Robert Cowen Investments

Growing families' wealth since 1982

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The Family Office

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To be added to our email, contact eric@rcinv.co.za

"To improve is to change; to be perfect is to change often."
~ Winston Churchill

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Highlights of this newsletter are:

- 'Our new market matrix' – a summary of markets for the month of January 2020
- What Millennials Want
- 'Afraid of a crash? Why we think market pullbacks are a great opportunity' – by Eric Lappeman
- Make sure you contribute to your retirement annuities before the end of February!
- RCI's new market outlook for the quarter – by Mike Gresty
- Charts/Memes of the month - January 2020
- Meet the RCI team - Monthly RCI staff profile - Christine Hall
- 'Currency Corner' - January 2020
- RCI Unit Trusts
- RCI – 'The Family Wealth Office' – What we offer

RCI BCI Worldwide Flex closed January at 138.87c, up 7.29% for the month and up 30.03% for the last 12 months. It is **ranked 5th out of 75 funds in its category for the last year, and 4th over a rolling two-year period .**

A Month in Markets - January 2020

Following a stellar 2019, markets began January 2020 on the front foot. A risk on trade, despite a brief attack by Iran on US forces, saw US equities rally before closing flat for the month following concerns over the Coronavirus outbreak in China. We also witnessed the signing of a phase one trade deal between the US and China, and economic data across the region continued to show signs of improvement. This, combined with central banks remaining accommodative in the coming year, saw our positioning in the offshore units trusts benefit, to the tune of 7.3% and 8.2% in the RCI Worldwide Flexible Fund and the RCI Flexible Growth Fund respectively.

On the commodity front, we witnessed big moves in oil (on the back of the Iran attacks and concerns over slowing growth), and palladium (concerns that the metal will remaining in a state of deficit for quite some time and that demand from electric and petrol vehicles remains strong).

On the currency front we saw the rand lose ground to most major currencies as we were the worst performing emerging market currency for the month, thanks in part to a stronger US dollar and fundamental problems at home.

Certain shares on the JSE also witnessed rather substantial moves, both up and down. Reinet and Transaction Capital enjoyed a great month, up 16.3% and 16% respectively. While Sasol released another poor trading update and was negatively affected by the drop in the oil price.

MONTHLY MARKET MATRIX

Indicator	Closing level	Monthly Move	Y-T-D
Equities			
MSCI World Index (USD)	**2342**	**-0.6%**	**-0.6%**
S&P500 (USD)	3226	0.0%	0.0%
FTSE 100 (GBP)	7286	-3.4%	-3.4%
Nikkei (JPY)	23205	-1.9%	-1.9%
MSCI Emerging Markets Index (USD)	**1062**	**-4.7%**	**-4.7%**
JSE All Share Index (ZAR)	56080	-1.7%	-1.7%
JSE All Share Index (USD)	56080	-8.4%	-8.4%
JSE Capped Swix All Share Index (ZAR)	22460	-2.6%	-2.6%
RCI BCI Worldwide Flexible Fund (ZARc)	138.87	7.3%	7.3%
RCI BCI Flexible Fund (ZARc)	358.46	0.9%	0.9%
RCI BCI Growth Fund (ZARc)	129.78	8.2%	8.2%
Bonds			
US 10 Year Treasury	1.51	3.2%	3.2%
SA 10 Year Govt Bond	8.98	1.2%	1.2%

Indicator	Closing level	Monthly Move	Y-T-D
Currency			
USD/ZAR	15.03	-7.0%	-7.0%
GBP/ZAR	19.84	-6.5%	-6.5%
EUR/ZAR	16.67	-5.8%	-5.8%
Commodities			
Gold Spot (US$/oz)	1 589	4.4%	4.4%
Palladium PM-fix (US$/oz)	2 295	20.5%	20.5%
Platinum Spot (US$/oz)	961	-1.4%	-1.4%
Copper Cash LME (US$/ton)	5 551	-9.7%	-9.7%
Iron Ore (US$/ton)	81	-9.5%	-9.5%
Brent Crude ($/Barrel)	58	-11.9%	-11.9%

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MAJOR MOVES IN SHARES

Gainers	
REINET INVESTMENTS SCA	16.3%
TRANSACTION CAPITAL	16.0%
QUILTER PLC	13.5%
SIRIUS REAL ESTATE LTD	10.4%
BRITISH AMERICAN TOBACCO PLC	10.3%
SIBANYE GOLD LTD	8.9%
RCL FOODS LTD/SOUTH AFRICA	8.6%
NASPERS LTD-N SHS	7.4%
RDI REIT PLC	7.1%
NETCARE LTD	6.3%

Laggers	
SASOL LTD	-21.2%
HAMMERSON PLC	-18.2%
KUMBA IRON ORE LTD	-16.2%
IMPERIAL LOGISTICS LTD	-13.1%
AVI LTD	-13.0%
BARLOWORLD LTD	-12.8%
SAPPI LIMITED	-12.7%
SUPER GROUP LTD	-12.5%
KAP INDUSTRIAL HOLDINGS LTD	-12.1%
RAND MERCHANT INVESTMENT HOLDINGS	-12.1%

What Millennials Want...

Investopedia's Affluent Millennial Investing Survey has revealed that nearly half of affluent millennials say they'll be forced to work beyond retirement age, yet nearly all said their personal or family financial situation will improve over the next decade, making them more optimistic than both their Gen X and Gen Z counterparts.

The survey asked 1,405 respondents to share how they view investing, who taught them, and how that education influences where they spend, save, and invest.

Millennials get a bad rap. They get blamed for everything from the death of cable TV to the decline in sales of mayonnaise. This generation - generally people born anytime from the early 1980s to the late 1990s - represents a large group of people with a significant impact on the economy. They are unique in their saving and investing habits.

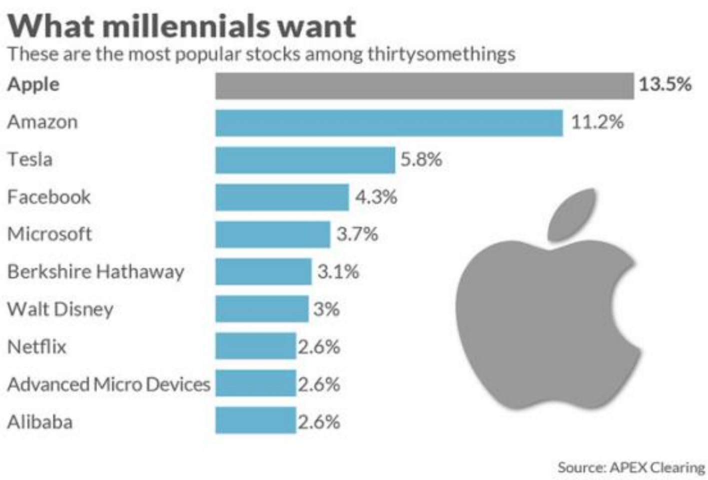
- Socially responsible investing matters to them
- Millennials like simple investments
- Millennials are risk averse
- Retirement saving is not their top priority right now

The above points are important to what Millennials value and how they invest, but what about where they really spend their money? If we can focus on those businesses and services that Millennials spend their hard earned money on and whether this links to the shares they would like to own, we can hopefully uncover some good investment opportunities of our own.

An article from Market Watch shows that Millennials' investing habits have shifted over the past year. They clearly let their tastes dictate the shares they like to buy, so should we be paying attention to this? Absolutely!

Apex Clearing recently unveiled its fourth quarter Millennial 100 report, where it analysed more than 734,000 portfolios owned by US based investors with an average age of just over 31 years. Many of the names are probably exactly what you would expect, along with a few surprises…

Here are the top 10, broken down by overall holdings:



As can be seen by the above findings, the list is FAANG- heavy, with social-media giant Facebook, media monolith Netflix, iPhone maker Apple and online retailer Amazon all represented. A notable finisher that didn't quite make the cut was Alphabet, the parent company of search giant Google.

Interestingly Warren Buffett, with his Berkshire Hathaway, finds himself sandwiched between Microsoft and entertainment giant Walt Disney. Seems like the younger generation appreciates the sway that one of the world's most renowned investors has…

Apex pointed out that 30 companies in the group of 100 debuted in the market within the last decade. This seems a testament to millennials favouring hot, young, tech-focused investments. Square Inc, for example, comes in at the 21st post for the millennials but does not even crack the top 100 for the older cohort.

Another interesting finding is that millennials have a big stake in the streaming wars, with battle heating up between Amazon, Disney, Apple and Netflix. Even Roku, which makes media-streaming players and licenses its technology to smart TV makers, should be taken note of, appearing in the 26th position on the Millennial list.

Take what you will from the above anecdote, but one thing is for certain – Millennials are investing in and using technologies that will be a part of their future. Their fingers are always on the pulse of tech trends, innovation and those companies which are able to influence the way we live and conduct business, and this quarter was no exception.

Afraid of a crash? Make it a money-maker instead

By Eric Lappeman

Worries about the Wuhan Coronavirus hit global stock markets hard initially, and that's been especially troubling to investors who've largely seen US stock prices move nearly straight up over the past decade, and even more so for those with a big appetite for Chinese shares. With so many people on Wall Street having been worried about when the long bull market in stocks would come to an end, it's natural to be afraid of what could come next - especially if you're thinking about putting new money to work in the market right now.

Nobody wants to look silly by investing when stocks are at their most expensive, but market downturns are a fact of life and they're the price you pay to get the long-term returns that stocks offer investors who go the distance. You must learn to live with them and, while they're not always comfortable, they can actually help you improve your overall performance - if you're prepared and know what to do.

Following are four things to think about right now, before a big downturn strikes...

1. Be honest about your emotions

The best investors can keep their emotions in check and think rationally, even during tough times. However, not all of us have that kind of discipline. When we're watching the savings that we've worked so hard to set aside suddenly evaporate in a falling market, it hurts, and we want to stop the hurt by selling our stocks and at least preserving whatever's left.

It's true that if you did that, you'd avoid the worst losses in a true bear market. On the other hand, if you sell at the first sign of a possible downturn, you'd also miss out on all the times when the market abruptly bounces back. That happens a lot and when it does you'll want to buy back at a higher price to avoid missing out on further gains.

The best thing to do before a big downturn hits is to take an honest look at your risk tolerance. It's easy to answer a questionnaire saying you wouldn't mind losing 20% of your portfolio, but when you see thousands or tens of thousands of rands or dollars disappear all at once, it can be another thing entirely. Experience is our best teacher, and if you've ever been through a downturn before think about how you felt and prepare to deal with the same emotions again. This held me in great stead in December 2018, when I only saw red…

2. Think about rebalancing

The best thing to do during the bull market of the past 10-plus years has been to let your gains ride, but as stock prices go up, so too does your overall risk level in your portfolio. That in turn leaves you more exposed to future market crashes.

Rebalancing your portfolio, on the other hand, essentially locks in a portion of your profits while still giving you a reasonable amount of investing exposure and potential returns consistent with your risk tolerance. Rebalancing is a good middle-ground between doing nothing and panic-selling, and it'll help reduce your losses if a crash does happen. My mentor always taught me that we can manage our risk by the size of our positions in the portfolio.

3. Get your buy list ready

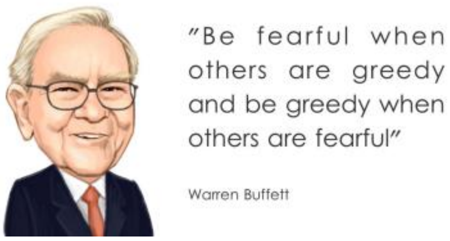
Have you complained about never being able to buy the stocks you want at a price you'd like to pay for them? A market crash can be your best chance to get your favourite stocks on the cheap.

It can be a lot harder to pull the trigger on a stock purchase amid a crash than you'd think, though. Once again, emotions can get in the way and make you hesitate too long. If you make a plan beforehand, however, then you might catch yourself actually being happy about a market downturn and the stocks you purchase while prices offer good value can give you some of your best returns. Somebody once told me that if I was happy to buy a share at R100, then I should be even more excited to grab some at R80.

4. Keep it automatic

One strategy that a lot of people use is to pay themselves first by investing set amounts each month. Brokerage companies and other financial institutions love this, because it keeps money flowing into your account. It can also be helpful to keep you on track no matter what the market does.

Staying on autopilot works especially well when markets tumble, because the amount you invest can purchase more shares. When the market bounces those extra shares add to your overall returns, leaving you far better off than you would've been if you'd put your investing on hold.



There's no way to stop the market from falling sometimes. If you're ready with the right strategy though, you can capitalize on falling markets and maybe even get to the point where you look forward to the next time you'll get a chance to invest in stocks at bargain prices.

What Is RCI's Thinking?

- ***The macro environment is supportive for shares*** – low interest rates, loose monetary policy and an election year give us comfort.
- ***Earnings are still solid*** – so far, a reasonable start to the 4th quarter reporting season out of the US has surprised to the upside and proved analysts were too negative on their outlook for corporate earnings.
- ***Stay offshore*** – if the world slows down, we think the US will outperform SA.
- ***Keep it simple*** – one has little control over macro factors and unforeseen events, such as the Coronavirus. Keep focused on the businesses you invest in. The only control you have is the price you pay and the earnings growth you expect. Good companies should weather the storm better than poor quality companies and over time, if their earnings continue to compound, so too will their share price.
- ***We want shares to fall*** – as long-term investors, we take these opportunities to buy our favourite companies at a cheaper price than they were yesterday.

Make sure you contribute to your retirement annuities before the end of February 2020

By Eric Lappeman

Each year around this time, ahead of the tax year end in February, we remind clients to think about taking advantage of ways to reduce their tax. This includes both capital gains, by taking advantage of your R40,000 capital gains exemption, as well contributing to your retirement annuity (RA) to reduce your total taxable income for the year. In fact, we look to do both.

1. ***Realise some losses to reduce your capital gain for the year as close as possible to your R40,000 exemption.***
2. ***Contribute the proceeds from these sales to your RA and further reduce your taxable income for the year.***

In March 2016, the amount you can contribute to your retirement funds, tax-free, was increased from 15% to 27.5% of your total taxable income, but capped at a maximum of R350,000 per tax year.

In return for saving your funds for the long term, you can deduct the amount contributed from your taxable income for the year. You will therefore reduce your tax payable. These savings/rebates can then be contributed to your existing share portfolio or spent on yourself as a treat . The point is that the savings are better in your hands than in the hands of the tax man!

If you earned R1,200,000 from a salary or from a living annuity, you could contribute 27.5% or R330,000 to your RA and reduce your taxable income for the year to R870,000 and save R135,300 in tax!

So, what are the important benefits to note about your retirement annuity?

1. ***Your contributions, up to the lower of 27.5% or the limit of R350,000, are fully tax deductible.***
2. ***All growth inside the RA, including interest income, dividend income and capital growth, is tax free.***
3. ***You can invest up to 30% of your RA in offshore assets.***
4. ***Any retirement products fall outside of your estate, therefore are not subject to 20-25% estate duty on your passing.***

**Note: Although you are saving up to 45% tax on the contributions (if you earn over R1,500,000), these contributions are locked in until you turn 55, except in very specific circumstances – so don't put away too much! Weigh up the benefits of the tax savings against the lack of liquidity.*

Once you turn 55 or retire, you can withdraw the first third as cash. The first R500 000 is tax free. This is a life-time limit, but it is worth mentioning that most people who retired before 1 March 2014 only utilized their maximum of the time, which was R310 000. Thus, many people have an extra R190 000 which they can use tax free. Thereafter a sliding tax scale applies to the amount withdrawn, but normally we do not recommend withdrawing more than about R1 million. The remainder will be converted to a living annuity on which you will be forced to draw between 2.5% and 17.5% per year. This drawing is fully taxable as income. So, at worst, if you are already paying the top tax rate, you will delay your tax.

Normally when you start drawing on your annuity, you should be earning less (if any) other income and therefore benefit from withdrawing the funds at a lower average tax rate than you saved on the way in. In fact, assuming you had built your RA up to R4,500,000 by the time you turn 65, taking the first R500,000 out tax-free leaves R4,000,000 to convert to a living annuity. Drawing 2.5% per year would amount to R100,000. The tax threshold for those over the age of 65 is R122,300 which means you wouldn't have paid any tax at all.

Thus, you are getting a double tax benefit:

1. *Pay less tax now due to the contributions, essentially deferring the tax.*
2. *Paying tax at a lower rate when withdrawing funds in the future.*

Some of you may already have existing retirement funds (employers pensions or provident funds) but they have probably deducted a maximum of 15%, which means you can supplement in February with lump sum top ups to 27.5% of your total earnings once you have a clear picture of your total taxable income for the year. Others may be without an existing RA in place, in which case you can open one and make a lump sum contribution. Either way, if you haven't reached the 27.5% limit (capped at R350,000), you have until the end of February to take advantage of 'topping' up the balance!

**Note: while you can only invest up to 27.5% tax free each year, there is no penalty for exceeding this limit. It will just carry over to the next tax year. It can only carry over for one year, so don't put in way too much!*

In the example below, we detail four scenarios with different sources (some multiple) of income on which you would have to pay tax and, more importantly, how you can reduce that tax payable.

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Living Annuity Gross Income	300,000	500,000		
Salary (including bonuses)			600,000	1,600,000
Rental Income (after costs)	200,000	200,000	500,000	
40% of Capital Gains	200,000			
Total taxable Income	700,000	700,000	1,100,000	1,600,000
Tax payable per tax scales	204,207	204,207	368,041	577,041
Effective tax rate	29%	29%	33%	36%
Less effective tax paid already in living annuity (if applicable)	(62,332)	(127,875)		
Additional tax to be paid	141,875	76,332	368,041	577,041
Contributing 27.5% to total taxable income to RA	192,500	192,500	302,500	350,000
Reduced taxable income	507,500	507,500	797,500	1,250,000
Tax payable per tax scales	130,575	130,575	244,016	429,541
Tax savings on contriubtions to RA	**73,632**	**73,632**	**124,025**	**147,500**
% saving on the contribution	36.1%	36.1%	33.7%	25.6%
Net tax payable	130,575	130,575	244,016	429,541
less tax already paid by both living annuities	(62,332)	(127,875)	-	-
Balance of tax due to be paid	68,243	2,700	244,016	429,541

Scenario 1:

This scenario details three sources of income (gross living annuity drawings, rental income after costs, and 40% of your realised capital gains). This amounts to taxable income of R700,000. Tax payable on this would amount to R204,207. The tax on the living annuity drawings would already be deducted by the service provider (although probably at a lower rate than should be, because they may not know what your actual effective tax rate is on your total income from other sources). So, you must deduct that amount of R63,332 from the tax payable. This leaves additional tax payable of R141,875.

Now, if you contribute 27.5% of the total taxable income, or R192,500 to your RA, you can reduce your taxable income to R507,500, on which you would be expected to pay R130,575 in tax rather than the R204,207. This is a tax saving of R73,632! So, instead of being expected to pay the tax man an additional R141,875 in tax (after taking into account the deductions already made by the service provider), you would only have to pay an additional R68,243 (R130,575 – R62,332). That means that the R73,632 *stays in your pocket, rather than going to SARS…*

Scenario 2:

This scenario is the same as scenario 1, except without the capital gains and more income from your living annuity. In other words, you are retired but also earn some rental income. In this scenario you have taxable income of R700,000, on which you should pay R204,207 in tax. The tax on the living annuity drawings would already have been deducted but, as mentioned in scenario 1, at a lower effective rate. So, this leaves additional tax payable of R76,332.

Now, if you contribute 27.5% of the total taxable income, or R192,500 to your RA, you can reduce your tax payable to R507,500, on which you would be expected to pay R130,575 tax rather than the R204,207. This is a tax saving of R73,632! So, instead of being expected to pay the tax man an additional R76,332 in tax (after taking into account the deductions already made by the service provider), you would only have to pay an additional R2,700 (R130,575 –R127,875). That means that the R73,632 *stays in your pocket rather than going to SARS…*

Put another way, you are essentially able to contribute R192,500 towards your RA for R118,703 (net of the tax saving)!

Scenario 3:

In this scenario we detail only two sources of income (salary and rental income after costs). This amounts to taxable income of R1,100,000. Tax payable on this would amount to R368,041. There is no living annuity and therefore no tax paid already which means that tax payable would remain at R368,041.

Now, if you contribute 27.5% of the total taxable income, or R302,500 to your RA, you can reduce your tax payable to R797,500, on which you would be expected to pay R244,016 in tax rather than the R368,041. This is a tax saving of R124,025 that *stays in your pocket rather than going to SARS…*

Put another way, you are essentially able to contribute R302,500 towards your RA for a net R178,475!

Scenario 4:

This scenario is similar to scenario 3 except without the rental income. Taxable income from your salary amounts to R1,600,000. Tax payable on this would amount to R577,041. There is no living annuity and therefore no tax paid already which means that tax payable would remain at R577,041.

Now, if you contribute 27.5% of the total taxable income it would amount to R440,000 which is in excess of the R350,000 limit. So instead, you contribute the maximum of R350,00 to your RA. By doing so, you can reduce your tax payable to R1,250,000, on which you would be expected to pay R429,541 in tax rather than the R577,041. This is a tax saving of R147,500 that *stays in your pocket rather than going to SARS…*

Put another way, you are essentially able to contribute R350,000 towards your RA for R202,500!

Conclusion

It makes a lot of sense to contribute to your RA each year to reduce your taxable income and hence tax payable, sometimes by as much as R157,500 (if you are at the 45% marginal tax rate)! Furthermore, the benefits of tax-free growth inside, as well as the back-end benefits of withdrawing the funds at a lower average tax rate upon retirement, make it all the more worthwhile.

If you haven't made full use of your 27.5% or R350,000 allowance, then you have until the end of February to take advantage of 'topping' it up! However, please be realistic and make the payment by 20th of February as there is a bit of paperwork to complete on any new RA.

If you have any queries regarding opening an RA, or contributing to an existing one with RCI, contact Eric Lappeman at eric@rcinv.co.za or 011 591 0573, or Christine Hall at christine@rcinv.co.za or 011 591 0569. We will require all the necessary documentation as well as your total taxable income for the year by the *20th of February 2020.*

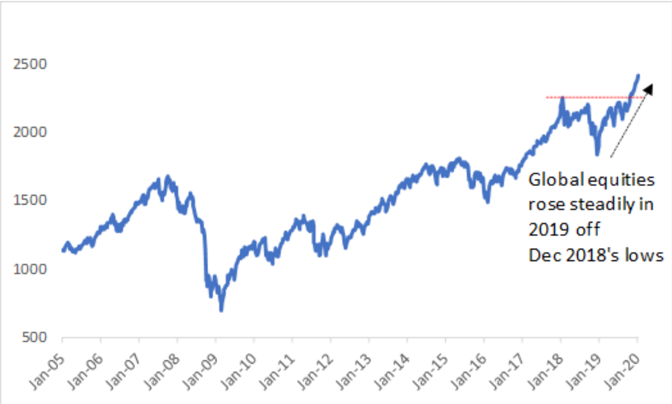
RCI's new market outlook for the quarter

By Mike Gresty

International equity markets

In 2019, the MSCI World Index delivered a return of 27.7%, its best return in a decade. As strong as this performance was, recall that the market correction in the last quarter of 2018 (including a 9% decline in December 2018 alone), had set the base relatively low. Thus, equities spent much of 2018 recovering ground lost in the prior year. It was only in November that markets returned to the prior peak of January 2018.

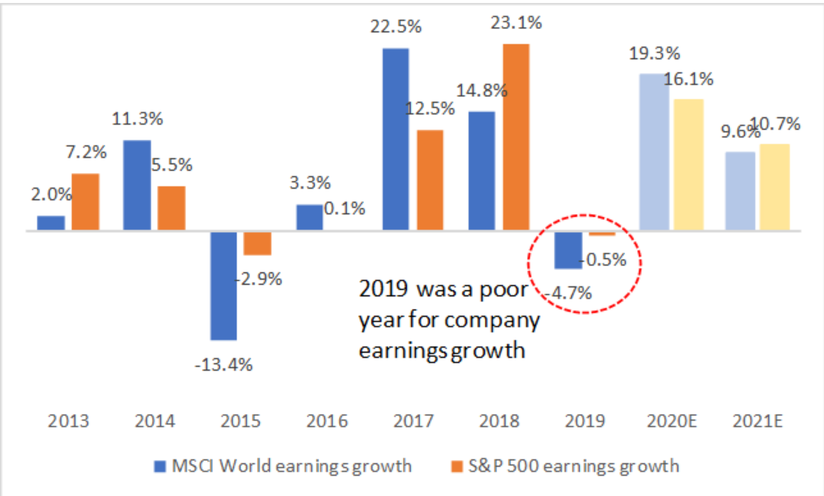
MSCI World Index level over the last 15 years



Source: Bloomberg

In the chart below, we show the recent trend in earnings growth for both the US equity market and global equities. After 2 strong years for earnings growth in 2017 and 2018 (buoyed by cuts to the US corporate tax rate), 2019's equity rally occurred despite what turned out to be a poor year for company earnings growth.

Company earnings growth was weak in 2019; but is forecast to pick up



Source: Bloomberg

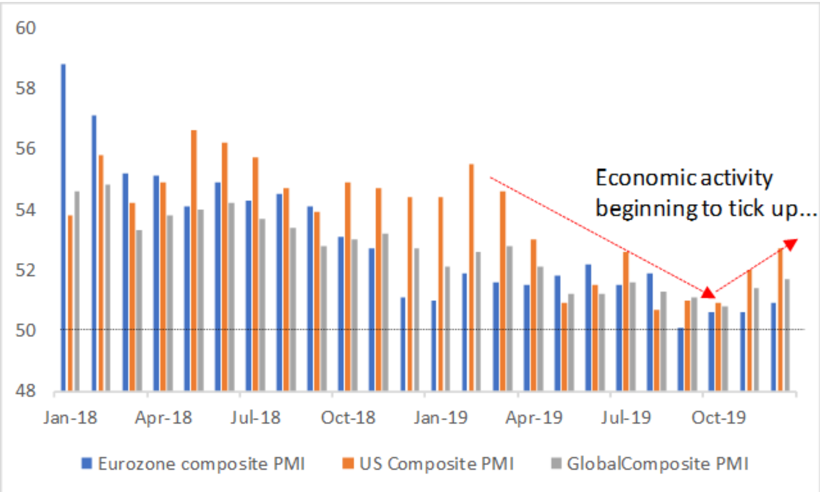
2019's equity rally without accompanying earnings growth means we enter 2020 with valuations considerably more demanding than they were. The chart below shows the price as a multiple of expected earnings for world equities over the last 15 years. From 14x expected earnings a year ago, the strong rally well in excess of earnings growth has pushed the valuation up to c. 18x expected earnings today. This valuation is above one standard deviation on the expensive side vs. history.

MSCI World Index forward price/earnings multiple back in elevated territory

Source: Bloomberg

The Purchasing Managers' Index (PMI) provides a perspective on the prevailing direction of economic trends. A reading above 50 implies conditions are expanding, while below 50 implies business conditions are contracting. It is notable that for much of 2019, equities rallied despite economic trends deteriorating. We think the impact of the US/China trade tensions was a major contributor to the deterioration in economic momentum. Equities, however, responded positively to the US Fed's abrupt U-turn on interest rates in early 2019 and a clear message that it and other central banks were prepared to intervene with rate cuts and liquidity support if needed.

Economic activity showing tentative signs of picking up again

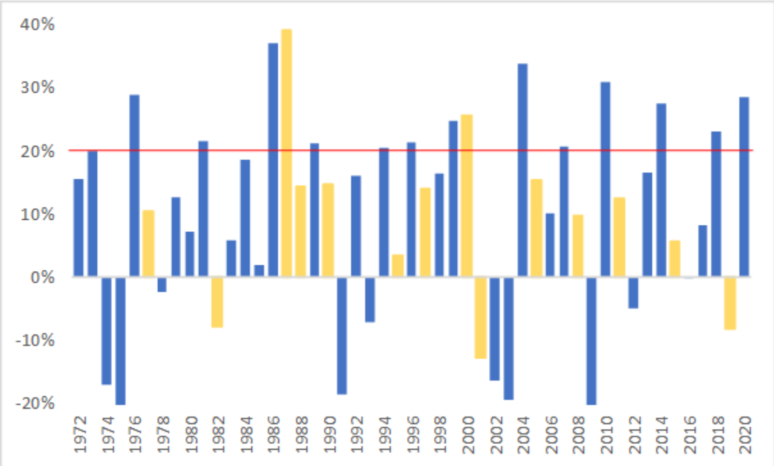


In the last quarter in particular, equity markets have dismissed virtually all risks and powered to new highs – even missile and drone attacks in the Middle East were not enough to dampen enthusiasm for any length of time. Rather, focus has been on positive progress in other areas: (1) a truce in the US/China trade dispute, with the signing of a "phase 1" trade deal; (2) avoidance of a chaotic no deal Brexit, and greater certainty in the Eurozone following the outcome of UK elections in December; and (3) with reference to the PMI chart above, signs that the deterioration in economic momentum is beginning to reverse. A further potential support for markets this year lies in the belief that, having linked his political fortunes to the performance of markets, US President Trump will do everything possible to ensure market-friendly conditions persist in the lead-up to elections in November. Here's a reminder of one of those tweets from President Trump: "The Stock Market went up massively from the day I won the Election, all the way up to the day I took office, because of the enthusiasm for the fact that I was going to be President. That big Stock Market increase must be credited to me. If Hillary won – a Big Crash!"

In summary, we think the current elevated valuation levels of global equities means we enter 2020 with markets pricing in a relatively benign outlook. Risks of a short-term correction have increased. However, with economic momentum starting to rebound and company earnings growth set to improve (even if, as is likely, earnings growth turns out to be less impressive than what analysts are currently forecasting), the case for equities remains attractive for long-term investors. Driven by earnings growth rather than a further increase in valuation, we think it is reasonable to expect a mid to upper-single digit return from global equities this year.

Finally, what does history tell us about market returns following a particularly strong year? In the chart below, we highlight in yellow the returns for the MSCI World Index in the years following each instance where the market delivered a return in excess of 20% (14 of them). While we note that the subsequent year's return was lower most of the time, almost 80% of the time, the subsequent year's return was positive!

MSCI World Index total return (%)



Source: Bloomberg

South African equities – still "*waiting for Godot*"

The South African equity market experienced another relatively disappointing year in 2019. The FTSE/JSE Capped Swix ended the year up 6.7% in rand, with a further 3% added to USD returns due to the rand strengthening in the year. For long-suffering South African investors, it was the only major stock market globally that did not record double-digit US dollar returns in 2019. A peculiarity of the SA equity market is that it is comprised of groups of companies for which the underlying drivers of performance have been very different. One needs to consider each of these segments of the SA market to get a proper perspective:

- Mining shares - From their lows of early 2016, these cyclical companies have been among the star performers in the SA market. In 2019 the Mining index rose 25%, comfortably outperforming the rest of the SA market. However, 2019 was actually a rather mixed year for commodities. As we noted above, economic activity deteriorated for the first ¾ of the year. This impacted the price of industrial commodities linked to economic activity. We were fortunate that the particular commodities to which South African listed miners are exposed had a particularly good year – platinum group metals (PGMs) on strong demand from auto catalysts, gold on central bank buying and hedging against geopolitical risks and iron ore on supply being much tighter than expected due to Vale being forced to suspend much of its production in Brazil after its deadly dam collapse early in 2019. The turnaround in fortunes of the PGM miners in particular has been remarkable, considering a number were on the brink of bankruptcy just a few years ago (recall that Lonmin threw in the towel and was bought by Sibanye). As far as the outlook is concerned, the improving data on economic activity that we noted above implies the picture is brightening for commodities more generally. News of European fiscal expansion (most notably Germany recently), commitments from China on infrastructure spending, continued strong demand for PGMs as increased loadings in autocatalysts to meet rising emission control targets are some of the themes behind continued optimism for the sector.

- Rand hedge/multinationals – These are companies which are listed in South Africa, but whose fortunes are not linked to any great extent to the South African economy. They include the likes of AB Inbev, British American Tobacco, Naspers, Richemont and BidCorp. Although the exchange rate turned out to be a slight headwind in 2019, these market heavyweights have generally performed well – the average return from the particular companies mentioned was c. 25% in the year. As far as the outlook for these companies is concerned, our comments about global equities above apply here – valuations are generally more demanding than they were but newsflow on geopolitics and economic activity has improved. For SA investors, risks for the currency in 2020 (the potential downgrade of the credit rating to junk status in particular), means we continue to favour exposure to these companies.
- The domestic "SA-Inc" component – this group comprises the South African banks, retailers, food producers and various domestic services and industrial companies. Results from this segment of the SA market have been almost universally poor, reflecting the lack of growth in SA's stagnant economy. Share prices of this grouping of shares were under persistent pressure and were chiefly responsible for the overall market having lagged the performance of global markets in 2019.

When one considers the prospects for the South African stock market in the context of the groups above, it is apparent that our stock market in aggregate does not mirror the domestic economy very well at all. Thus, it is dangerous to frame one's expectations for the overall market purely through the lens of the outlook for the domestic economy. We envisage "more of the same" in terms of the relative performance of each of the segments discussed above. Although arguably the "easy money" (a term we dislike because it only really applies with the benefit of hindsight!) has been made in mining and offshore earning rand hedge shares, prospects for further positive returns in the year ahead are good.

For the SA-Inc shares, off such a depressed base, earnings could rebound strongly if economic growth momentum improves. However, South Africa remains a "show me" story. As forecasts for economic growth in SA in 2020 are downgraded to a paltry 1% or below, a growing number of institutions announce planned layoffs, speculation grows that a further VAT hike is in the pipeline and administered pricing continues to run ahead of inflation, this revival in momentum does not look imminent. The optimism that was felt at the time of the last national election has faded as government dithers on reform. For now, outside of a few stock-specific opportunities locally, we continue to expect superior investment returns will be achieved offshore.

'Charts/Memes' of the month – January 2020

Mapping the Coronavirus Outbreak Across the World

https://www.bloomberg.com/graphics/2020-wuhan-novel-coronavirus-outbreak/?cmpid=BBD012920_BIZ

Rather than doing a detailed article about an outbreak that is still evolving, we thought it best to supply what we found to be a useful webpage that tracks the virus and its growing spread across the globe. The fact is that it is still too early to estimate the extent of the infections because the incubation period is so long (10-14 days now). This means that early stats are still going to grow substantially. Interestingly enough, from a fatality standpoint (measured as number of deaths relative to those infected), the virus is not as dangerous as initially thought. The fatality rate sits at 2% per the World Health Organisation (WHO) estimates. This can be compared to a fatality rate of 10% for the 2003 SARS virus, and 34% for MERS. In fact, the WHO estimates that between 290,000 and 650,000 people in the world die every year due to complications from seasonal influenza, also referred to as the flu. The real concern lies in its infection rate (an average case would create 3 to 4 new cases) and the long incubation period (10-14 days).

Mr President, please do the right thing…

Monthly RCI Staff Profile – Christine Hall

Joined Robert Cowen Investments in 2006 (± 14 years ago).

Christine has qualifications in Public Relations Management, Financial Management and Business Management.

Christine oversees our retirement funding (for which Robert Cowen Investments received a Diamond Award last year for being one the top 5% of Momentum's independent financial advisors in the country).

She also oversees our internal compliance/operations and assists with company accounts.

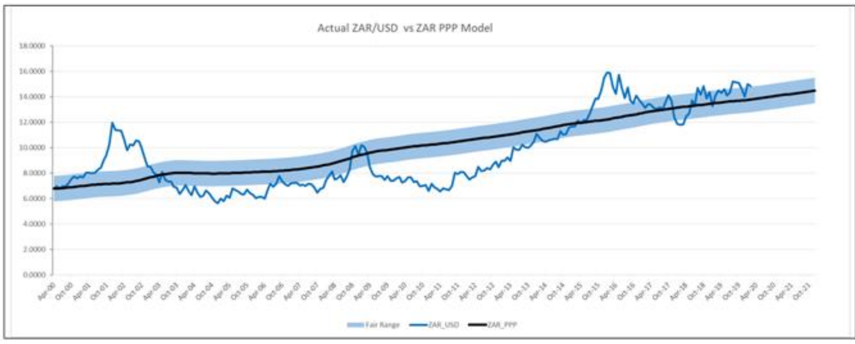
Apart from looking after your pensions administration, Christine is the mother of two daughters, who live overseas, as well as a granny to two grandchildren, Maxine 5 and Alexander 2.

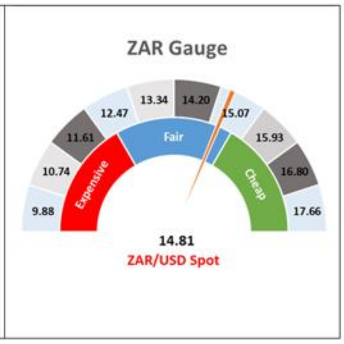
Christine's hobbies include lawn bowls. She is a qualified Level One Coach and coaches at Irene Country Club.

In addition to this, Christine loves painting, and she enjoys painting with acrylics and pastels.

'Currency Corner' – January 2020

By Nolan Wapenaar





The South African rand came under significant pressure last week as fears of the Coronavirus gripped the financial markets. The South African rand is one of the more liquid and easily traded emerging market currencies and therefore was heavily sold last week by investors looking to hedge some of their emerging market exposure. South African real interest rates are one of the highest in the world, making the currency very expensive to short. Therefore, the traders are likely to unwind the short positions they established last week.

Markets are also starting to focus more on the fundamental situation in South Africa. Load shedding from Eskom continues to weigh on both sentiment and the economy. We note that Cosatu proposed a plan for Eskom. The plan is far from perfect and while some aspects need to be reworked, overall there is some merit to what they are proposing and it forms a good starting point for business, government and labour to finally tackle the single largest challenge facing our economy.

We note that there has been significant movement from the South African Government on the electricity front as well. The Minister of Mineral Resources and Energy (Gwede Mantashe) yesterday outlined at a high level the plans to open up electricity supply for our nation. We need to see action, rather than plans and note that the gazetting of the revised framework seems to be a way off still. This is a small step in the right direction (they could have gone further) and also seems to be in the initial planning phase only. Yet, it also does seem to indicate that sensible plans are being discussed and that the incremental changes are positive.

Globally China has been injecting cash into its economy which will be hard hit by the Coronavirus. Emerging markets have been responding positively to this stimulus and government support with most EM currencies recovering a little yesterday. Oil, however, has slipped to just above $50 per barrel. While South Africans will mostly notice this at the fuel pumps, the impact of lower oil prices is that the terms of trade for South Africa will have improved significantly.

Fears of the upcoming national budget and the Moody's review will keep the rand on the weaker side of our range. Given the above circumstances, the sell-off last week felt overdone and we have materially reduced the dollar exposure for a number of our portfolios. We think that in the long run the rand will hover within our fair band. We still advocate using short term rebounds in the currency as an opportunity to externalise funds and build a long-term offshore portfolio. Remember, you can always bring the funds back…

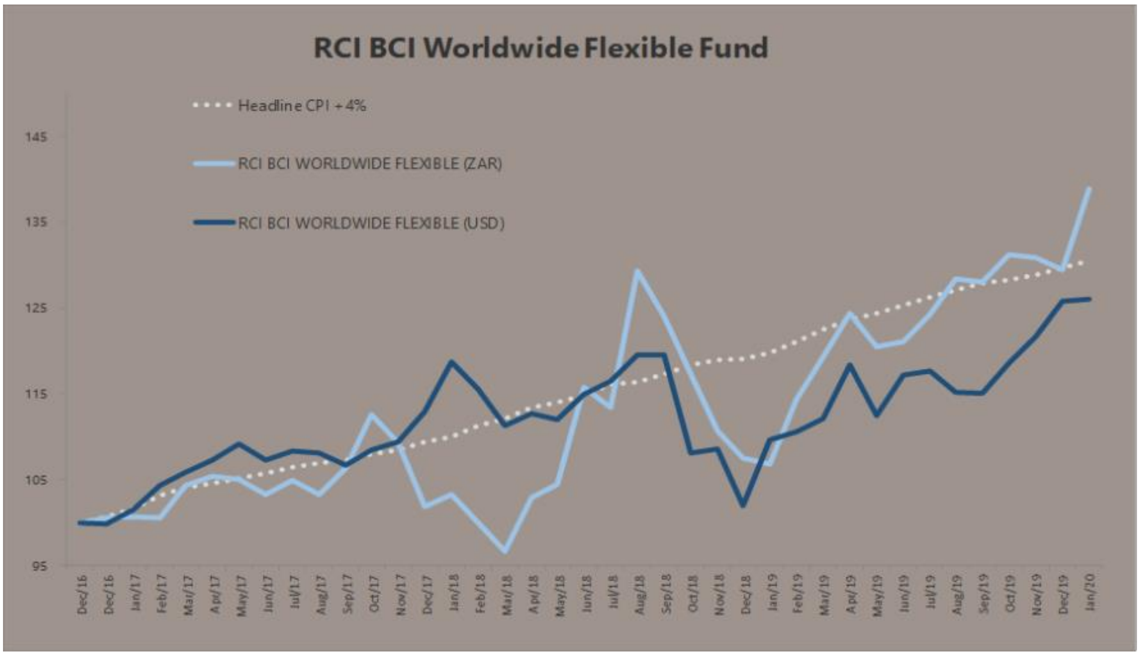
NOTE: We remind all our clients that your R1mil single discretionary/travel allowance, has renewed again for the new calendar year. This allowance does not require any approval from SARS.

** For those investors wishing to invest offshore, please do not hesitate to contact us.*

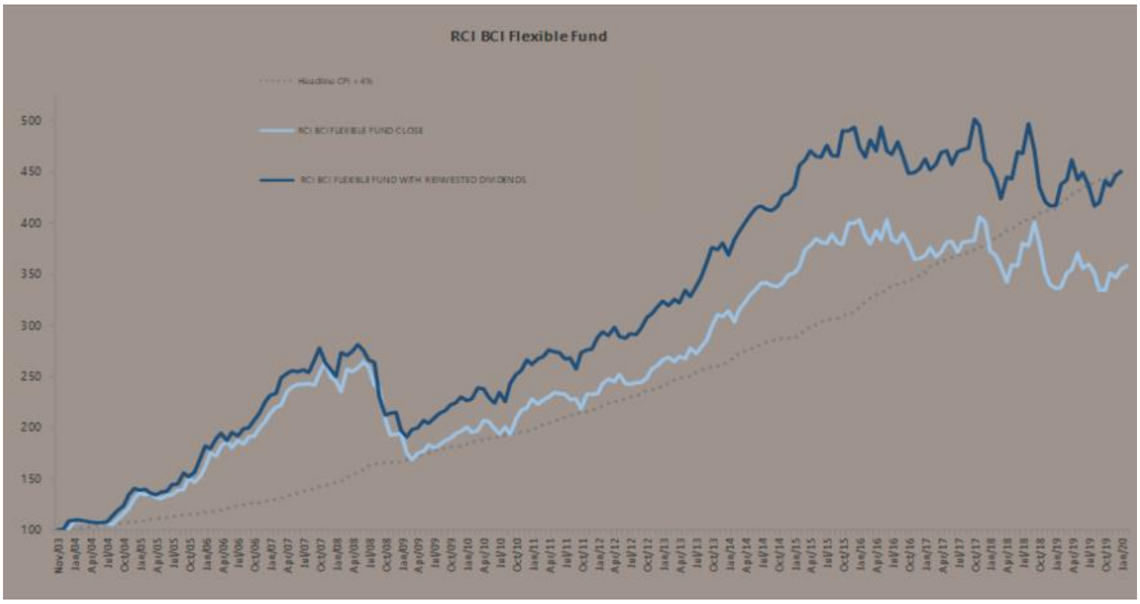
RCI Unit Trusts

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

RCI BCI Worldwide Flex closed January at 138.87c, up 7.29% for the month and up 30.03% for the last 12 months. It is ranked 5th out of 75 funds in its category for the last year, and 4th over a rolling two-year period



RCI BCI Flexible Fund closed January at 358.46c, up 0.92% for the month and up 8.32% for the last 12 months.



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

Following what can only be described as a stellar 2019, the markets continued January 2020 on the front foot. Despite looming possibilities of conflict between Iran and the US, developed market equities still performed reasonably well and only responded briefly to the Coronvirus Outbreak. The fact that economic data across the region continued to show signs of improvement speaks to a hopeful 2020, one that might be just as fruitful in its performance as 2019.

With the season of budget speeches, interim tax statements, the State of the Nation address and a possible (yet probable) downgrade by Moody's upon us, it is hard not to lose hope and run for the hills in SA. Our client portfolios are well positioned for a weaker Rand and so we sleep better at night, despite the noise we hear in SA.

In this newsletter, we focus on what Millennials want. Keep a close eye on them as they are well invested in technologies and services that will undoubtedly be an integral part of our future. FAANG shares continue to produce better than expected revenues and earnings.

We also urge all investors to consider making top up contributions to their retirement funds before the end of the February month end. By doing so, you can pay substantially less tax, while also moving assets out of your estate. Please contact Eric and/or Christine before the 20th of February if you need any help on this.

A reminder that your annual R1 million travel/discretionary allowance for the 2020 tax year has renewed for the 2020 calendar year, and you may send more funds offshore again without having to apply for tax clearance.

Lastly, thank you for being our clients. We would like to leave you with this quote for the coming year:

> "I hope that in this year to come, you make mistakes.
>
> Because if you are making mistakes, then you are making new things, trying new things, learning, living, pushing yourself, changing yourself, changing your world. You're doing things you've never done before, and more importantly, you're Doing Something.
>
> So that's my wish for you, and all of us, and my wish for myself. Make New Mistakes. Make glorious, amazing mistakes. Make mistakes nobody's ever made before. Don't freeze, don't stop, don't worry that it isn't good enough, or it isn't perfect, whatever it is: art, or love, or work or family or life.
>
> Whatever it is you're scared of doing, Do it.
>
> Make your mistakes, next year and forever."
>
> ~ Neil Gaiman, Author

We hope to continue assisting you, our clients, by being the best Family Office we can be!

Best regards

Di, Mike and Eric

RCI - "The Family Wealth Office"

What we offer

FINANCIAL NEEDS ANALYSIS OF YOUR FAMILY'S ENTIRE ASSET BASE

- Evaluate existing asset base and asset allocation
- Evaluation of current investment structures (retirement, endowment, company, trust etc)
- Establishment of future goals/objectives/risk appetite

RECOMMENDATION OF CHANGES TO EXISTING ASSET BASE AND ASSET ALLOCATION

- Suggested restructuring (per proposal)
  - Local/offshore split
  - Trusts; local and offshore
  - Companies
  - Insurance
- Estate planning
  - Calculating existing estate duty and capital gains tax
  - Assisting in reducing estate duty and capital gains tax
  - Reviewing trust deeds
  - Reviewing existing wills

INVESTING CLIENT FUNDS

- Bespoke local/offshore share portfolios
- Retirement funds
- Unit trusts (local/offshore)

ONGOING FULL CASH MANAGEMENT SYSTEM

- Fully managed transactional banking accounts for clients
- Third party payment functionality - debit orders and ad-hoc payments
- Transferring of funds offshore

FIDUCIARY SERVICES

- Trustees on more than 80 trusts
- Trust administration
- Trust accounting
- Tax compliance
- Assisting in applying for foreign tax clearances
- Legal compliance; drafting of resolutions, contracts and assisting with legal opinions

Robert Cowen Investments
Growing families' wealth since 1982