Robert Cowen Investments

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Newsletter

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The Family Office

You are welcome to pass this newsletter on to friends who may wish to learn more about investment.
To be added to our email, contact eric@rcinv.co.za

Lou Piniella sums it up well, "Statistics are like bikinis – they show a lot but not everything." We thought this quote fitting, given SA's Rugby World Cup and Rugby Championship victories in the same year!

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

Highlights of this newsletter are:

- We win the Rugby World Cup!
- South Africa's Mid-Term Budget 'A Harsh Verdict' - by Eric Lappeman
- "How Impeachment Could End the Trade War' - by Patrick Watson
- Charts / memes of the month - October 2019
- Meet the RCI team - Monthly RCI staff profile - Andrew Lawson
- 'Currency Corner' - October 2019
- RCI Unit Trusts

RCI BCI Worldwide Flex closed October at 131c, up 2.52% for the month and up 21.98% for the year to date. It is **ranked 8th out of 71 funds in its category for the year, and 6th over a rolling two-year period.**

South Africa Wins the 2019 Rugby World Cup

By Eric Lappeman

SA beats England 32-12

In countless venues around the world, it was a time to set aside our troubles and noisily revel in a sense of unity and national pride, as the whole of SA basked in the spectacle that was the Rugby World Cup final in Japan.

During trying times in our 25-year young democracy, SA experienced a seminal moment. A moment where nothing else mattered. A moment where race, religion, colour, age, language and background did not matter. In venues around the country people, all people, came together to celebrate a monumental victory. This was a victory that made us all proud to say, “We are South African”.

Despite the odds, SA managed to beat the English convincingly in a match that has been likened to the 1995 World Cup final against New Zealand, when Mandela donned a Springbok jersey to unite a nation trying to heal the scars left over from a white minority rule.

Led by captain Siya Kolisi, the Springboks carried the hope of a nation to a moment in time that will always be remembered.

Source: Standard.co.uk

To the Springboks, I say thank you! Thank you for giving us a moment, in an otherwise harsh and unrelenting world, to unite and revel in a moment of euphoria that I will remember forever! Thank you for reigniting the ‘Madiba’ magic hiding inside all of us. My hope is that it inspires more unity amongst our great nation – long may it last.

"Unpacking the Mid-Term Budget" A Harsh Verdict

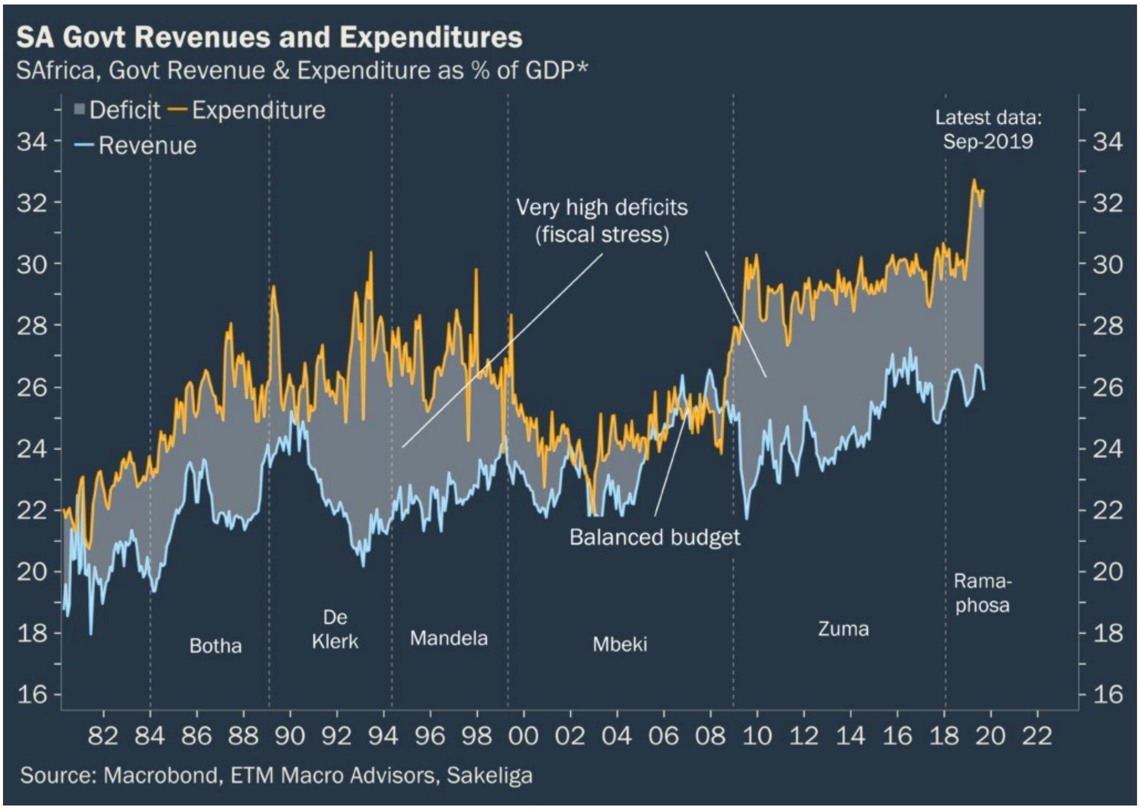
by Eric Lappeman

For years we at RCI have been warning our clients of the fiscal cliff South Africa is facing. We are surprised that it has taken most this long to recognise the harsh reality of what was once considered rhetoric…

South Africa's medium-term budget policy statement is an important moment in our governance calendar. It is, as Finance Minister Tito Mboweni said in his address a few weeks back, "an opportunity to take stock of the strides we have taken in the year" – the question is always whether we have done enough, or is it case of one step forward and two steps backward?

Highlights of medium-term budget policy statement:

- Government Debt to GDP ratio is close to 60% and will likely exceed 70% by 2022
  - The target ratio should be lower than 30%
  - National Debt now exceeds R3 trillion and is expected to rise to R4.5 trillion by 2022
  - Debt servicing costs are now costing the country R204 billion per year
- The economy is only expected to grow by 0.5% for the year, compared to 1.5% forecast in February
- Tax collection was short by nearly R53 billion
- The consolidated budget deficit is now projected at nearly 6% of GDP and continues to widen



On the flipside, we did see positive signs that investment spending was strengthening and that inflation was lower than expected, at 4.1%.

Albeit worth mentioning that the medium-term budget is not the main budget, which is normally delivered in February each year, the statistics highlighted do not paint a pretty prelude to next year and investors would do well to head the warning signs…Moody's certainly has!

Although these deficit and debt numbers may not sound terrifically big to the average South African, the arithmetic of debt dynamics – the way a country's debt burden evolves in response to the budget deficit, inflation, the exchange rate and growth – can be alarmingly relentless. In theory, a country cannot sustain borrowing costs that exceed its real GDP growth without running a budget surplus. Fine, but South Africa has not experienced a budget surplus since 2006. The longer these adverse debt dynamics are allowed to run, the more slippery they become.

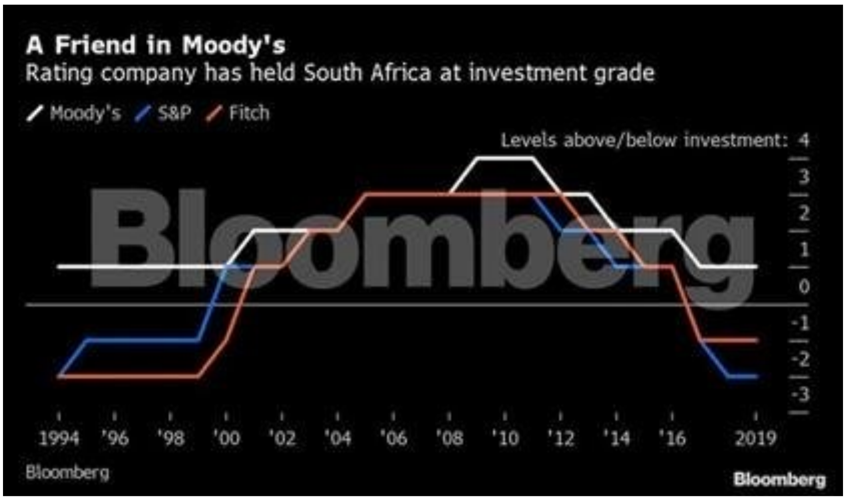
How do we solve the problem?

The answer is: not quickly. Apart from a very careful 'balancing act' of new tax measures and substantially slower rates of increases in spending, there is little else. This is not a quick fix. Unfortunately for everyone, growth outcomes are a result of a complex interplay of many endowment, cyclical and policy factors. It is not possible to reduce spending drastically without impacting SA's GDP growth rate. Think of the situation as a light switch – it is not possible to turn up growth by simply flicking one or two easy policy switches. Many of the structural reforms needed to lift SA's growth rate - such as selective privatisation, labour market liberalisation and educational reforms - are all politically challenging and outside the direct control of Treasury.

What is next for South Africa and investors?

All good long-term outcomes cannot come without some form of short-term pain and argues for some bold measures now. The question is, are the rating agencies (in particular Moody's) willing to give us more time to effect the necessary changes to right the ship? Unlikely… This is a big ship, more like a tanker, and it is going to take a long time to undo the mess we now find ourselves in.

Even if Minister Mboweni truly seeks reform, he appears to be seriously fenced in by political constraints. Despite his willingness to do the right thing, the challenge is getting his party and other vested political interests to agree or, at the very least, get out of the market's way.



Note: Moody's will next review South Africa's credit rating in late February 2020 – It is RCI's view that South Africa will receive a downgrade to sub-investment grade level. It is for this reason that we encourage our clients, and other investors, to continue to externalise their investments and diversify globally.

"How Impeachment Could End The Trade War"

By Patrick Watson

The House appears likely to impeach President Trump. The Senate will then decide if he stays in office.

This will have many consequences, including to the US-China trade war.

I've said since last year that the trade war is irresolvable. The so-called "Phase 1" deal they are now discussing will probably, if it even happens, ignore the most important issues, and either side could abandon it quickly.

However, that might change if someone else becomes president. The odds are low but not zero. So, let's consider what the impact could be.

Intentional Confusion

Tariffs on Chinese imports get the most attention, but far worse is the uncertainty surrounding them.

Businesses make investment decisions based on forecasts: production costs, product demand, tax rates, financing costs, and more. Obviously, they can't know the future, but they need some minimal confidence, at least.

What they have instead is constant confusion: who tariffs will hit next, how hard they will hit, and how long they will last.

That uncertainty isn't accidental. Trump creates it on purpose because he thinks keeping everyone confused gives him an advantage. It might work that way in a real estate deal. Not so in international trade policy, because it also confuses his own side.

We see this in business investment, which was growing nicely when Congress cut corporate taxes in late 2017. Many assumed the tax cuts would generate even more investment growth. It didn't.

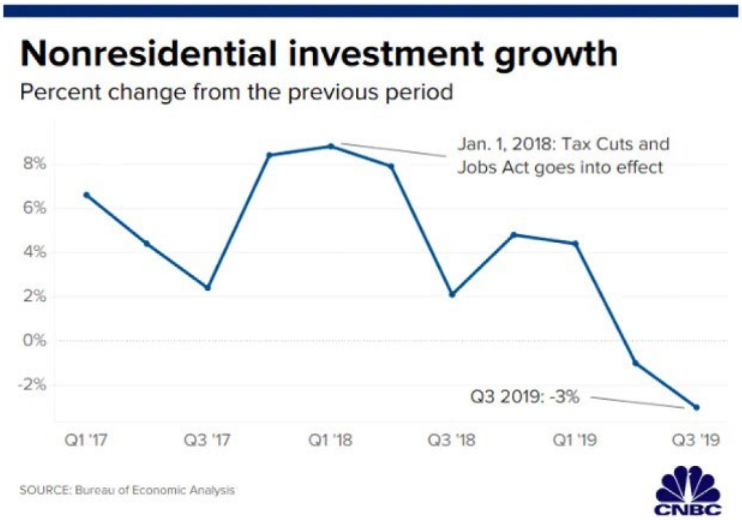


Chart: CNBC

Within weeks after the tax cut took effect, the president started imposing tariffs and threatening more. The target list changed a lot, leaving businesses uncertain what to expect next.

They responded as you would expect - by delaying growth plans and capital investments. Non-residential investment growth began to slide and, by mid-2019, was below zero.

This trend is incompatible with continued GDP growth. Worse, there isn't much the Federal Reserve or anyone can do about it… even President Trump.

Ridiculous Optimism

Let's make some generous assumptions.

Say that Xi Jinping agrees to buy more US food products and change the policies we don't like. Trump agrees to cancel the next round of tariffs.

In fact, let's go further. Say Trump ends all the tariffs he's imposed on Chinese goods, effective immediately, and promises no more.

Yay, it's over! Everyone celebrates!

Sadly, any such celebration might be short-lived.

We have seen how quickly the president can change his mind. And, since he bypassed Congress to impose these tariffs in the first place, nothing stops him from reversing yet again.

Similarly, the Chinese side isn't exactly a paragon of sincerity. Xi could also claim "misunderstanding" and back out of the deal.

> *So, if you are a CEO or business owner, you would be pretty foolish to ramp up your growth plans just because Trump and Xi shook hands on something.*

At best, you'll wait a while to see if the deal holds… possibly a good, long while.

That's why even the ridiculously optimistic scenario I just described won't restore growth. Nor will it repair the damage already done or replace the missed opportunities. That's the reality we face.

All this is another way of saying, the trade war can't end as long as Donald Trump is still president.

But what if he isn't?

"Kind of a Mystery"

Before anyone flips out, I am NOT saying the president's trade policies are grounds for impeachment. His tariffs are unwise, but they aren't illegal.

However, if (as unlikely as it now seems) the Senate removes Trump from office, or he resigns under pressure, we would then have President Mike Pence. What would he do?

Pence might just roll on as Trump has. However, he's from the Midwest industrial and agricultural zone that tariffs are hurting the most. If placed in charge, he might go a different direction.

If so, then impeachment really could end the trade war… at least temporarily.

Ditto if a Democrat wins the presidential election next year - depending which one it is. Senator Elizabeth Warren, for instance, also has China issues. Her trade policies might not be so different.

What seems certain, though, is that a continued Trump presidency means continued trade war. Even if he reaches terms with China, he has plenty of other targets.

A China deal that actually solves the real problems is still unlikely. Michael Pillsbury - one of Trump's top China experts - didn't sound very confident in a speech last week.

> *"The trade talks themselves are kind of a mystery," he said. "First of all, they're secret. Has anybody here seen a copy of the 150-page trade agreement? This is what's known about the trade agreement: it's a 150-page agreement, it has seven chapters, it has an enforcement mechanism, it has three layers of appeal and it's not signed. And the president revealed some level of anger that the Chinese had reneged on May 2 to some parts of the 150 pages. So, here are the two largest economies in the world, in this negotiation, with no clear outcome in sight."*
>
> *The bottom line for Pillsbury is that the U.S. does not have a strategy or government structure in place to deal with the Chinese geopolitical and economic threat, and without that, any trade deal might not be worth the paper it is written on.*

Maybe Pillsbury is just trying to lower expectations. But we hear the same from Chinese sources.

> *In private conversations with visitors to Beijing and other interlocutors in recent weeks, Chinese officials have warned they won't budge on the thorniest issues, according to people familiar with the matter. They remain concerned about President Donald Trump's impulsive nature and the risk he may back out of even the limited deal both sides say they want to sign in the coming weeks.*

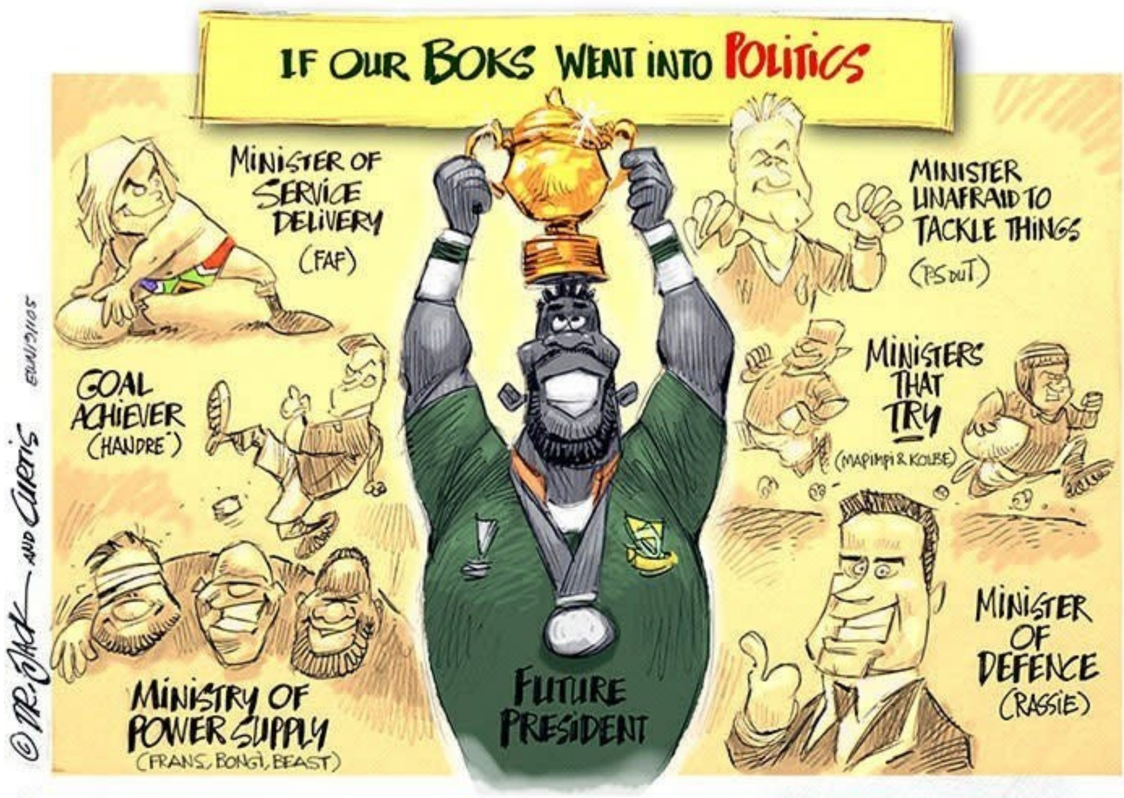
Bottom line: this genie is out of the bottle. Pandora's Box is open. Use any metaphor you like, but the pre-2018 trade regime isn't coming back…

"So, here are the two largest economies in the world, in this negotiation, with no clear outcome in sight."

'Charts' of the month – October 2019

"The difference between Boris Johnson and the Hulk, is that Bruce Banner actually cares about the havoc that he wreaks."

If our Boks went into politics! – I showed this meme to Willie, but he didn't quite 'catch it'. 😉



Monthly RCI Staff Profile – Andrew 'Crypto' Lawson

Joined Robert Cowen Investments in 2016 (± 4 years ago) and works as a portfolio manager.

Completed account articles at PKF.

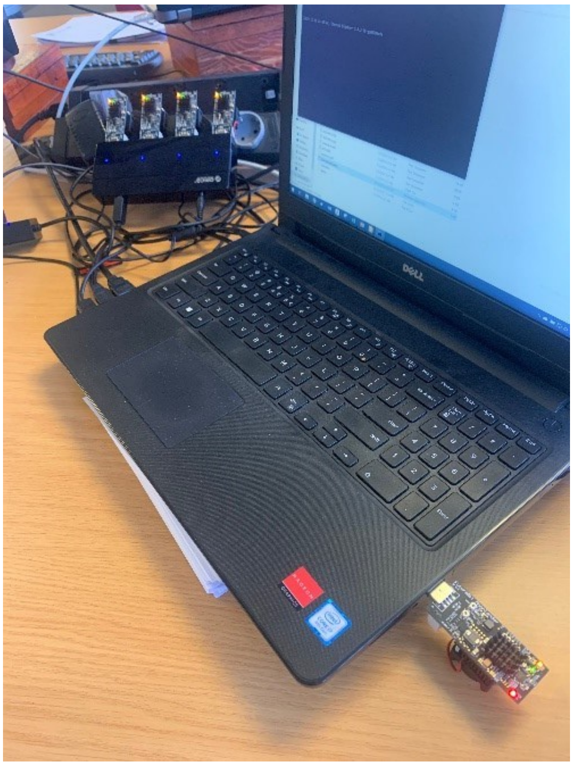
Prior to RCI: Worked at The Core Group as a treasury accountant, responsible for group cash flow and forex operations.

Andrew has also completed all three CFA exams.

Apart from managing discretionary client portfolios, Andrew also assists in section 42 transfers of clients' portfolios as well as other tax and structuring needs.

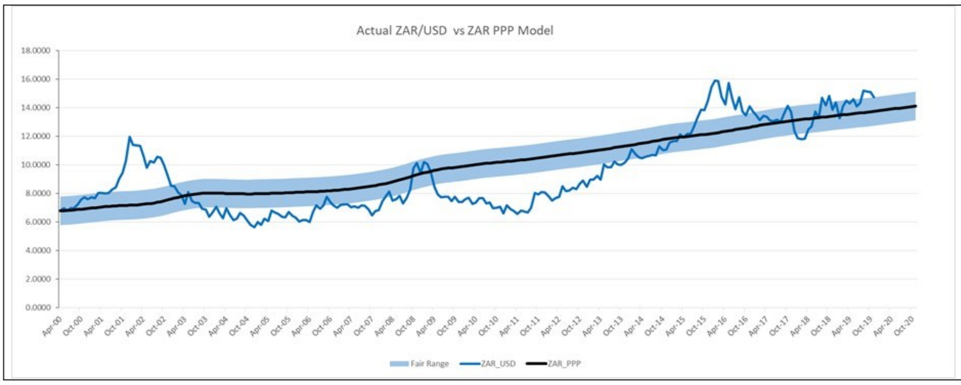
Andrew is married to Robyn and has recently had his first baby, Bain (7 months old), who is definitely cuter looking than his parents. When not managing portfolios, or changing nappies, Andrew can be found at the Wanderers Golf Club enjoying a round of golf, or the 19th hole.

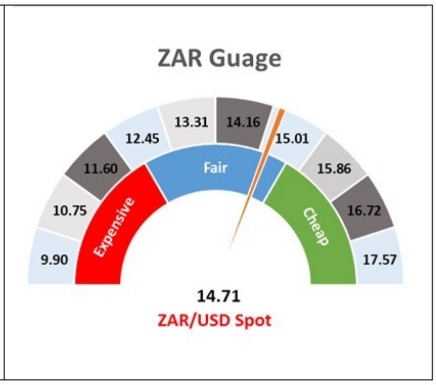
Andrew's other interests include Crypto currency mining and trading/gambling. 😉 If one ever asks Andrew when he started "investing" in crypto's, his answer is always "early enough"… whatever that means!



'Currency Corner' – September 2019

By Nolan Wapenaar





The month of October, despite a lot happening, actually witnessed very little movement with only a 0.5% appreciation of our currency against the dollar, to end at R15.06. This, despite an adventurous last week, with a disappointing Eskom plan and a horror Medium Term Budget Speech.

The temporary stay of execution from Moody's seems to have allayed some of the market's fears, allowing the currency to recover a little lost ground. The Rand is currently R14.71 against the dollar which is within our fair band.

South Africa's fiscal position is dire and the message from our Finance Minister could not have been clearer. If we continue down the current path, then we are about a decade from becoming Zimbabwe. The South African government is now left with very few options to address the massive imbalance and all of the choices that need to be made will be unpopular with the ruling party and with the population. We no longer have the luxury of kicking the decision down the road and any delay will only result in the medicine being even more bitter when we do eventually take it.

In many ways, South Africa is fortunate that the global markets are in a forgiving mood. The risk on trade is seeing all-time highs in US equity markets, while emerging market currencies and other risk assets are also benefitting. This positive global sentiment clearly has been giving some support to the Rand.

The Rand is now at R15.32 against the Dollar (as at the 6th of October 2019). This is oversold, in the short term, and we do think that some recovery is to be expected over the next few weeks. We caution that markets remain very skittish and events could move our currency either way. 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…

This Day in History – October 2019

THE INTERNET TURNS 50

Here's a look at how it gave birth to trillion-dollar corporate giants

1969 Oct. 29: The first digital data transmission is sent between two computers.

1975 Bill Gates and Paul Allen found Microsoft.

1976 Steve Jobs, Steve Wozniak, and Ronald Wayne found Apple.

1995 Amazon, Yahoo! and eBay launch. Microsoft releases Internet Explorer.

1997 Half of the American households that are online are using AOL.

1998 Google is founded by Larry Page and Sergey Brin.

1999 Napster's music sharing (and pirating) service launches, paving the way for music streaming.

2000 The rise and burst of the dot-com bubble.

2004 Mark Zuckerberg launches Facebook with others. Google launches Gmail.

2006 Twitter cofounder Jack Dorsey sends the first tweet. Google buys YouTube for **$1.65 billion.**

2007 Apple launches the iPhone and Apple TV. Netflix starts streaming video on demand.

2012 Facebook buys Instagram for **$1 billion.**

2017 Amazon buys Whole Foods for **$13.4 billion.**

Photo illustration

2018 Apple becomes the first U.S. trillion-dollar company company in August, followed by Amazon in September.

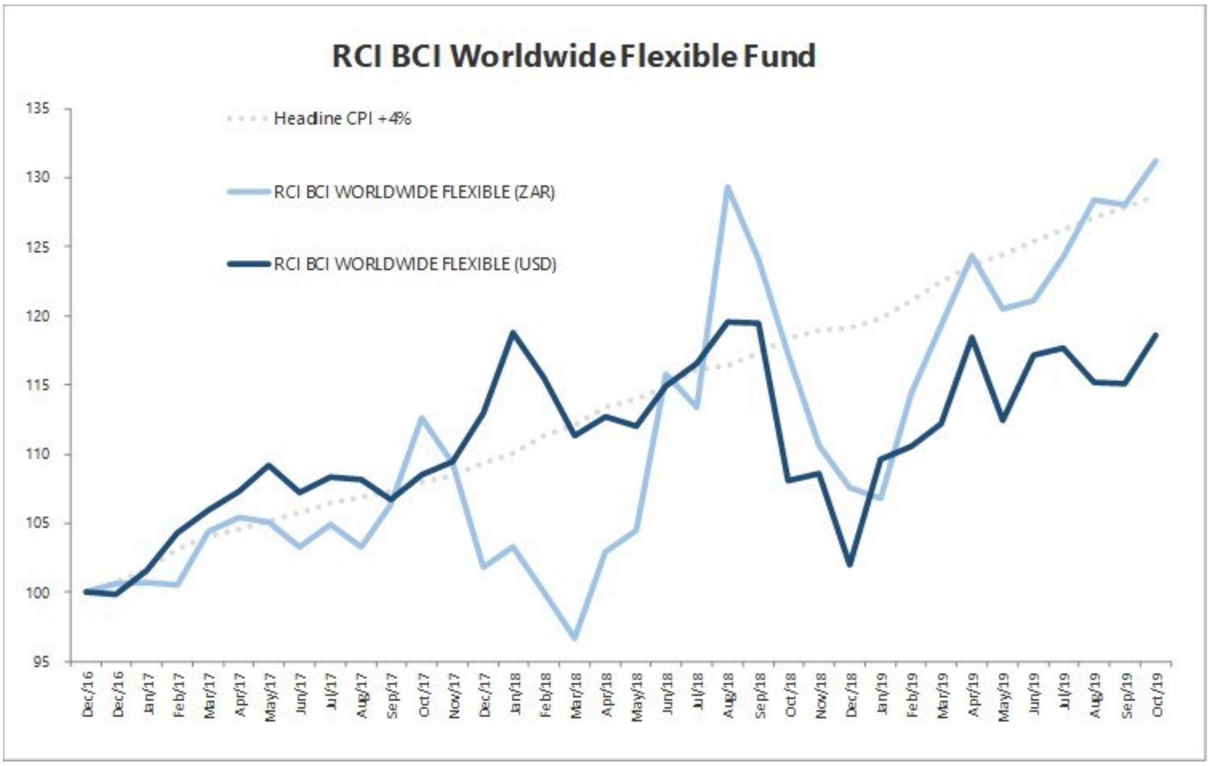
2019 Microsoft hits **$1 trillion**

Source: MarketWatch reporting

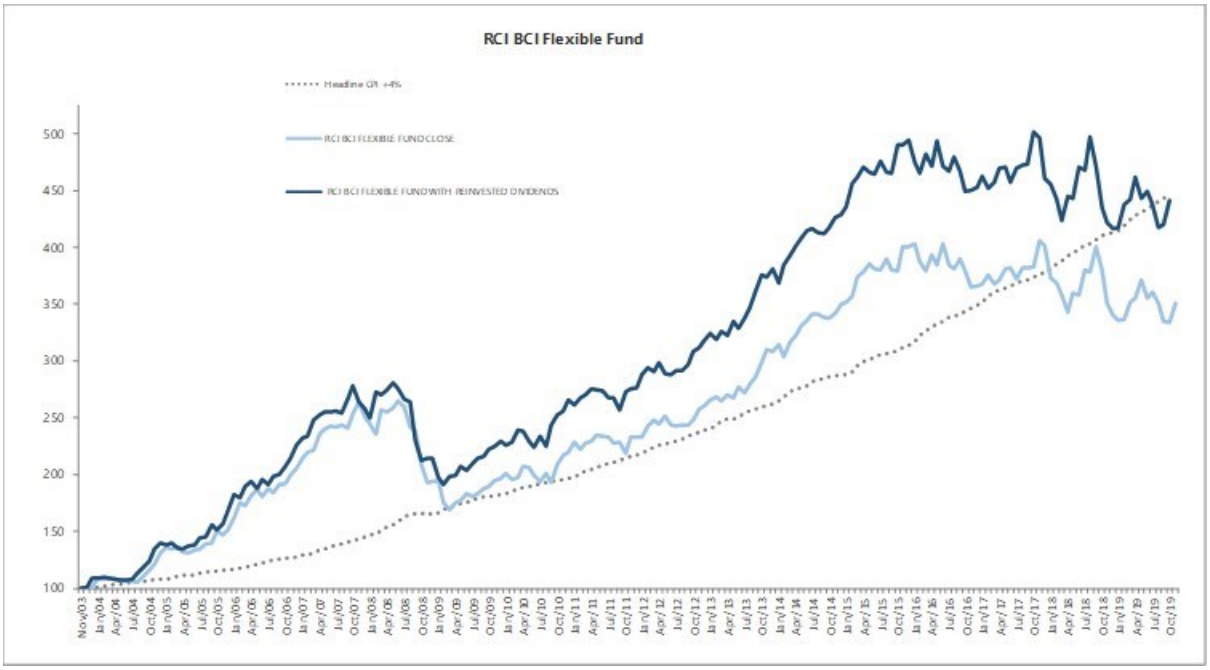
RCI Unit Trusts

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

RCI BCI Worldwide Flex closed October at 131c, up 2.52% for the month and up 21.98% for the year to date. It is **ranked 8th out of 71 funds in its category for the year and 6th over a rolling two-year period.**



RCI BCI Flexible Fund closed August at 351.25, up 5.10% for the month and up 6.44% for the year to date.



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

It was a month of ups and downs. We won the biggest title on the World Rugby stage, the Webb Ellis trophy! We were also, unfortunately, the recipient of a negative credit rating outlook by Moody's.

The currency has remained surprisingly resilient, despite a lot of poor news out of the medium-term budget policy statement. We continue to affirm a view that we will receive a downgrade to sub investment grade levels sometime next year and as such invest more of our client's funds abroad.

With the end of the year fast approaching, we remind everybody to utilise at least their R1mil single discretionary allowance to move more funds offshore. It renews again on the 1st of January 2020.

The increasing complexity of the world in which we invest continues to keep us very busy. We are hard at work assisting clients in restructuring their financial affairs, including estate and tax planning. Investing for solid long-term returns, in excess of inflation, goes hand in hand with this.

Our RCI Worldwide Flexible Fund (invested similarly to our bespoke offshore share portfolios) continues to produce great returns in USD and ZAR terms – **now ranked 6th over a rolling two-year period in its category (up 21.98% so far this calendar year**, compared the 6.99% JSE All Share return).

Lastly, thank you again for being our clients. May you have another great month. 😉

For those clients of ours who have RSVP'd to our year end function next Thursday, we look forward to seeing you all.

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

Best regards

Di, Mike and Eric