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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

This month, we are feeling very philosophical so a lot of timeless quotes follow:

“The tipping point is now!” ~ *Forbes*

“Courage is knowing it might hurt and doing it anyway. Stupidity is the same. That’s what makes life hard.” ~ *Jeremy Goldberg*

“The market is a pendulum that forever swings between unsustainable optimism (which makes stocks too expensive) and unjustified pessimism (which makes them too cheap). The intelligent investor is a realist who sells to optimists and buys from pessimists.” ~ *Benjamin Graham*

“We have two lives, and the second begins when we realise we only have one” ~ *Confucius*

Index-fund pioneer *John Bogle* has quipped: “Sure, it'd be great to get out of stocks at the high and jump back in at the low, [but] in 55 years in the business, I not only have never met anybody who knew how to do it, I've never met anybody who had met anybody who knew how to do it.”

“Nothing in the world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent. The slogan ‘press on!’ has solved and always will solve the problems of the human race.” ~ *Calvin Coolidge*

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Highlights of this newsletter are:

The world’s top exporters - an interesting graph putting world economies into perspective.

Will America play trump card in the trade war?

What does a 5G area look like?

Markets overreact in the short term and under react in the long term.

Is the next American election already influencing the US economy?

Can the USA and China avoid a physical war?

The importance of reading by *Charlie Munger*.

Breaking Futures: The day of reckoning may be fast approaching – a view from futurist, *Clem Sunter*, on the forces that could turn the world’s political and economic game upside down in the near term.

RCI BCI Flexible Fund closed June at 360.5c, up 1.45% for the month and up 7.96% for the year to date.

RCI BCI Worldwide Flexible Fund closed June at 121.11c, up 0.52% for the month and up 12.58% for the year to date.

Is a 5G tower coming soon to a location near you?

What does a 5G tower look like?



This is what the 5G tower looks like. The world is talking about 5G but we South Africans know very little about what it looks like. A 5G tower is much smaller than a 4G tower.

Source: Disruption Investor

“The markets tend to overreact in the short term and under react in the long term: investors tend to work off price rather than fundamentals” Richard Farleigh as quoted by Michael Pireu in Business Day, 11th June 2019.

Eoin Treacey From Fuller Treacey Money 24th May 2019:

“Have you heard of “Augmented reality?” It should replace cell phones in years to come.”

Is the next American election already influencing the US economy?

15/06/2019 Eoin Treacey again: This idea that President Trump has a plan to make sure the economy is humming in the run-up to the Presidential Election is gaining ground on Wall Street and elsewhere. David Rosenberg put out a tweet last week expressing the same sentiment.



David Rosenberg

@EconguyRosie

Follow

Maybe Trump is a genius, after all. What if he finally gets the steep Fed rate cuts he has been demanding? After that, he ends the trade wars, tariffs go to zero, and the stock market surges to new highs -- just in time for the 2020 election!

5:54 AM - 5 Jun 2019

I agree it is certainly possible he is self-absorbed enough to try and attempt to shape the economy's prospects to his own interests but there is an alternative interpretation which does not get a lot of airplay.

Can the USA and China avoid a physical war?

This [article](#) from aheadoftheherd.com may be of interest to subscribers. Here is a section:

His main focus is to outline where the US and China are with respect to realpolitik, or practical considerations, and how to avoid war. The signs are not good.

Writing in The Atlantic, Allison states that “Based on the current trajectory, war between the United States and China in the decades ahead is not just possible, but much more likely than recognized at the moment.” That was written in 2015, before the trade war started, so the case for war is even stronger now.

According to Allison, events that could make two nations fall into the trap may be small, “business as usual” conflicts that, if they occurred in a different dynamic, would lead to nothing. For example, the assassination of archduke Ferdinand, a relatively obscure and minor figure, was the spark that lit a whole conflagration of events that plunged Germany, an ascendant maritime power, into war with Britain, whose Royal Navy ruled the seas for decades. Consider the current conflicts between the Chinese and US navies in the South China Sea and the Taiwan Strait. It would not take much - say a collision between two warships - to ignite the powder keg of war.

However, for the threat to be taken seriously, the rising power must have the capability to take on the incumbent power. Henry Kissinger, the US former secretary of state, wrote that “once Germany achieved naval supremacy ... this in itself - regardless of German intentions - would be an objective threat to Britain, and incompatible with the existence of the British Empire.”

The importance of reading

Warren Buffett's longtime business partner, Charlie Munger said: "In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time -- none, zero. You'd be amazed at how much Warren reads -- and at how much I read. My children laugh at me. They think I'm a book with a couple of legs sticking out."

Breaking Futures: The day of reckoning may be fast approaching - Clem Sunter

For the last five years, I have been asking people to watch the flags that could turn the world's political and economic game upside down in the near term. They are now combining with one another in a way that could produce a day of reckoning sooner than I, and many other experienced futurists, ever thought possible. So let's go through the flags one by one.

The religious flag

The first flag is the religious flag which started going up the pole in the late 1980s because of intensifying competition between the major religions of the world. It produced 9/11, a variation of which my co-author Chantell Ilbury and I anticipated in a letter to George Bush published in the book *The Mind of a Fox* in June, 2001.

However, as I said in a subsequent book entitled *Flagwatching* in 2015, "the religious flag has changed in a fundamental manner. We now have a deep division within the Islamic world itself between Sunni and Shia, the first with its centre of gravity in Saudi Arabia and the second in Iran."

With America on the one hand walking out of the nuclear agreement with Iran and applying really tough sanctions to bring the country to its knees, and Iran on the other hand saying it might go back to enriching uranium, a war appears very much on the cards. If that happens, Israel will join America on the side of Saudi Arabia and Russia could take the side of Iran. The consequences will be devastating for the Middle East.

Yemen is already a wasteland and most of Syria is too. Iraq and Afghanistan are dodgy at best. Iran will be reduced to ashes in the event of a full scale military conflict with America. With Donald Trump as commander-in-chief of US forces, anything is now possible.

The red flag

The second flag is the red flag concerning Russia, China and North Korea. Western sanctions against Russia are still in full force after its annexation of Crimea, and we are back into a new cold war. It can become hot overnight if there is any random military encounter involving loss of life on either side.

Meanwhile, China and America are now ramping up tariffs against each other while Chinese companies like Huawei are being targeted by the White House. It is almost certain that US companies including Apple will feel the heat as China retaliates. With the two biggest economies in the world adopting protectionist strategies, it reminds one of the saying; "When two elephants fight, it is the grass that suffers."

In the Far East, North Korea has done nothing as yet to satisfy America's demand that it eliminate its nuclear arms stockpile despite the public display of friendship between the two presidents. A regional conflict which draws in South Korea, Russia and China is therefore rising in probability as Trump can flip his strategy in the wink of an eye if he feels betrayed.

The grey flag

The third flag of the ageing of the world's population is ticking away quietly in the background and has reduced Europe and Japan to virtually zero-growth economies. It is also slowing the Chinese economy down quicker than expected as a result of its former one-child policy.

This flag will become more important as the century progresses when the necessity to restrain world population growth in order to save the environment becomes more evident. It is amazing how no environmental movement anywhere is prepared to articulate the demographic challenges we face. Number of feet matter as much as the carbon footprint made by them.

The anti-establishment flag

The fourth flag of a rise in anti-establishment and populist movements worldwide is there for all to see. In Britain it produced Brexit, in Europe the revival of right-wing parties and in America Trump. Never in the history of Washington has there been such hatred between the Republicans and the Democrats. Social media has created a monster in spreading fake news accompanied by the kind of rhetoric that is reminiscent of Adolf Hitler.

The flag has paralysed the government of the number one nation on Earth. Trump refuses to have any meetings with Democrats until they drop their investigation of him; and the White House no longer conducts regular press briefings. Meanwhile, in India the results of the biggest democratic election the world has ever seen have confirmed the swing towards nationalism and being tough against perceived enemies. Narendra Modi humbled his opponents.

The side-effect of this flag is the explosive growth of prejudice towards immigrants and the building of walls which go clean against the globalisation policies of the second half of the last century. It has become a major disruptor of world trade. "Who cares", more and more people say, "my culture and religion come first. We do not want to be replaced by aliens on any terms." These views in their extreme were responsible for the terrible massacre in New Zealand and the reprisal in Sri Lanka. Where will it happen next?

The green flag

So many statistics are now coming out showing that climate change is going to pose an existential threat to the planet later this century. We are also experiencing the sixth extinction of species as human beings continue to invade the space of wild animals and forests with the introduction of livestock and crops.

In addition, plastic has penetrated the biosphere everywhere including the oceans and the fish which live in it. The seabird population is declining because they cannot compete with the fishing industry for food. The irony of all this is that our dominant position as a species could lead to our extinction as the diversity of our planet disappears.

The current wave of tornadoes in America and the damage they are doing should show Americans that military might is useless in countering the revenge of Mother Nature. Yet their leader denies there is any link between climate change and humankind.

The global response so far to the threat of this flag is pathetic and has been weakened further by America's withdrawal from the Paris Accord. The goal of greater material prosperity for all eclipses the preservation of the environment, and suggests that the human race will only react to this flag in retrospect after the downward spiral is unstoppable.

The national debt flag

Since the implementation of cheap money policies to help the world recover from the crash of 2008, many governments have allowed national debt as a percentage of gross national product to reach unprecedented levels, including America and China. As long as interest rates remain at historical lows and the global economy does not go into recession, this problem can be accommodated.

If, however, the global economy somersaults in an unexpected way, we will see the same frequency of defaults on loans as happened in 2008; except that it will be governments that default on their bonds rather than private individuals on mortgages. This will cause an even greater degree of mayhem in financial markets than the last crash.

The latest global scenarios and probabilities

So what are the possible narratives that flow out of these flags? The first scenario is a "Gilded Cage" where the world remains deeply divided but no seriously dramatic events occur like the ones alluded to earlier in this article. Trump's threats turn out to be negotiating ploys designed to soften up the opposition before agreeing to the deal on his terms. A raised fist is transformed into a handshake.

Nevertheless, global economic growth rates in this scenario remain subdued compared to the last century which was boosted by free trade, free movement of people and the sharing of technology- all stopped in their tracks for the foreseeable future. Hence, the Gilded Cage is a best-case scenario; with no credible alternative of a shift towards a friendlier planet materialising while Trump occupies the White House.

The second scenario is “Bloodbath” where things go unexpectedly pear-shaped and lurch out of control. Wars break out in the Middle East and on the Korean Peninsula killing millions of people. It is unlikely that America will use nuclear weapons because of the fear of a nuclear response from Russia. Having said that, it is Trump’s finger that is on the nuclear trigger and he is totally unpredictable. Nobody has the power to restrain him.

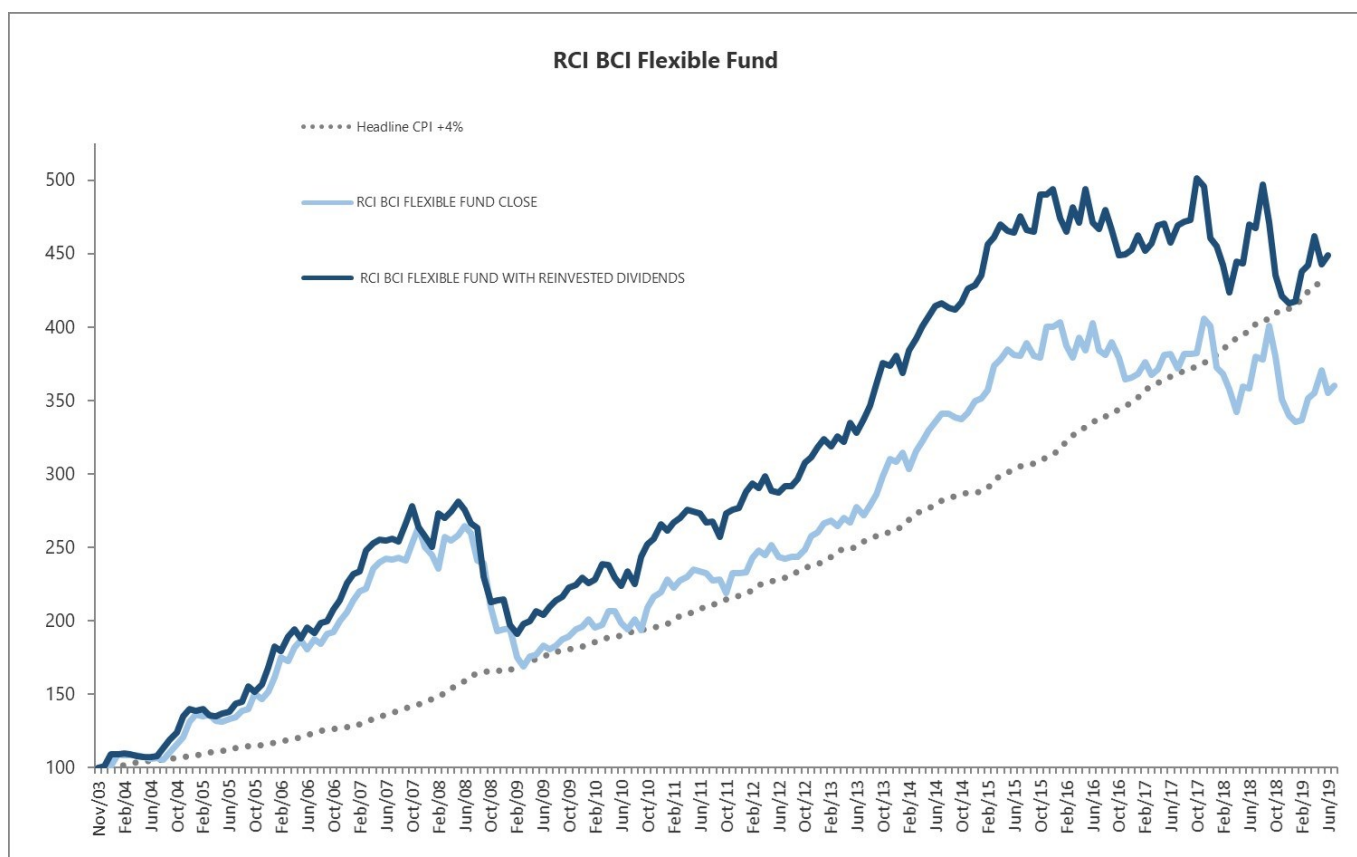
The third scenario is “Forked Lightning” where the world’s markets have another crash like 2008. This one could be deeper and longer than the last one since there are fewer options available now to governments to re-stimulate the global economy.

The current probabilities I attach to the three scenarios are 50% for Gilded Cage, 20% for Bloodbath and 30% for Forked Lightning. The bottom line is that you need the sharp eyes of a fox to detect which scenario is coming into play by watching the flags intently; and the agility of a fox to adapt your strategy as best you can to the new reality. It is called risk management. May the fox be with you in making it an art!

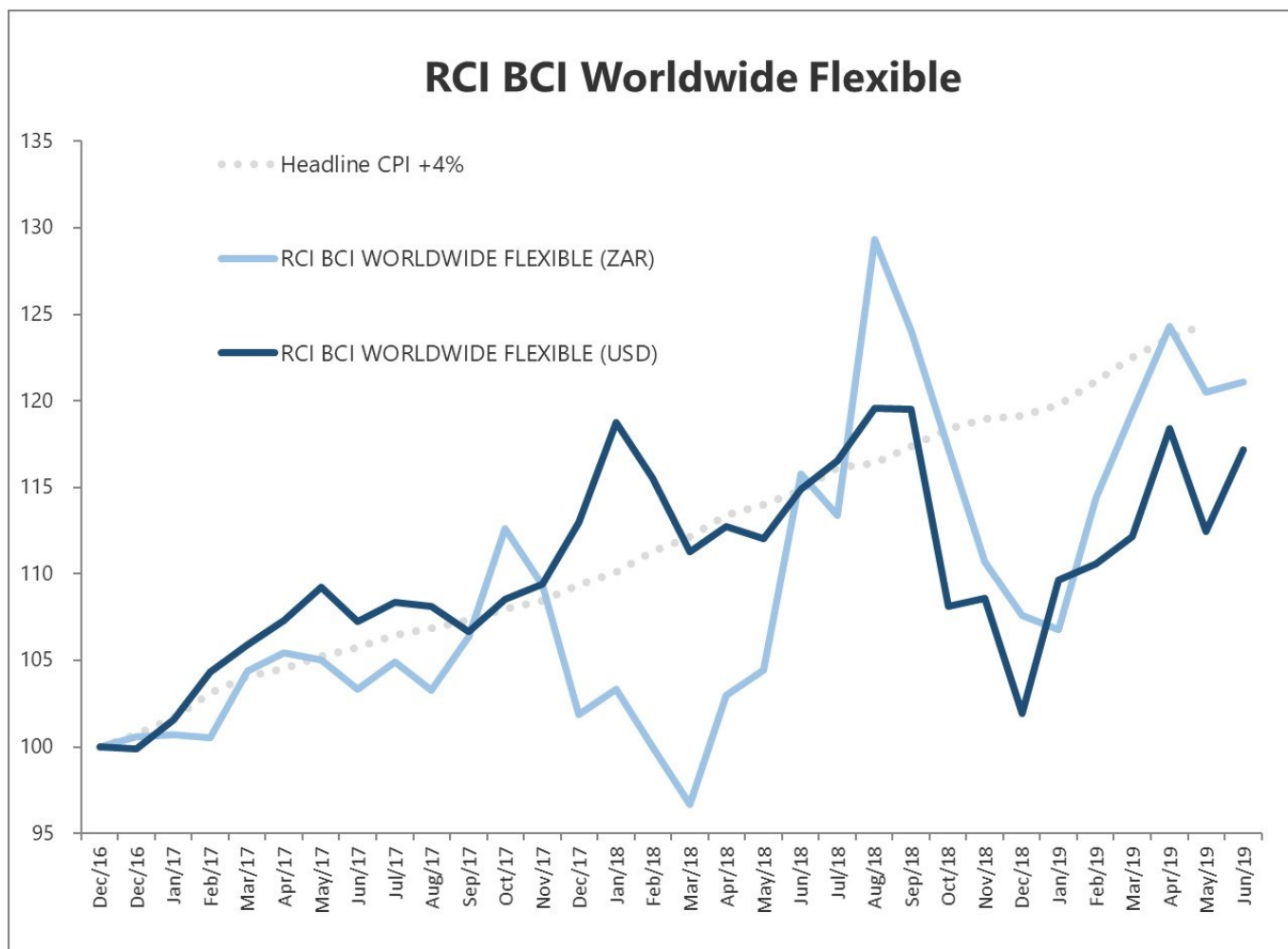
RCI Unit Trusts

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

RCI BCI Flexible Fund closed June at 360.5c, up 1.45% for the month and up 7.96% for the year to date. Domestically, the State of the Nation Address (SONA) was judged as hitting the right notes (more money for Eskom and reaffirming the independence of the reserve bank). However, for our part, we were underwhelmed by the absence of detail on the thorny issue of “how” many of the long-term aspirations would be achieved. As is often the case, however, SA equities took their lead from developments offshore. After May’s correction, global equity markets recovered strongly in June. Investors became increasingly confident that central banks stand ready to respond to weakening economic growth with rate cuts and further economic stimulus if necessary. This proved to be a particularly strong month for commodity prices, leading to mining shares continuing to set the pace for SA equities. The rand, which strengthened 3.5% against the US dollar, countered some of the strength in rand hedge shares, while anxiety about the next round of results for SA-focused stocks in light of SA’s economic malaise so far this year was also a drag. In aggregate though, SA equities ended the first half on a positive note and have chalked up a total return of 6.7% so far this year.



RCI BCI Worldwide Flex closed June at 121.11c, up 0.52% (4.17% in USD) for the month and up 12.58% for the year to date. The fund was negatively impacted by the rand strengthening 3.50% against the USD. In addition, the positive momentum in global equities since the start of 2019 resumed in June with the MSCI World Index delivering a US dollar total return of 6.46% for 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.

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

The year is half gone. What has happened thus far? Performance, when measured in rands, has been good and portfolios have performed strongly. Why? Because of the heavy offshore investments which turned up strongly during this period. What will the next six months do? The impossible item to forecast is how President Trump's trade war with China will play out. Will he end it so world growth resumes? Or will he continue it, threatening world economic systems?

The Trump question is more important to markets than how South Africa does as a country. At the moment, the iron ore price (South Africa's largest export) is near record levels thanks to mining disasters in South America. These will eventually be resolved and the iron ore price is likely to come down again but until then South Africa benefits hugely.

Investments are not a short-term issue. They require consistent and persistent thought and effort to achieve long-term success. The big question is to buy great companies today that will do well in 3 to 5 years time.

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

Best regards

Di, Alan and Mike