

## LUCRI ALPHA NEWSLETTER NR 25

28 OCTOBER 2020

Dear Lucri friends,

The Overberg area was blessed with relatively high rainfall this year after three dry years. So, the harvest looks promising. The wild flowers are also something to see this year – we have even been inspired to learn the scientific, botanical names of a few Renosterveld species.

### **Risk indicator**

The money printing presses are still working overtime across the world in an attempt to combat the severe economic fall-out from the hard lockdowns. In addition to quantitative easing, central banks have relaxed their monetary policies - resulting in extremely low interest rates.

One of the side effects is inflation – not in consumer goods, but in asset prices. I believe this is currently the main contributor that drives the S & P 500 index to new all-time high levels.

In South Africa, the RSA market risk indicator remains deep in green territory due to low share prices. Political uncertainty resulting in low investor confidence is most probably playing a large role in driving asset prices lower in South Africa.

### **On a lighter note**

For those north of 55 years: 30 years ago, we could (at best) be described as “young and pretty”. Now, we can be described as “and”.

The past, the present and the future were having an argument. It was tense.

I was reading this book today, “The History of glue”. I could not put it down.

Why question: Why are they called apartments when they are all stuck together?

Market terminology: Technical analysis is a subjective analysis of the markets dressed up in a lab coat.

Patient: Doctor, doctor! I keep seeing visions of huge, purple elephants on unicycles all around me. Doctor: Oh my! Have you seen a psychiatrist? Patient: No, just the purple elephants...

### **Quotes**

*“If you are having fun while investing, you are most probably gambling.”*

#### **Anonymous**

This is so true – investing is actually most boring. You need to wait and be inactive for years on end before you see any results.

Consider the current high prices of internet based technology stocks: *“For the investor, a too high purchase price for the stock of an excellent company can undo*

*the effects of a subsequent decade of favourable business developments.”* **Warren Buffett**

*“All investment is value investment in the sense that you are always trying to get better prospects than you are paying for.”* **Charlie Munger**

Charlie supports growth investing, but it should be growth with-out paying too much.

*“The price of anything is the amount of life you exchange for it.”* **Henry Thoreau**

### **Balance in life**

Running a hill really stretches a minute. While having a drink with your best friend, a minute is nothing. A minute can therefore be long or short. Likewise, the two statements “Hold on to your money for old age” and “Spend your money because life is short” are BOTH true. This calls for a balanced financial plan. This is the wisdom from Kris at Just One Lap.

### **An inconvenient long time....**

Stock prices that are wrong in the sense that they are far too low, can move even lower while the investor eagerly and nervously await upwards adjustment. It can take an inconvenient long time for the craved adjustment to become reality. Some investors, like myself, have almost unlimited patience. We can hold our breath for a very long time while a whole portfolio remains under water. Having said this, I have lots of empathy for investors that give up hope and just want to salvage the little bit of portfolio value that is still remaining and run. The investment experience for South African investors were terrible over the past 5 years. Kris from Just One Lap describe this as follows: *“So far I have experienced nothing followed by disaster.”* They just want to sell and convert everything into cash. If you know yourself well enough to recognise this emotional driven response as typically you, you should rather not invest into common stocks at all.

### **Your snowball....**

*“Life is like a snowball. The important thing is finding wet snow and a really long hill.”* **Warren Buffett**

Let us look a bit deeper at the hidden wisdom in the quote above.

- Find wet snow: You need to develop your own circle of competence, and restrict your investments to that circle where your performance is above average. In the words of Charlie Munger: “You have to figure out where you have got an edge. And you have to play within your own circle of competence. The size of that circle is not very important; however, knowing its boundaries is vital.”
- Find a long hill: Start early in life so that you have a lot of time to allow your investments to grow exponentially. You need a long run-way, to let your snowball roll a long time.
- Let the snowball roll: Allow your investments to compound, do not interrupt it on its path, let the snowball accumulate more and more snow.

Another important lesson: Do not keep scores of the size of your snowball, whether it is smaller or bigger than anybody else's. Do not measure yourself by the opinions of others. Keep an inner scorecard. *"I do not care too much about opinions. Opinions are like noses – everybody has one."* **Perry Stone**

So, let your snowball roll down your hill of life, steadily compounding, without fearing what others might say.

### The Lazy portfolio

Two years ago, I constructed a concentrated portfolio that we can follow into the future for a period of 10 years – please refer to newsletter 17. I promised to box with my hands behind my back for a full decade.

We invested R 100 000 into this portfolio of four companies (before the unbundling of Naspers) on 23 October 2018. On 27 October 2020, the value of the R 100 000 had grown to R 124 431, a growth of 24.4% in rand terms over two years versus inflation of 7.3% in South Africa over the identical period.

Name	Rand price	Share count	Dividends Cummulative	Rand value 27/10/2020	Rand value 23/10/2018
Berkshire B	3356.69	11.80104	0	39612	35000
Anheuzer Bush	904.39	12.56881	644.52	12011	15000
Naspers	3075.04	9.20515	110.05	28416	25000
Multichoice	139.92	9.20515	52	1340	0
Prosus	1576.5	9.20515	0	14512	0
Reinet	263.33	105.50749	756.54	28540	25000
			Total:	124431	100000

### Comments:

- Naspers plus the two offspring in the form of Multichoice and Prosus are performing above expectation. The R 25 000 invested had grown to R 44 268 after two years. So, the Naspers investment is again the star performer at 77% growth over two years.
- Anheuzer Bush is the laggard in the lazy portfolio (it is really lazy) with negative growth of -19.9% after two years. Does this concern me? No, volatility does not concern me, as the value of the company remained intact.
- Berkshire Hathaway, the blue-eyed boy in the portfolio (look at the initial investment share), is slowly picking up at 13% growth after two years – it achieved only 4% after one year. This investment provides the best ratio of growth to risk in the lazy portfolio. If you need growth AND protection of wealth simultaneously, this is the share for you.
- Reinet has moved slightly backwards over the past year, from R 29007 to R28540. This company is accumulating value at a steady pace – much faster than indicated by the current price. Again, price is what you pay and value is what you get – it is two totally different things.

Like last year, it is always fun to compare the limited, latent and lazy portfolio with the all share index of the JSE, the S & P 500 index in the USA (expressed in rand), and inflation in the RSA:

	23 Oct 2018	27 Oct 2020	Dividend index total	Rand value	Dividend %
All share index RSA	51500	54592	4078	113921	3.64
S & P 500 dollars	2755.9	3400.9			1.67
S & P 500 rand	39640	54755	1718	142466	1.67
RSA inflation index	108.9	116.9	0	107346	

So, at this stage with only 20% of the road covered, the lazy portfolio is running in second position. The S & P 500 index has now taken the lead with a remarkable growth of 42.5% over the two years (a good illustration of the effect of inflation in asset prices previously mentioned).

You will remember that I constantly preach and provide quotes about value and growth in value in the Lucri newsletter. I am therefore grateful to declare that the value growth supporting the Lazy portfolio has (most probably) been stronger than reflected in the rand value of the portfolio. If I am correct, the accumulation of value should reflect in the rand value of the lazy portfolio over time. A decade is long enough for value and price to converge. My summary of the race at this stage: “So far, so good.” If you refer to newsletter 17, you will see that my whole intention is not outperformance, but respectable performance with no buying or selling over a decade.

### **Unemotional investing**

In the previous newsletter, I mentioned the following: “I have also prepared longer term model runs on the share price of Curro to indicate how a quantitative model can help investors to fight their own emotions.” So, please refer to the following table:

Year	Share price (sent) 31 December	Model value (sent) 31 December	Price to Value Ratio
2012	1600	216	7.4
2013	2780	302	9.2
2014	2900	377	7.7
2015	5779	790	7.3
2016	5020	1548	3.2
2017	4240	1944	2.2
2018	2551	1924	1.3
2019	1770	1964	0.9
2020 (October)	1025	2598	0.39

If you refer to the table above, it is clear that an investment in Curro brought tears since its listing in 2012. If you invested R16 in 2012, you would have only R10.25 plus dividends to show for your investment after almost 8 years. But – Curro is actually a most successful company, as you can clearly see in the model valuation, with a constant increase in value from R2.16 to R25.98 over the same 8 years. While the value was growing fast at 28% per annum over 8 years (1102% growth in total), the share PRICE dropped 36% over the same period! How is this possible? We are not even speaking about the insane price of R57 per share that was reached in 2015. For a period of 3 years, from 2012 to 2015 the price was more than 7 times the value per share.

The only explanation for the wide deviation between price and value that I can find is emotional investing, based on fear of missing out and even greed. We tend to extrapolate excellent news too far into the future. The exciting growth story behind Curro got investors so excited that they forgot about fundamental value. A simple quantitative model based on value can help tremendously to flag insane share prices – both share prices that are too high due to over optimistic buying, and share prices that are too low due to over pessimism. Today, with the Curro share price at R10.25 and the value at R25.98 we most probably have the latter (the price has already recovered from about R8 recently).

### **Is Sasol a buy opportunity?**

Since I devoted such a large portion of the previous newsletter to Sasol, it may be fitting to update you on my latest value calculation. The massive impairments on the Sasol balance sheet in the September 2020 results reduced the calculated value per share to about R200 per share, versus R 302 per share before the impairments. While writing this, the Sasol share trades around R87 per share. Since this is about 50% of my last selling price, I started buying again – but this is by no means a signal that you should start buying as well. After all, I do not really want buyers with a lot of cash in competition with me 😊.

### **Lucri housekeeping**

Please always remember to tell me via SMS, WhatsApp or e-mail when you move cash in or out of your account.

All Lucri communication is only via e-mail. If you send an e-mail to [streicher.simonj@gmail.com](mailto:streicher.simonj@gmail.com), I promise to answer in a few days.

Kind regards and unemotional investing,

Simon Streicher