



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

NEWSLETTER - END JUNE 2010

5 JULY 2010

"Rarely is the question asked: Is our children learning?"

- George W. Bush

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RCI Flexible Managed unit trust - RCI Flex was down by 2.37% during June compared to a 3.57% fall in the JSE Top 40. For 2010 it is down by 1.99% compared with the JSE Top 40's drop of 4.63%. Thus our hedging, cash holding and gold are helping to reduce the extent of the downside. Our concerns about the risk / reward relationship of the market remain – but at least shares are no longer so expensive if the 12 month forecast earnings are achieved. In the long term, the levels of the market will be determined by value, in the short term by foreign investors crashing in and out of our market. 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 Europe or rumours of a drop in China's growth rate so one must remain ever vigilant, but that would give us a chance to buy more shares at lower prices.

Last month we asked: 'Is this a 'normal' correction or are things going to get rough again?' Well, things are right on the edge.

Despite good growth forecast in earnings and dividends for South African shares for the next year, investors are concerned about the economic policy responses to the European debt crisis and a possible slowing in China.

The importance of getting it wrong: embracing fallibility to prevent catastrophic errors of judgement.

Many African countries are growing much faster than SA and are offering growth opportunities for SA companies.

Economic indicator: The number of trucks through toll plaza.



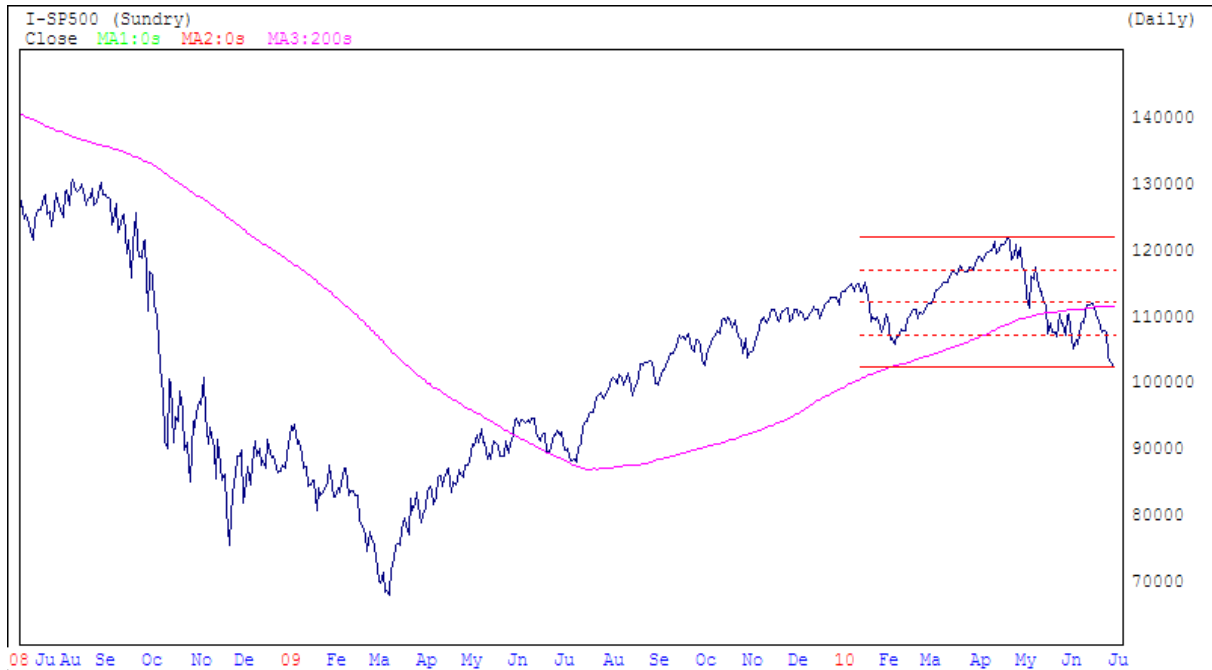
The World Cup. The spirit of Jan Smuts is with us! Our hopes of a month ago '*a great 'gees' is building, uniting the country- repairing the Malema damage'* have been exceeded. Restaurants in Johannesburg are reporting great turnover. Future tourism and investment prospects have been enhanced.

PERSONAL SERVICE

**FORESIGHT
EXPERIENCE**

Will SA shares follow the US down? We are nervous for the short term

The major index in the USA, the SP500 has given up all of its gains since September last year. Technical analysts worry that the significant short term bottom of 10567 of 8 February 2010 has been breached with the latest drop to 10225. There is little support below this level.



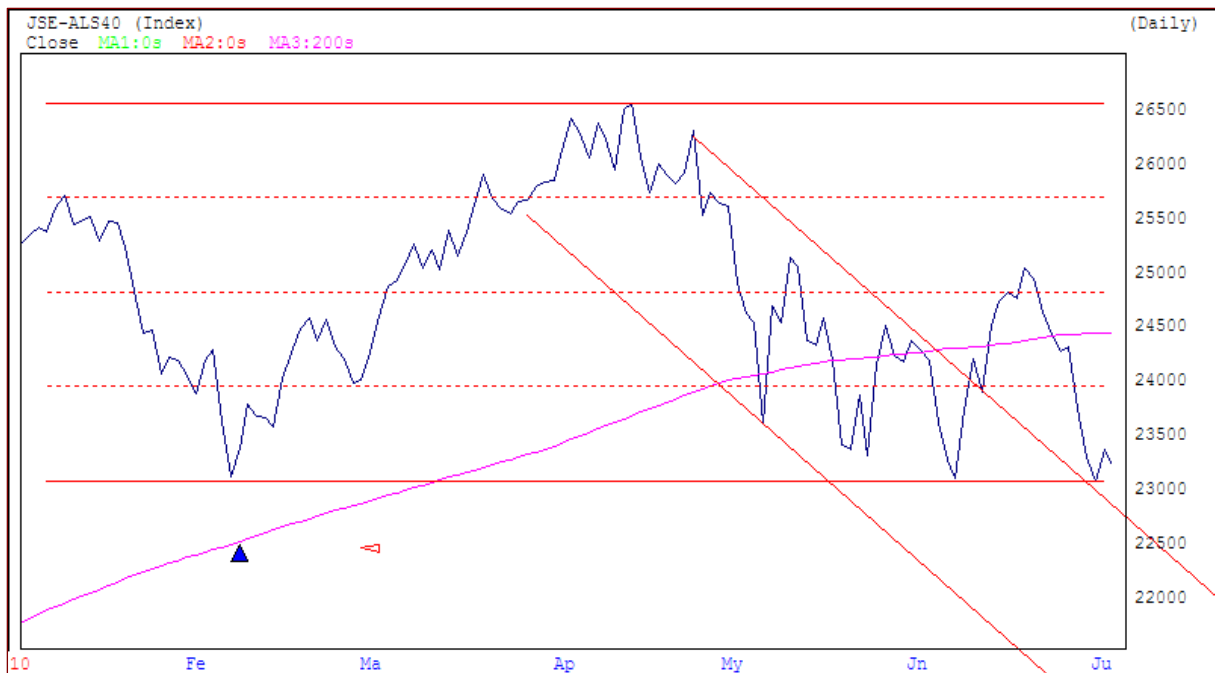
While some believe that the problems in Europe are pulling down sentiment in US markets, others believe that Americans are very inwardly focused. Pessimists will point out that the aid package to boost house prices from the US government has now come to an end causing a drop in house prices and that employment figures are disappointing. The rate on US government bonds has fallen below 3% indicating a flight from “risk assets” to the “safety” of government bonds. We question the long term safety of a US government bond when the most likely eventual outcome on those bonds is to be paid back in inflated money!

Optimists point out that company profits are expecting reasonable growth off a low base and that valuations are now below average. They believe that the Americans have put off dealing with their long-term deficit problems.

We think that America’s problems are going to come back to bite them at some point in the future – say two or three years, if economic growth remains poor and the public start to realise just how difficult it will be for them to get out of their debt trap. This will result in low economic growth and low interest rates prevailing – forcing American investors to seek better yields and growth in emerging markets with an increasing proportion of their investment. This should be good for South African shares.

However, if in the short term, American markets fall more (they are closed on 5 July for Independence Day weekend), the most likely effect is that Americans will stop buying our shares until their market stabilises. The last week showed the first net sales (albeit small) by foreigners of SA equities in many months. Thus our market could very well drop below the support level established in recent months.

The following graph of the JSE Top 40 for the past six months shows that the support level at around 23100 is in danger of being breached. Our market needs to bounce convincingly from here, or it could follow the US market down further.



However, our big mining shares, which make up so much of the Index weighting are starting to offer good value at around 9x the expected earnings for 2011. For their earnings forecast to be achieved requires that metal prices stay at reasonable levels which is dependent on China being able to maintain growth.

China has been moving to deflate the property price bubble occurring in its coastal cities and to reduce the rate of growth in bank lending. This appears to be working and the rate of growth is falling from over 10%, probably towards 8% although there may be some overshoot. Provided that growth remains above 4%, metal prices should be reasonable so any further short term drop in the big mining shares, should be a buying opportunity but there is no point adding to holdings until the share prices bottom out convincingly.

So, in our view, it boils down to US markets being the most important short term influence on our market while China's demand for our metals will be the longer term driver.

Once the World Cup is over, we may see a bit of rand weakness, currently hidden by tourist demand. Many of our smelters shut down for the winter months due to the higher Eskom tariffs for winter. Assuming that customers pay about 60 days from export then weaker exports for June, July and August result in seasonal weakness for the currency in the period from August to October. Rand weakness, will of course, help the outlook for exporters such as our mines.

On expecting to be wrong

In the art of investment there are no certainties, just probabilities and often murky ones at that. One cannot say with mathematical certainty that there is a 60% chance of a probability occurring. Mathematical risk models have proven woefully inadequate and are responsible for many of the problems we are in today (think sub-prime mortgage debt). Thus one needs to develop a strategy based not only on one's most likely expectations, but also on the distinct possibility of being wrong. In fact, in these very uncertain times there is a high probability of being wrong. The following article, which we found on the www.fullermoney.com daily email last week sheds some light on the matter:

And as we shepherd our assets through this period of acute uncertainty, we should try and learn to live with our limitations, rather than seek the certainty of being wholly and unchallengeably right. As Kathryn Schultz says, in discussion of her book "Being Wrong: Adventures in the Margin of Error" (Portobello Books, 2010):

"Recognizing that error is an inevitable part of our lives frees us from despising ourselves - and forbids us from looking down on others - for getting things wrong. Once we recognize that we do not err out of laziness, stupidity, or evil intent, we can liberate ourselves from the impossible burden of trying to be permanently right. We can take seriously the proposition that we could be in error, without deeming ourselves idiotic or unworthy. We can respond to the mistakes (or putative mistakes) of those around us with empathy and generosity. We can demand that our business and political leaders acknowledge and redress their errors rather than ignoring or denying them. In short, a better relationship with wrongness can lead to better relationships in general - whether between family members, colleagues, neighbours, or nations.

"Embracing fallibility to prevent catastrophic error, embracing fallibility to prevent conflict: These are two hugely worthy goals. But learning to do either one consistently is close to impossible as long as we insist that mistakes are made only by morons, and that an intelligent, principled, hard-working mind is the only backup we need. This is the deep meaning behind the pat cliché "to err is human." Take away the ability of an intelligent, principled, hard-working mind to get it wrong, and you take away the whole thing."

From FullerMoney

Africa's urban consumers to 'drive growth'

The following extracts from Business Day of 28 June 2010 by Michael Bleby reinforce our liking for shares such as Mr. Price, Famous Brands and Abil who benefit from the ever-growing middle class in South Africa, and who can expand their business models into the rest of Africa.

Johannesburg and Cape Town will grow in size by 2020 to rank along with the larger emerging-market cities, with consumer-spending markets that will be a magnet for investment by consumer-goods companies...

Urbanisation in Africa is growing – the continent already has as many cities of 1-million people or more as Europe and more than India – and in 10 year's time the two largest South African Cities will, along with Cairo, Lagos and Alexandria, comprise the five largest cities on the continent, a report by the McKinsey Global Institute says.

"Africa already has more middle-class households (defined as those with incomes of \$20 000 or above) than India. The Rise of the African urban consumer is serving as a new engine of domestic growth."

Even below that level, consumption is growing. The number of households with an income of \$5000 – the level above which people spend about half their income on items other than food - is rising. In 2008, there were 85-million such households, or 43% of the total. By 2020, this will rise to 128 –million or 52% of the total.

The number of big trucks passing through Mooi-River toll plaza is a useful economic indicator

From Business Day of 28 June in "The Bottom Line". Vestact reports that the number of five-axle trucks (each weighing about 25 tons) passing through the plaza has risen from 2800 per day in May 2004 to 122 000 in May 2010 – close to that of 123 382 in May 2008. The record is 137 677 in November 2006.

'With levels close to their highest the question is whether the rise has to do with the World Cup or whether it is sustainable'. Our comment: Time will tell but it appears to be showing a reasonably strong economic performance. This is an economic indicator that is hard to distort or dispute but, of course, one does not know what is inside the trucks.

World Cup - the spirit of Jan Smuts is with us!

"I have noticed that many people in England consider me that strangest of all animals in these distraught times – an optimist. You will have learnt here the reason why not only I, but South Africans, generally, black as well as white, are on the whole inclined towards optimism. We carry our burdens lightly and with a smiling face. We do not believe in failures, and do not think the end of the world is coming," said Gen JC Smuts, March 22 1935.

Last month we wrote: *Besides the monetary boost and the upward pressure on the rand of all that spending, we are seeing a morale boosting, unifying spirit providing a much needed optimism that is pulling our people out of their depressed mind-set of the past 18 months. Positive people find answers, produce more, earn more, pay more tax and help set a sustainable growth path for the next few years. If we are lucky, and behave ourselves, it will be judged "the best world cup ever" by old Sepp and by the tourist fans. If so, we will see a positive spin off in increased tourism, investment and interest in South Africa for many years to come.*

Now we would like to add that, with just a week to go, the police have done a superb job in keeping our tourists safe (Have the criminals declared a moratorium in the interests of the country or are they just too busy partying with the rest of the country to go out and rob someone?) Tourists have raved about SA hospitality and Africa is in the spotlight as a growth continent. This bodes well for future tourism and investment. We have provided a great World Cup. Well done South Africa.

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

Uncertainty abounds but reliable dividends provide comfort (and much needed income) while waiting for the financial weather to clear.

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 June 2010						
	TOP40	FIN 15	RES 20	IND 25	BANKS	Mid Cap	Small Cap	
Valuation indicators								
Current PE ratio (x)	16.37	10.47	20.49	17.54	12.89	13.44	27.93	
10 year average (x)	13.95	11.93	14.91	14.83	10.26	12.03	12.18	
% below / above(-) ave	-17%	12%	-37%	-18%	-26%	-12%	-129%	
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	historically expensive	better than average	10% worse than expen.	historically expensive	5% worse than expen.	6% better expensive	Abberation	
Current Div Yield %	2.17	4.03	1.66	1.88	3.55	3.44	3.26	
10 year average DY%	2.76	3.80	2.81	2.09	3.65	3.57	4.30	
% below (-)/ above ave	-21%	6%	-41%	-10%	-3%	-4%	-24%	
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	5% better than expen.	5% better than ave.	*17% worse than expen.	15% worse than ave.	3% worse than ave.	4% worse than ave.	historically 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	-5%	-3%	-7%	-1%	-3%	4%	0%	
(Be cautious above 20%)	Down	Down	Down	Down	Down	Down	Down	

An explanation of Table 1 - Historically expensive but growth expected

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 16.37x so precisely at the historically expensive level! However, if current forecasts for the earnings growth for the next 12 months prove correct, the shares will return to good value due to a substantial rise in resource earnings. When the June results are released in August, this improvement should start.

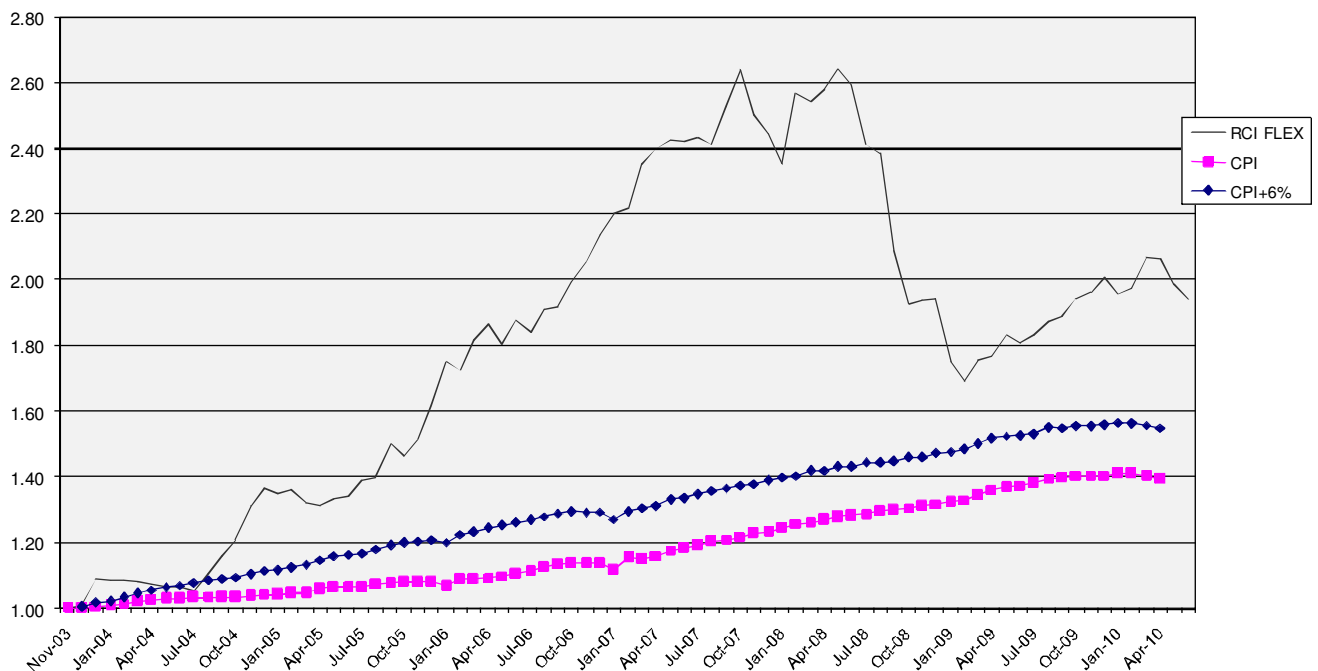
(DY valuation) (Higher div's = better value) The dividend yield (DY) of the Top 40 has averaged 2.76%, is expensive below 2.07% but is cheap above 3.45%. So at 2.17% it is 5% better than historically expensive so forecast strong dividend growth from mining shares should restore value over the next 12 months.

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 2009 but is now back at -5%. In a 'normal market' this should now turn up but these are far from normal economic times and will depend on economic policy responses by Europe and the USA.

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 is currently it is at -7%. Banks are still falling at -3% while industrials are -1%. So we are watching eagerly for a turn. 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 June 2010							
Index	Prices	One Month %	Y-T-D %	12 Month Rolling %	OB/OS	Current historical PE ratio	Div Yield%
International							
DJI	97,740	(3.58)	(6.27)	14.93	-5.76%		
NASDAQ	21,092	(6.55)	(7.05)	14.94	-6.45%		
SP500	103,071	(5.39)	(7.57)	12.12	-7.38%		
FTSE100	49,169	(5.23)	(9.16)	17.36	-7.83%		
AUSTRALIA	4,324	(2.90)	(11.43)	9.55	-8.13%		
HANG SENG	20,128	1.84	(7.97)	9.52	-4.70%		
Local							
TOP40	23,295	(3.57)	(6.81)	17.53	-4.63%	16.37	2.17
FIN 15	7,230	(3.75)	(2.06)	18.08	-3.43%	10.47	4.03
RES 20	45,647	(4.18)	(10.64)	14.80	-6.83%	20.49	1.66
IND 25	21,110	(2.53)	(2.35)	22.52	-1.15%	17.54	1.88
JSE-Banks	36,389	(5.26)	(0.78)	19.38	-2.62%	12.89	3.55
JSE-Midcap	36,747	(1.37)	5.96	29.35	4.08%	13.44	3.44
JSE-Small Cap	27,947	(2.59)	0.22	20.62	0.33%	27.93	3.26
Currencies							
Rand/US\$	7.64	(0.18)	3.70	(1.59)			
Rand/Euro	9.38	(0.86)	(11.47)	(13.80)			
Rand/Aus\$	6.49	0.93	(1.50)	2.92			
Rand/GBP	11.43	2.73	(4.04)	(11.24)			
RCI Unit Trust							
RCI Flexible (ZAR c) (Performance includes divs paid)	194.08	(2.37)	(2.00)	11.69	-2.14%		
RCI Off-shore Funds							
RCI Asset Swap (ZAR)	1,713.69	(0.00)	(2.11)	1.28			
RCI Asset Swap (\$)	224.16	0.17	(5.60)	2.91			
RCI Fund (ZAR)	1,164.17	1.32	0.28	4.06			
RCI Fund (\$)	152.28	1.49	(3.30)	5.74			

RCI FLEXIBLE MANAGED FUND
30 JUNE 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.

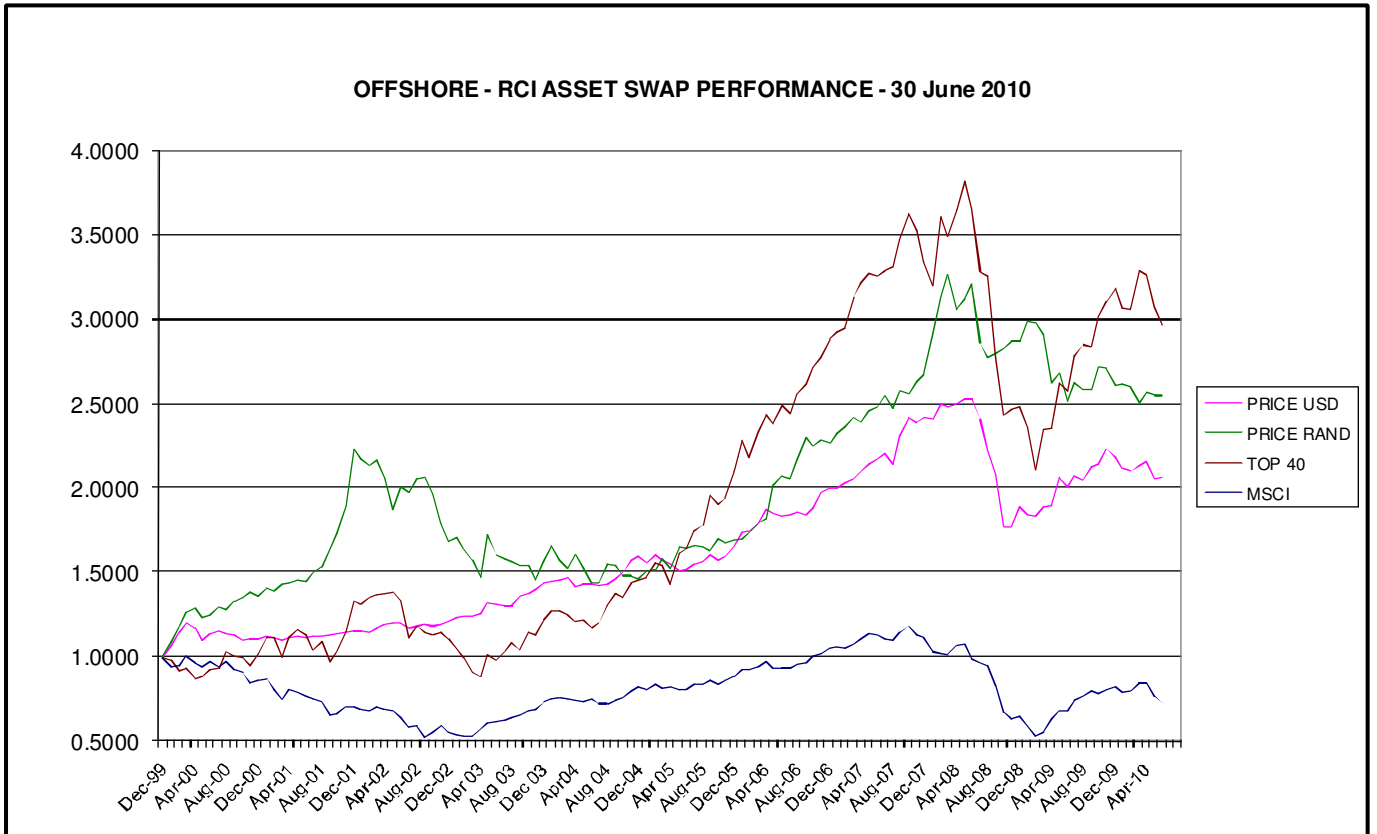
RCI Offshore performance has been excellent relative to main stockmarkets								
Year	RCI FUND		RCI Asset Swap		MSCI	SP 500	FT100	
Ending	In Rand	In US\$	In Rand	In US\$	In US\$	In US\$	In US\$	In GBP
Dec-00	20.3	-0.8	35.8	10.8	-14.0	-8.5	-15.2	-8.2
Dec-01	60.2	1.5	64.4	4.2	-17.8	-13.0	-18.1	-15.9
Dec-02	-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:

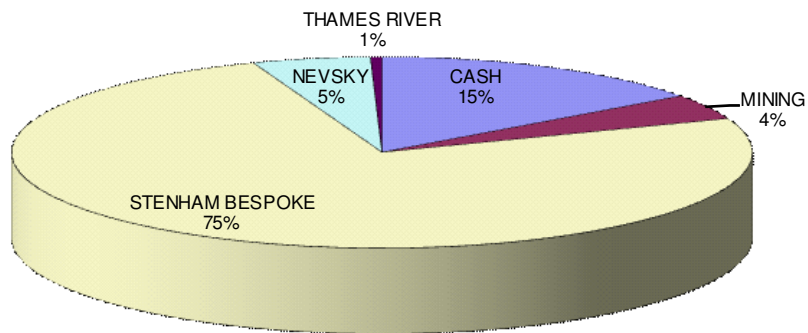
- America's main index, the SP500 fell by -32% in the 10 years to 31 December 2009 and fell in four of the 10 years.
- UK's FT100 fell by -20.1% in 10 years or -20.7% when valued in dollars. It also had four down years.
- The MSCI global index fell -17.8% and had four down years.
- The RCI Fund rose 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).

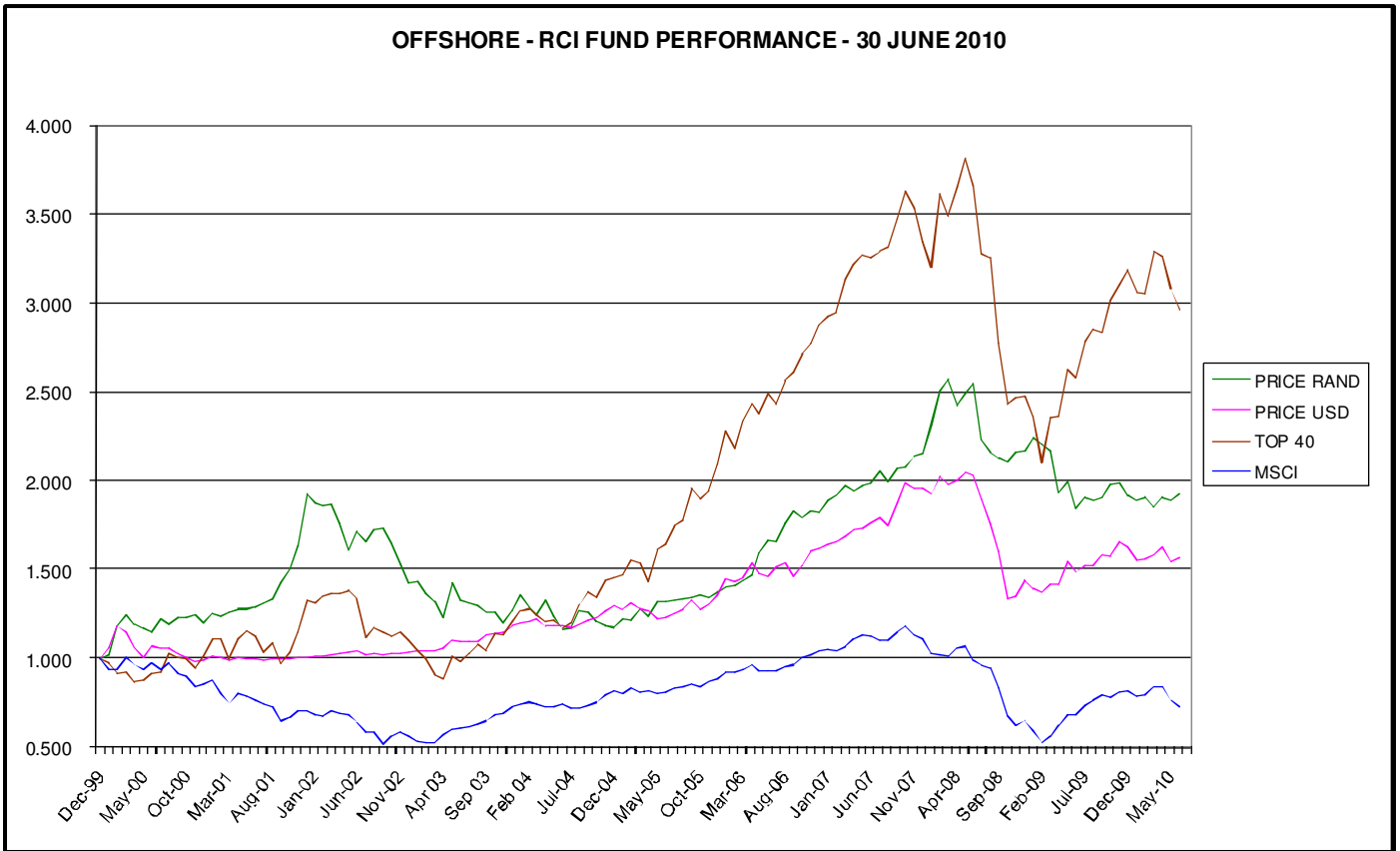
For interest sake we have also put in the cumulative performance of the past five calendar years. Once again the RCI Asset Swap performed best (up 36.8%), the RCI Fund up 24.2% whereas the MSCI fell -0.1%, the SP500 fell -18.5% with the FT100 down -6% in dollars but up 12.4% in sterling.

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 - JUNE 2010





OFFSHORE RCI FUND - JUNE 2010

