



Robert Cowen Investments (Pty) Ltd.
Growing Families' Wealth Since 1982

NEWSLETTER - END APRIL 2010

10 MAY 2010

"There's an old saying about those who forget history. I don't remember it, but it's good."
- Stephen Colbert

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RCI Flexible Managed unit trust - RCI Flex was down slightly by 0.19% during April compared to a 0.79% fall in the JSE Top 40. For 2010 it has risen by 4.244% compared with the JSE Top 40's rise of 2.53%. In the first few days of May, the market has fallen further - see update on page 2 - so we are glad to have a cash holding of around 20%. Our concerns about the risk/reward relationship of the market remain – shares are not cheap. However, interest rates are so low in America and their growth prospects so mediocre that the medium term trend should be for Americans to continue increasing exposure to emerging markets. Short term blips will occur from time to time e.g. concerns over Greece so one must remain ever vigilant, but would give us a chance to buy more shares at lower prices.



The Cash cushion in RCI Flexible is doing its job.

Greece is small potatoes – size of European debt in picture form shows where the real problems lie.

We get famous – Kokkie Kooyman mentions our Wimpy burger article in his SIM review.

Australian proposal to increase the tax rate to 57% on miners causes Billiton to tumble.

The South African government wants a lower rand exchange rate – but it is not so easy to get the rand to weaken.

PERSONAL SERVICE
FORESIGHT
EXPERIENCE

RCI Flexible Managed Unit Trust – the cash cushion is doing its job

For the past couple of months we have been highlighting that the market was creeping up but was no longer good value and Greece and other European debt could become a problem. Therefore, we were keeping a cash balance of about 20% plus 5% in gold. In the past two weeks there has been a violent correction as markets panic about Greece and the borrowings of Spain, Portugal etc. We increased our cash holding again last Tuesday and are currently 24% in cash and 7% in gold. Thus we have limited the extent of the fall. The JSE Overall has fallen by 10.1% since mid-April while RCI Flex is only down 6.1%. From the end of April to the 7th of May, the market fell 7.4% but RCI Flex is only down 3.9%. (Late note: Early morning 10 May, the market is up 3.4%) With this level of cash, we are quite happy to see the market come down so that we can buy shares at even cheaper levels.

RCI Flex - cash cushion doing its job Falling less than the total market				
JSE-Overall Index			RCI Flex	
	High	End April	High	End April
14/04/10	29500		211.25	
30/04/10		28636		206.43
07/05/10	26515	26515	198.34	198.34
Fall	-10.1%	-7.4%	-6.1%	-3.9%

Markets do not move in straight lines – expect volatility



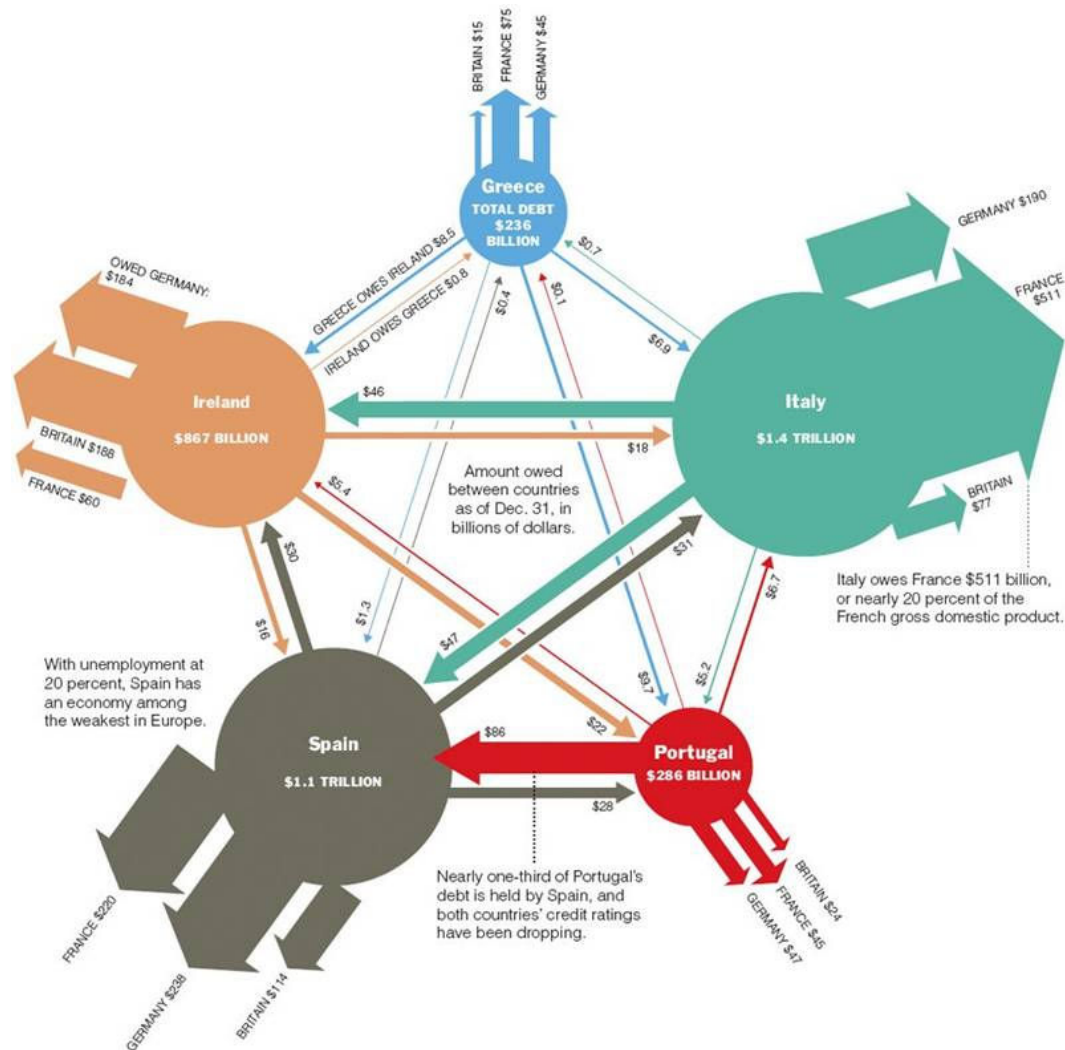
After such a strong run over the past 12 months, some kind of pull back was to be expected. The purple line is the 200 day moving average and it is quite normal for the market to pull back to this average as it has now done or even to fall 5% or 10% below it. It is very rare that it plunges far below it as it did in late 2008. From the horizontal blue line, it is clear that the market has some support at around the 25000 level and we would be surprised to see it fall below there (another 5.6% down) but we hope it does and we can then reinvest the cash better.

The upward sloping blue line shows the strong upward channel of the past year. This has now been broken when the market fell below 27000. The market must get back above this blue line to resume its upward channel.

Greece is small potatoes - other European debt is what is worrying the markets

The New York Times published the following diagram which puts the size of the Greek debt problem into perspective. The size of each debt ball is in proportion to the size of the borrowings and Spain, Italy and Ireland make Greece and Portugal pale into insignificance. The diagram also shows to whom the debts are owed – mainly Germany and France. This is why the European Union will try so hard to prevent little Greece going into default – in case of a domino effect on the rest.

As we have said before, the probability is that Greece and all the rest will be bailed out – but it won't be easy and there could be some very anxious moments before it is all over.



We get famous - from the SIM Global market review

In Kokkie Kooyman's introductory email of 14 April 2010, our Wimpy Burger article got a mention:

I recently read Alan McConnochie's client newsletter where he compared the return of being invested in a good quality company vs. the price of a Wimpy Burger. I experienced something similar involving a relative who had asked me to invest some of his savings in 1992. By 1994 this had grown nicely to about R100 000, but then he asked me to sell the shares because he wanted to buy a caravan.

Alan's newsletter reminded me of this incident so I looked up the spreadsheet with the shares I had to then sell. I was still relatively inexperienced then (only 5 years in the investment industry although I'd been in turnaround workouts in a few listed companies before that), but looking back, the share selection was quite inspired: mostly financials and more than 1/3rd was invested in Santam.

On checking I found that that little R100 000 portfolio would today have been worth just more than R2 million! (dividends reinvested).

Instead it was invested in a caravan which was used for 2 years, then parked next to the garage for a further 4 years and sold for less than R50 000!

Warren Buffett relates how, once he realised the power of compounding, he stopped spending anything for a while. Every dollar he was about to spend he thought: "this is potentially a million bucks I'm spending now".

I'm halfway through writing a "review" on compounding, expounding on Alan's newsletter and Standard Bank. But our recent travels and research kept me from finishing it. I hope to complete it on my return from Turkey next week before we leave for our annual trip to Omaha and round of US Bank visits.

We look forward to Kokkie's article.

Adding to Market Woes - Australia proposes a big tax on miners

The Australian Government picked this week, of all weeks, to float a proposal which will increase tax on mining operations from around 43% to around 57%. The price of Billiton collapsed because IF this proposal went through, expected returns would be much diminished. We think that this might simply be an opening gambit and the eventual tax may be quite a bit lower. Obviously, as Billiton is one of our largest holdings, we think this is a stupid idea. From now on Billiton will seek to expand outside of Australia if it can get a better after tax return on new projects. What is wrong with taxing the rich mining companies, a socialist may ask? The Daily Reckoning makes some interesting points.

Australia's mineral resources don't make it rich. Its transparent legal system, fair tax system, competitive capital market, skilled workforce, and a general environment that creates the conditions for the private sector to thrive make it rich. When you start taking a sledgehammer to this institutional framework, you destroy a nation's wealth.

If having stuff in the ground made a country rich, African nations would be the richest places on the planet. But for commodity rich countries, it's only when private capital and energy identify mineral deposits to develop economically that value is unlocked in exchange with buyers. A nation's real wealth is in being a good place for people to be free and create wealth and value and jobs. Easy-to-understand laws that don't change in mid-project attract capital, human and financial. And capital leads to more net national wealth.

But maybe all that's too abstract. Stealing from the rich to give to the poor is always an easier sell in the court of the public opinion, especially since the rich are generally not likable. The miners counterattacked in Canberra yesterday by threatening to shelve or cancel new projects.

Source: The Daily Reckoning 6 May 2010

The SA Government wants a weaker currency

"The South African government is looking at mechanisms to make the currency less volatile & more competitive, Minister for Trade & Industry Rob Davies said on Friday. The rand gained close to 30% against the dollar in 2009. It has traded with a firmer bias against the greenback for most of this year, although it weakened this week on concerns about the fallout from the Greek debt crisis. "We have agreed in government that what we need is a less volatile & more competitive exchange rate," Davies said. "We need a set of policies to guide us, to try to support less volatility around all these events that happen beyond our call," he said on the sidelines of the World Economic Forum on Africa meeting in Dar es Salaam. "That is where the debate is at, what are the mechanisms that we can use to try to achieve that objective? The objective, I think, is fundamental."

Source: Kagiso Securities Ltd 10 May 2010

Why does he want a weaker rand? Because South African mines sell in dollars so the weaker the currency, the greater the number of dollars received and the more profits earned leading to higher employment and greater tax payable. The very strong SA rand of the past year has hurt mining profits badly.

RCI Flexible Unit Trust

In order to view / obtain RCI Flexible unit trust statements, unit holders may register on Metropolitan's website www.metropolitan.co.za.

To obtain an access user manual, please contact Irene on 011 486 0576.

Unit trust has flexibility – happy to take small amounts

The unit trust has the flexibility to buy and sell resource shares and to change weightings more frequently than in an individual portfolio. We are happy to take small amounts into the unit trust (from R500 upward). As we do not pay commission to any agents (most get paid 5% on small amounts), the cost of getting in and out of our fund is about 0.29% (to cover the admin fees involved).

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 Metropolitan 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

There are no certainties in the stock market – only probabilities. We believe the logical way to invest is to try to wait until the valuations are in your favour and then buy good quality shares paying reliable streams of growing dividends. Markets will fluctuate – that is their nature – as they have done over the past two weeks, but if the stream of dividends keeps growing, the long-term direction of the share price should be up despite short term volatility. Ignore the noise and invest on the facts.

Thank you for being our clients.

Kind regards

Rob, Di and Alan

P.S. 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



Annexure A REALITY CHECK: Valuation Indicators - not cheap

Table 1: Valuation & sentiment indicators			30 April 2010					
	TOP40	FIN 15	RES 20	IND 25	BANKS	Mid Cap	Small Cap	
Valuation indicators								
Current PE ratio (x)	17.92	12.14	22.94	18.18	14.47	14.75	27.62	
10 year average (x)	13.95	11.93	14.91	14.83	10.26	12.03	12.18	
% below / above(-) ave	-28%	-2%	-54%	-23%	-41%	-23%	-127%	
10 year cheap level	11.51	9.07	11.40	12.04	8.33	9.85	7.73	
10 year expensive level	16.39	14.79	18.42	17.62	12.19	14.21	16.63	
Comment	9% worse than expensive	Average	20% worse than expen.	3% worse than expen.	16% worse than expen.	expensive	Abberation	
Current Div Yield %								
10 year average DY%	1.82	2.98	1.49	1.70	3.16	3.28	3.62	
10 year average DY%	2.76	3.80	2.81	2.09	3.65	3.57	4.30	
% below (-)/ above ave	-34%	-22%	-47%	-19%	-13%	-8%	-16%	
10 year cheap level	3.45	4.94	3.63	2.63	4.48	4.30	5.36	
10 year expensive level	2.07	2.66	1.99	1.55	2.82	2.84	3.24	
Comment	12% worse than expensive	12% better than expen.	*25% worse than expen.	19% worse than ave.	1/2 way to expensive	Average	1/2 way to expensive	
* Mining earnings and div's fluctuate wildly so ratios based on expected results must also be considered.								
* Most results are released in Feb and August causing PE's to drop and Div Yields to rise if results are positive								
+ Poor results to December 2009 have now been taken into account, most companies earnings and dividends should improve from here								
Sentiment indicator								
% above/ below (-)								
200 day moving ave	7%	9%	5%	8%	13%	12%	11%	
(Be cautious above 20%)	Turned Down	Turned Down	Turned Down	Down	Turned Down	Turned Down	Up	

An explanation of Table 1 - Historically expensive and not much growth expected in 2010

Absolute Value: (P/E) (N.B. Lower PE's = better value) The ten year average PE (Price/ Earnings ratio) for the JSE Top 40 index is 13.95x whereas over 16.39x is expensive. Currently at 17.92x it is 9% above expensive! The substantial fall (>20%) in resource earnings for the 12 months to 31 December 2009 increased the PE. For 2010, metal prices have improved but if rand strength prevails there is limited scope for earnings growth.

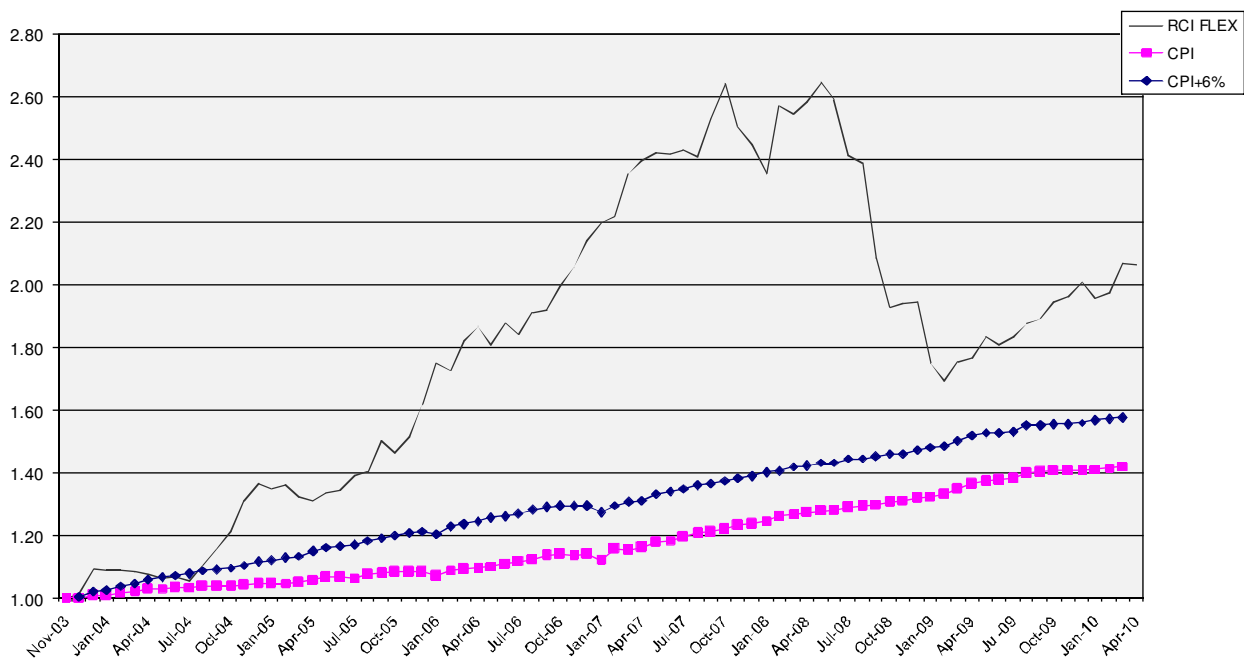
(DY valuation) (Higher div's = better value) The dividend yield (DY) of the Top 40 has averaged 2.76%, is expensive below 2.07% but is cheap above 3.45%. So at 1.82% it is 12% worse than expensive, with limited growth potential.

Sentiment level: (we measure whether the market has run too fast by what percentage the Index is above its long term (200 day) moving average). Above 20%, it is usually a time to exercise caution. It bottomed out at -37.7% in 2008. It rose back to 19.57% in October. Every time it has flashed danger in the past few months, the market has turned around and gone up again. At 7%, it is falling but is in 'no-man's land'.

Underlying Indices: We then split out the underlying indices. The resources index (RESI 20) fell dramatically to bottom at -52% below the moving average. It rose back to 22% in early January but fell sharply down to 5% by the end of January. Currently it is at 9% but still dropping. Banks have also turned down but are still 13% above their average. The Small Cap Index is on a PE of 27x which is very expensive but has been distorted by losses in some of the companies in the Index.

Indices performance to 30 April 2010							
Index	Prices	One Month %	Y-T-D %	12 Month Rolling %	OB/OS	Current historical PE ratio	Div Yield%
International							
DJI	110,086	1.40	5.57	34.78	9.53%		
NASDAQ	246,119	926.37	984.63	1,333.17	11.97%		
SP500	118,688	1.49	6.44	35.98	8.55%		
FTSE100	55,533	(2.22)	2.59	30.86	5.65%		
AUSTRALIA	4,833	(1.23)	(1.00)	29.09	3.57%		
HANG SENG	21,108	(0.62)	(3.49)	36.01	-0.19%		
Local							
TOP40	25,630	(0.79)	2.53	38.44	6.94%	17.92	1.82
FIN 15	8,019	(0.52)	8.63	41.08	9.44%	12.14	2.98
RES 20	50,948	(1.23)	(0.27)	35.66	4.79%	22.94	1.49
IND 25	22,498	0.75	4.08	41.27	8.34%	18.18	1.70
JSE-Banks	40,864	(0.01)	11.42	45.19	12.75%	14.47	3.16
JSE-Midcap	37,917	1.72	9.34	40.46	12.03%	14.75	3.28
JSE-Small Cap	30,192	3.15	8.27	36.60	11.47%	27.62	3.62
Currencies							
Rand/US\$	7.35	1.18	(0.24)	(13.96)			
Rand/Euro	9.78	(1.53)	(7.66)	(12.71)			
Rand/Aus\$	6.80	2.30	3.27	9.57			
Rand/GBP	11.25	1.92	(5.54)	(10.87)			
RCI Unit Trust							
RCI Flexible (ZAR c) (Performance includes divs paid)	206.43	(0.19)	4.24	21.44	5.54%		
RCI Off-shore Funds							
RCI Asset Swap (ZAR)	1,710.09	1.63	(2.32)	(3.01)			
RCI Asset Swap (\$)	232.53	0.44	(2.08)	12.73			
RCI Fund (ZAR)	1,155.71	3.15	(0.45)	(1.50)			
RCI Fund (\$)	157.15	1.95	(0.21)	14.48			

RCI FLEXIBLE MANAGED FUND
30 APRIL 2010 (LOCAL UNIT TRUST)



Annexure B: RCI's Offshore Funds have performed very strongly versus the New York and London Stock Exchanges.

Our asset swap up 60.6% in USD vs a fall in SP500 of -32%

With the strength in the rand, our offshore investments battled to perform in rand terms in 2009. However, in dollars, their performance over the ten years they have been in existence is excellent relative to investing in the American or UK Indices. We have updated our performance to the end of December 2009.

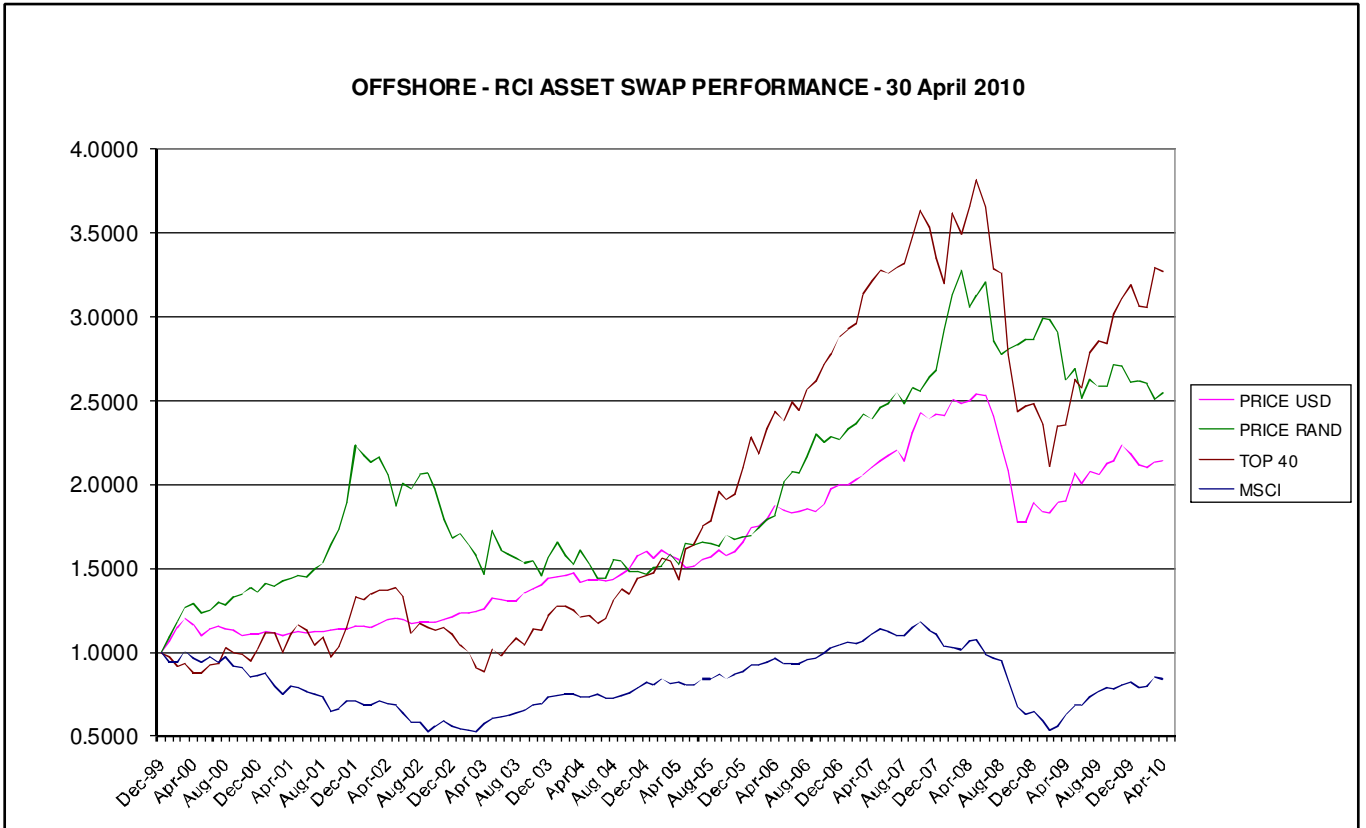
RCI Offshore performance has been excellent relative to main stockmarkets								
Year	RCI FUND		RCI Asset Swap		MSCI	SP 500	FT100	
Ending	In Rand	In US\$	In Rand	In US\$	In US\$	In US\$	In US\$	In GBP
Dec-00	20.3	-0.8	35.8	10.8	-14.0	-8.5	-15.2	-8.2
Dec-01	60.2	1.5	64.4	4.2	-17.8	-13.0	-18.1	-15.9
Dec-02	-25.8	3.0	-24.9	4.5	-21.1	-24.2	-16.6	-24.7
Dec-03	-10.9	14.2	-6.8	19.6	31.0	26.4	26.4	13.6
Dec-04	-7.7	9.2	-6.1	10.7	12.7	9.0	15.2	7.5
Dec-05	16.9	5.4	15.0	3.7	7.4	3.0	5.4	16.7
Dec-06	32.4	19.1	34.0	20.5	18.1	13.6	25.0	10.7
Dec-07	18.3	20.9	18.4	21.0	6.4	3.5	5.8	3.8
Dec-08	0.7	-26.4	7.0	-21.7	-41.7	-38.5	-50.3	-31.3
Dec-09	-12.5	11.2	-9.1	15.5	27.0	23.5	35.6	22.1
Cumulative performance to December 2009								
10 Years	89.5	60.6	160.6	118.6	-17.8	-32.3	-20.7	-20.1
Last 5Yrs	61.2	24.2	77.5	36.8	-0.1	-18.5	-6.0	12.4

The table shows that:

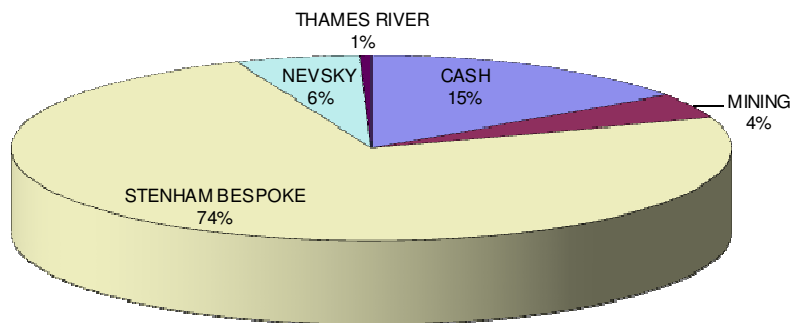
- America's main index, the SP500 fell by -32% in the 10 years to 31 December 2009 and fell in four of the 10 years.
- UK's FT100 fell by -20.1% in 10 years or -20.7% when valued in dollars. It also had four down years.
- The MSCI global index fell -17.8% and had four down years.
- The RCI Fund rose by 60.6% in dollars suffering only one large down year (2008) and a minimal -0.8% fall in 2000.
- The RCI asset swap fared best of all rising 118.6% in dollars and experiencing only one down year (2008).

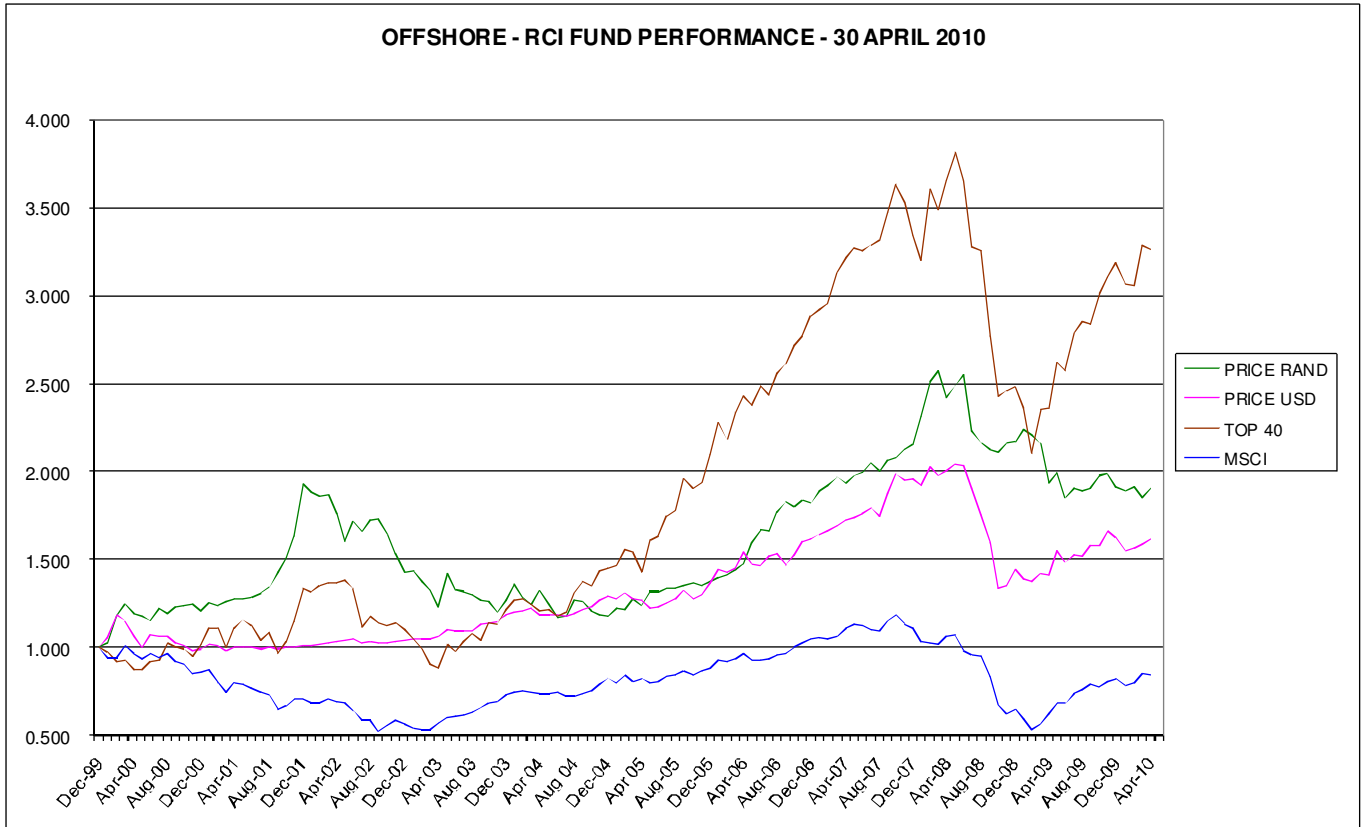
For interest sake we have also put in the cumulative performance of the past five calendar years. Once again the RCI Asset Swap performed best (up 36.8%), the RCI Fund up 24.2% whereas the MSCI fell -0.1%, the SP500 fell -18.5% with the FT100 down -6% in dollars but up 12.4% in sterling.

Lastly we have included the rand performance of the RCI Fund and the Asset Swap. With the volatility of the rand, this performance swings wildly but they ended up 89.5% and 160.6% respectively, despite 2008 being the worst year on record in dollar terms and the strength of the rand in 2009.



OFFSHORE RCI ASSET SWAP - APRIL 2010





OFFSHORE RCI FUND - APRIL 2010

