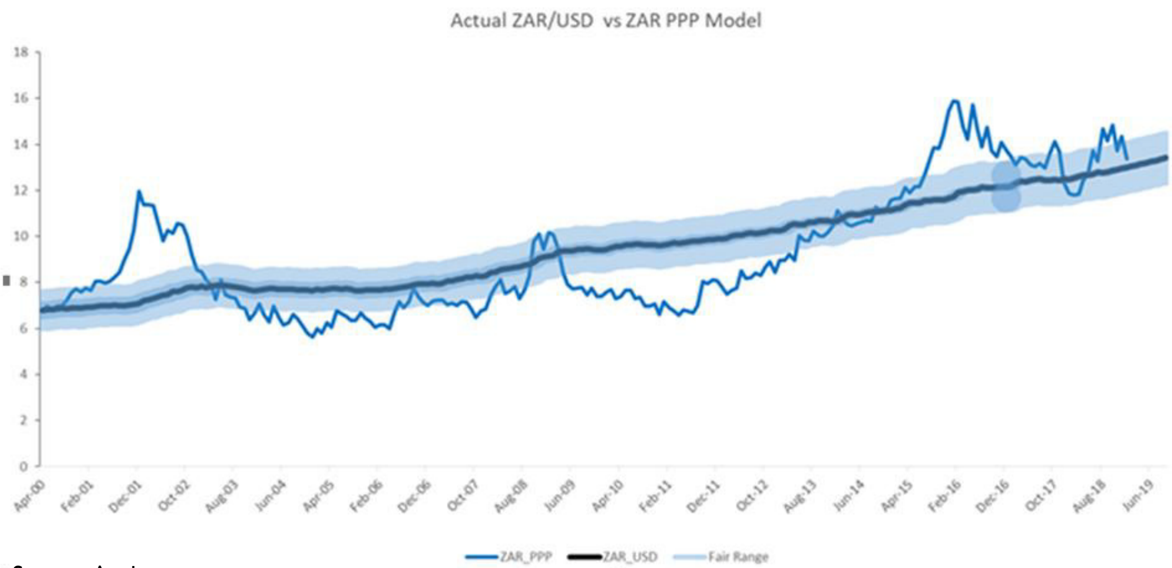
All of theses figures exclude dividends and please note, sometimes we had to round the figures to the nearest week. This made minimal difference, however.

S&P performace in rand vs the JSE - Over the past 5 years the S&P wins easily									
			Rand	Growth	$	Rand		Growth	
end of	S&P	Rand/$	Value	over			Jse All Share	over	
2008	890	9.47	8428	10 years	182%	327%	21238	10 years	148%
2013	1848	10.46	19330	5 years	36%	86%	46256	5 years	14%
2017	2673	12.4	33145	1 year	-6%	9%	59505	1 year	-11%
2018	2507	14.36	36001				52737		

Source: TimBukOne, RCI

Clearly, while the rand is falling and the value offered by the JSE is poor, we would rather be invested overseas. This has worked exceedingly well for our clients who have listened to us over the past five years. Until the next resources boom starts (around 2032) we find it difficult to expect SA to outperform, other than for short periods.

As for the timing of a decision to move funds offshore, we note that, outside of the brief "Ramaphoria" rally in the rand exchange rate in early 2018, it is the closest to our estimate of fair value that we have seen it in some years. Undoubtedly, the more geopolitics unfold along the "high road" scenario discussed in our market outlook in last month's newsletter (resolution of US/China trade dispute, uneventful SA elections, UK reverses course on Brexit, SA's post-election government shows intent to act decisively on public sector reform and prosecution of those implicated in the various commissions of enquiry presently under way…) the more likely we will see the rand continue to strengthen in the short term. However, it suffices to say that current levels are looking reasonably attractive for those considering increasing their offshore exposure.



Source: Anchor

A link to a thought provoking article by Magnus Heysteck

https://www.biznews.com/sa-investing/2019/02/04/magnus-heystek-zuma-nine-wasted-years?acid=4O93iSfI%2F5YeZeuwhd4cWQ%3D%3D&adid=egw0hEb1C%2BkQ9pc0JfeOsA%3D%3D&date=2019-02-05

An article on artificial intelligence (AI) produced in an auditing newsletter

January 2019 - AI and the changing face of jobs: Good news if we react now

"Artificial Intelligence is a tool, not a threat" (Rodney Brooks, Roboticist)

There has been fear that the rise of Artificial Intelligence (AI) and robots will considerably reduce the work force. New research concludes that there will be winners and losers as AI becomes entrenched in economies, but there will be far more winners. The World Economic Forum (WEF) predicts that actually 58 million new jobs will be created – 75 million jobs lost but 133 million created (see the table below for more).

The trick facing business is how to get onto the winning side, as those businesses that will be most affected by AI, and those who quickly get it right, will have a substantial profit enhancer because AI will, in the medium term, drive down business costs.

Adapt and Thrive! What you need to do

- The first issue is to acquire more resources in terms of technology (AI will need far greater processing power, new AI machinery), up-skilling your labour force and employing new staff (see table below).
- Secondly, consider approaching other players in your industry to put together a plan that will bring in a future stream of skilled employees. This task is too big for one business to undertake.
- You will also need to instil into your staff that they will need to continually improve their skills.

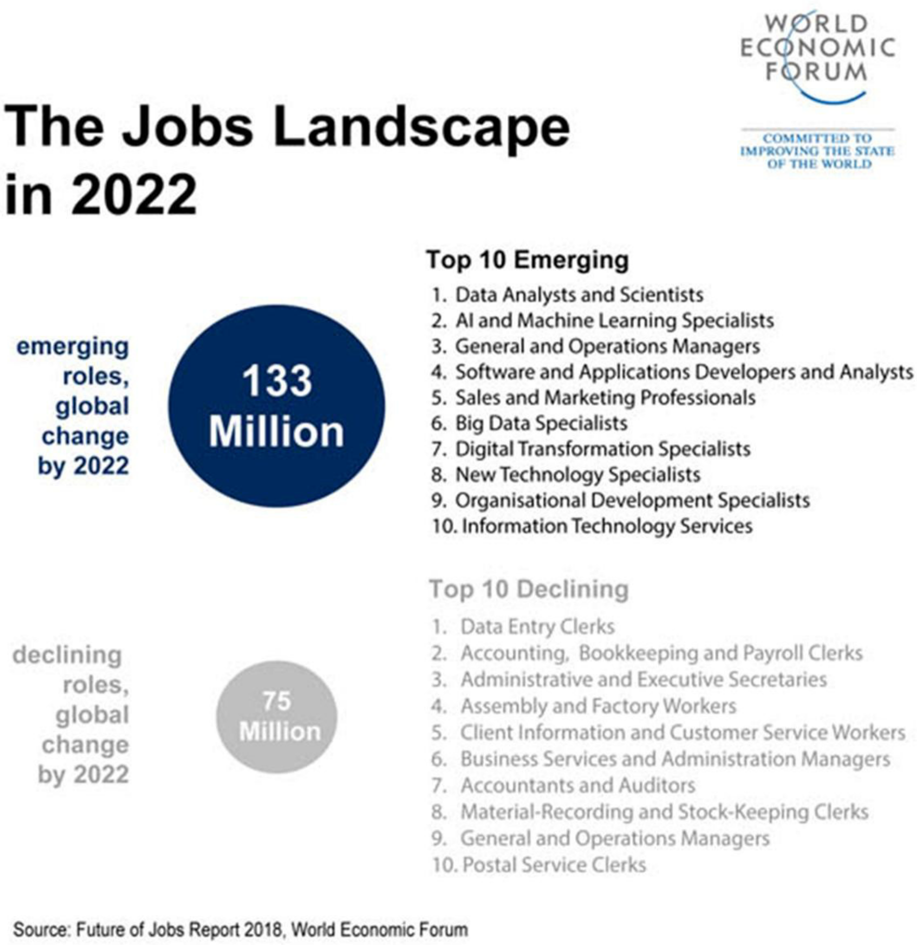
What type of employee will you require?

Recruiters in the developed world are now focusing on people with problem solving skills – on an ongoing basis AI will throw up technical and competitive challenges. Staff need to be able to quickly solve these problems.

As technical people will become more of a value driver in business, having "soft" skills, like good communications and being effective in teams, will also be sought after.

Below is a table from the World Economic Forum showing jobs that will be needed in 2022, and those that will face being replaced.

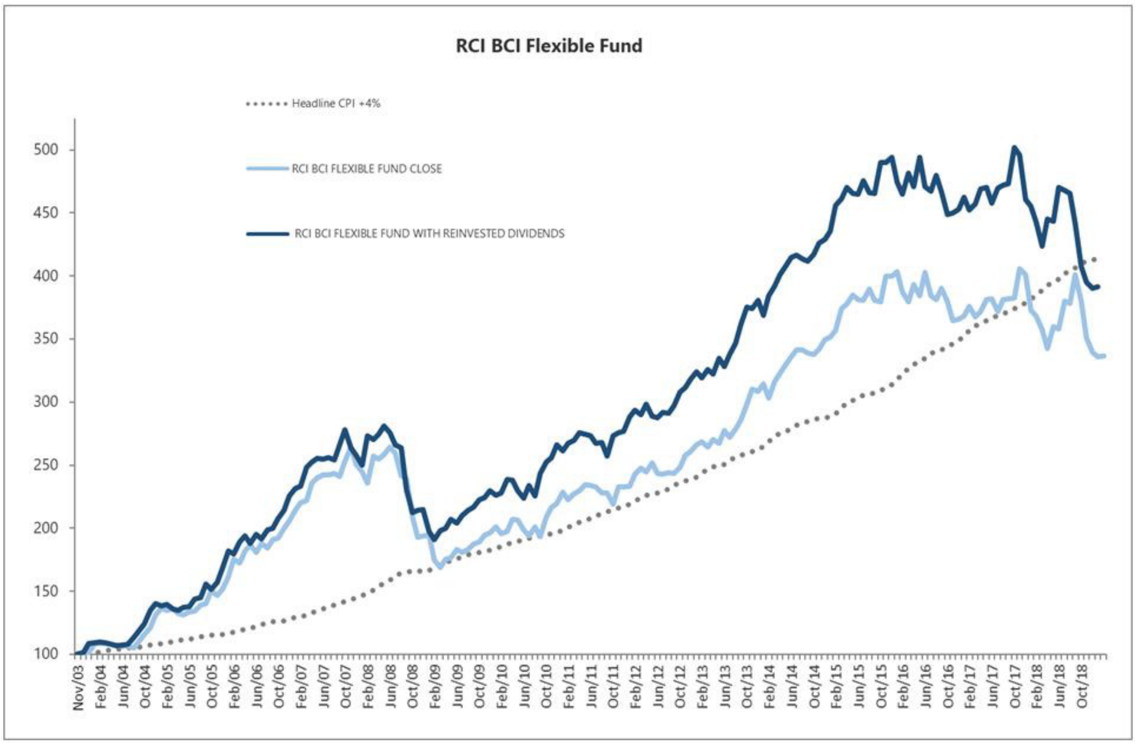
A new era is starting and the news is fairly positive – AI should create more jobs, reduce business costs, and greatly enhance productivity. **Don't be caught on the wrong side of this revolution!**



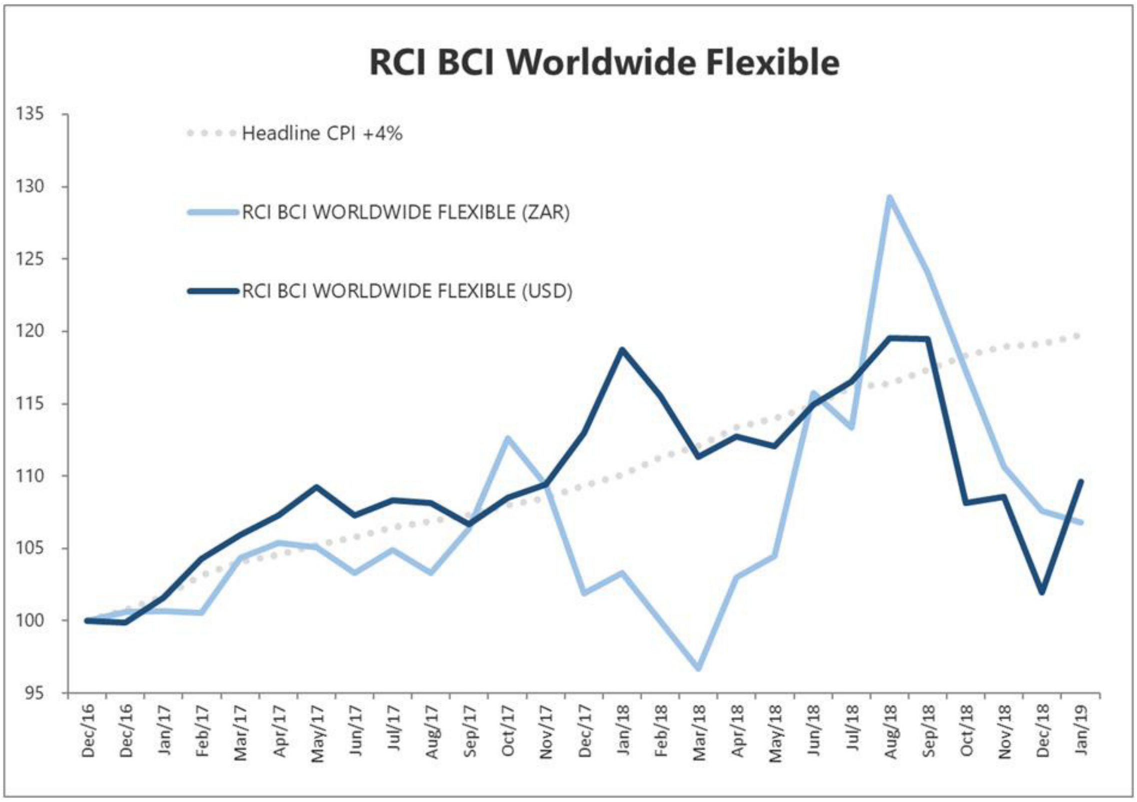
RCI Unit Trusts

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

RCI BCI Flexible Fund closed January at 336.75c, up 0.3% while the JSE All Share rose 2.7%. With 30% of the fund invested offshore the 7.7% strength in the rand negatively contributed to the overall fund performance.



RCI BCI Worldwide Flex closed January at 106.8c, down 0.7% for the month. Over the past year it is up about 3.4% while the JSE Overall is down about 9.0%



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.

To conclude

Happy 2019 to everybody. It started off with a bang – long may it continue. What happens over six months is largely irrelevant. It is long-term performance that counts and we believe that our strategy of "Live in the sun but invest in the shade" will continue to outperform.

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

Best regards

Di, Alan and Mike