

LUCRI ALPHA NEWSLETTER NR 2

2 February 2015

Dear current and future☺ Lucri members,

Another quarter has passed, quite an eventful one for the Streicher family. We survived the “great trek” down to the Southern Cape and settled down on our Overberg farm. Two weeks after our arrival, we were invited to a local wedding – it was a pleasant way to be introduced and accepted into the Wydgeleë farming community. (to my English friends: Try to pronounce Wydgeleë)

Newsletter nr 1

I have a small confession: I was so eager to indicate the resulting low price that one will pay for the REINET international portfolio, that I got my maths wrong, one would have paid 25 RSA cents for 60.9 Euro cents (not 6.09 Euro – what is a 1000% amongst friends, anyway?). With 60.9 Euro cents equivalent to about 852 RSA cents at the time, the message stays unaltered, luckily!

You may also remember that I stuck my neck out a little bit, indicating that the Sept/Oct market correction will MOST PROBABLY be a mild one. The market moved mostly sideways since then. In fact, the initial recovery came 2 days after my newsletter, increasing my stock market risk indicator to 41.7% by the end of October (I expected 37%). In November, the risk indicator stayed almost unaltered at 41.77%, and moved lower to 38.57% in December, mostly due to a drop in inflation to 5.3%. (Bow deeply to the house of Saud). In January 2015, the indicator moved back to 41.2% due to an increase in share prices in spite of inflation dropping further to 4.6%. So, the various factors are balancing the risk indicator since September 2014 in a narrow band around 40%.

I also mentioned **MOUTON MAGIC**. The strong move in the PSG share price from about R100 to R 134.49 in three months was a bit of magic, indeed! Capitec, Curro and Zeder made strong moves – three of the four pillars. This resulted in strong growth in the sum-of-the-parts calculation for PSG to R 158.39 today – you may remember, the SOTP calculation just indicates the price of the underlying PSG investments per one share of PSG. At R 134.49, the price needs to increase by 17.8% to equate the SOTP value. In the meantime, the Moutons started to calculate the

SOTP value of PSG daily on their website, so no need to develop a spreadsheet anymore! Just go to psggroup.co.za, investor relations, Sum-of-the-parts. If all the diversified investment companies start to copy the Moutons, you do not need me anymore 😊. (So, I gave you a good investment tip in my first newsletter, right? I wonder whether this newsletter will contain another investment tip.)

Sasol Share Value

Since many current Lucri members are Sasol employees with interests in Sasol shares, I want to demonstrate the value investing principle in practise using the Sasol share as an example over a few years. While I shall be the first one to point out that this method is far from perfect, it provides guidance on a share being expensive or cheap. We all know that one should buy low and sell high – the inverse sounds like this: “Buy high and sell low – continue until broke!” This happens when emotions of greed and fear overrules sound reasoning.

Please have a look at the following table, prices and value in rand per Sasol share: (I read the share prices from graphs, will be accurate within a few % points, but not necessarily 100%)

Calendar year	Price high	Price low	Value	OVER	UNDER
	Rand	Rand	Rand	%	%
2007	350	214	209	67	-2
2008	514	221	293	75	24
2009	294	249	296	-1	16
2010	332	275	309	7	11
2011	395	308	327	21	6
2012	403	338	382	6	12
2013	519	363	440	18	18
2014	645	392	495	30	21

Observations:

While we are dealing with emotions and perceptions in the case of the share price and a cold, consistent mathematical formula in the case of the value calculation, the following observations can be made:

- Sasol is high quality, indicated by the consistent increase in value over the years irrespective of wild swings in the oil price.

- The value stays almost always with-in the upper and lower band of the share price in a given calendar year, with a 2% excursion in 2007 to the low side, and a 1% excursion in 2009 to the high side.
- In some years, the price fluctuates in a relative narrow band around the value, like in 2009, 2010, and 2012. No action will be recommended in these periods.
- The extend of overshoot due to optimism is higher than the extend of undershoot due to pessimism.
- Beware, two consecutive years of severe overshoot is possible, if you sell in the first year, you will lose out on the following opportunity!

So, while clearly imperfect, the value calculation technique does provide me with A GOLDEN THREAD through the years, helping me to define “high” and “low”.

Have I extracted benefit from the knowledge? I can answer this question with a simple “yes”, but I shall run the risk of “bragging” by giving you more factual information:

In 2008, I sold a major stake of my Sasol shares at an average price of R460 per share (I started selling at R 409 and continued over R 500). Later in 2008 I started to buy again – but I was too eager to get the shares back, I did not wait patiently for the price to drop below value, I paid slightly more than value for them.

In 2013, I started selling again, a bit too soon. I continued with heavy selling in 2014, averaging around R 600 per Sasol share. In December 2014 I started buying, with heavy buying early in 2015 around R 370 per share.

If I had followed my own recipe more closely, my results would have been better, but I am still very grateful for the actual results. I do not believe it would have been possible without the guidance provided by the value driven GOLDEN THREAD through the years. I would not have known when the price was “high” or “low”. VERY IMPORTANT: You will notice that I have not even tried to predict the share price into the future – this is totally unnecessary, as I do not need to know the share price into the future! I just need to know the **current value**, and then need to compare the current value to the **published current price**.

Lucri Advantage

Current Lucri members will understand the underlying principles of **Lucri Alpha**, my current investment service. It is basically a pure performance based system where the client only pays a management fee when the chosen benchmark (all share index for South Africa) is out performed, paying 20% of the **outperformance portion**. Last year, I came across a most noble client who felt bad at paying me nothing (may his soul be blessed☺). This year, I came across new prospective clients who liked the fact that they will remain in control of their own money, but they were shocked at me mentioning 20%, and they ran away without listening any further (they are so used at paying a portion of the total portfolio value, the 20% must have sounded heavily expensive!)

So, I have decided to introduce only one alternative investment option with-in the Lucri stable, namely **LUCRI ADVANTAGE**. The investment principles stays the same, the only difference will be that Lucri Advantage clients will pay according to the conventional model, a percentage on the total portfolio value. The advantage in the name is due to the unbeatable price, namely 0.25% versus the industry range of 0.6% to 3%. By asking 0.25%, I know that the client will receive a huge cost advantage. (You may recall that I have a bee in my bonnet about the extravagant fees charged by the investment industry, the low fee structure is in line with my own preaching).

IMPORTANT: Lucri Alpha will proceed as always, I am just adding one alternative. Existing clients can decide to switch to this alternative if they wish to do so.

The following clients may consider the new alternative:

- The “noble” client who felt uncomfortable at paying me nothing – please note that I am quite comfortable at receiving **nothing** if I am behind the benchmark.
- Clients that believe I shall outperform the market by more than 1.25% on average (1.25% being the break-even point where Lucri Alpha members will also pay 0.25%). They can save on their management fee. (5% outperformance will result in a 1% payment, but with Lucri Advantage the client will pay a constant 0.25%).
- The shocked newcomers who misunderstood Lucri Alpha. They certainly would have reacted differently to 0.25%

Please note that you should please indicate your desire to switch before the end of March each year to define the rules before the game (our

financial year runs from March to February) – the default will be Lucri Alpha, you do not need to act if you want to stay on Lucri Alpha. You can switch back and forth between the two alternatives, but you should think carefully about the consequences when I am behind the all share index – remember, I shall have to play catch-up for free in Lucri Alpha!

I hope you are still enjoying your investment experience with Lucri, and that you are not wasting any time or sleep on the crazy short term ups and downs of the market. We shall experience a serious market correction sooner or later – my sincere wish is that you will be able to manage your emotions of fear during such trying times and avoid the “buying high, selling low, continue until broke” theme!

So, have you found the investment tip? Gold? Why?

Kind regards and happy investing,

Simon Streicher

