

LUCRI ALPHA NEWSLETTER NR 30

24 January 2022

Dear Lucri friends,

On 15 August 2021, America and the world celebrated the golden anniversary of moving away from the gold standard for money supply, in favour of fiat money. So, it seems fitting that we should take a look at money – what it really is. The process of saving and investing during our life span is like a snowball that we are pushing up a hill. We shall discuss this further later in this newsletter.

High momentum stocks in America is experiencing price resistance currently – slowly but surely value investing is getting more attention and price correction.

On a lighter note

Life through John's eyes.....

John: "I have been a good person today."

John's friend: "That sounds interesting."

John: "Yes, I have not overspent on my credit card, I have not said anything rude to anybody and I have not exceeded the speed limit."

John's friend: "But.....you are still in bed!"

John: "Exactly!"

The law of human interaction and productivity: "What one worker can do in one month, two workers can do in two months."

People are sometimes asked to reflect on their own lives, to think what is truly important in life. So, they are asked to think about what they would want other people saying about them at their funerals. Here are the "lighter" answers:

"O look! He's moving!"

"Here lies the oldest corpse we have ever seen!" Warren Buffett

As I have not used any of the once popular blonde lady jokes before, I shall now dare to include one of my favourites: At a busy city road, a blonde lady looks desperately for a crossing, but none is available and the heavy traffic does not seem to be slowing down in a hurry. She spots another blonde lady walking on the opposite pavement, so she yell at her: "How do I get to the other side?" The other blonde lady immediately shouts back: "You ARE on the other side!"

Now that I have made blonde enemies, we can look at a quote on tact:

Quotes

"Tact is the art of making a point without making an enemy." Sir Isaac Newton

“Not ignorance, but ignorance of ignorance is the death of knowledge.” Alfred Whitehead

Lesson: You should know everything – you should especially know what you do not know!

“The key organ in investing is not the brain. It is the stomach.” Peter Lynch

Lesson: You most probably already have the brainpower that is required, but do you have the psychological and emotional strength that is needed?

“Investing is like playing multiple poker games in parallel.” Peter Lynch

Lesson: You should concentrate more on the most promising game and walk away from the ones where you clearly do not have an advantage.

“If you don’t make dollars, it won’t make cents (sense).” Lesedi Mfolo

Lucri agrees fully – we should all invest a portion offshore.

“For me to get ahead in life, I needed to bet against idiots. Luckily, they were in huge supply!” Charlie Munger

This is sad, but true: Before value investors can find mispriced opportunities, there must be a supply of people blinded by greed, fear and/or stupidity.

“If you want to be a great businessman, buy a great business! Get on the right train.” Warren Buffett

“Fads today (bitcoin, memestocks, Software as a Service) are like housing in 2007 and dotcom in 1999. On the whole, not wrong – just driven by speculative fervour to insane heights from which the fall will be dramatic and painful.” Michael Burry

A humble celebration

One year ago, on 20 January 2021, I included a long winded discussion about the motivation behind buying Lewis shares. I quote: *“The quantitative model, which I love to refer to in my newsletters, put a first round valuation of R42 per share on Lewis. The current price is R24, 43% below the rough value evaluation.”* And: *“The nett-nett value per Lewis share can be calculated as described in depth above to be R40,66 per Lewis share – while the share is trading at R24.”*

It is important to note that, in Jan 2021, Lewis was already trading at prices about double the low point of 2020. So, the lesson of Jan 2021 was not about picking the bottom of the market – I cannot do that.

But – one year later, as I am writing this newsletter, I have the following pleasing scorecard in front of me: Lewis dividend last 12 months: R3.90 per share. Lewis price ex dividend: R46.19 (closing price Friday, 21 Jan 2022). This leaves us with the following:

Dividend yield: 16% before tax, 13% after tax

Capital growth: 92% before tax, 76% after tax

Total after tax: 89%

Yes, I know....this is only one success, and yes, I am humbly and painfully aware of a lot of mistakes. As mentioned before, it is very important to rub your own nose into your own mistakes quite regularly – and I do that. But....the reason why I cannot do it in a newsletter, is the limitations on allowable language (I am not serious, right?)

During the past year, the Lewis value per share increased further as their management prudently bought back even more shares, increased the store count to 817 and increased the dividend pay-out. Yes....you got it! It was all on a cash basis, they still have zero borrowings.

Another share that was covered extensively during 2020, was Sasol. During 2020, with the Sasol share price below R40 per share, an investor in my home town of Swellendam approached a well-known investment house with the request to buy Sasol shares. He got an ear full about Sasol not being on the approved list of investments due to the high risk involved – and he was discouraged to buy a single share. Now, with Sasol at R311 per share, Sasol will be on the approved list to buy. The lesson? Most highly regarded investment houses do not agree with the following Lucri philosophy: “Minimal risk and maximum return are Siamese twins!” Lucri firmly believes that the point of minimal risk, where the downside risk is at the lowest, can ALSO be the point of maximum return, where the upside potential is at the highest.

But...very important: This will only be true after the investor has performed rigorous analyses of all known aspects of risk, cash flow and potential gain. The conservative value of the stock derived after many hours of hard work must be much higher than the share price. At this point in time, Lucri has disposed of all Sasol shares, and moved into dividend payers like BTI and Lewis, both were discussed at length last year. Lucri used the concept of opportunity cost to make that decision – maybe opportunity cost should be discussed in more detail in a future newsletter.

What is money?

Just like wisdom is superior to knowledge, wealth is superior to money. Wealth and money is not the same thing – not even close. Money is just a way of moving wealth. Just like words has a relationship to meaning but it is not meaning, money has a relationship to the real world but it is not the real world. Look at the following descriptions of what money is:

“Money is only an accounting mechanism of economic energy.” Alan Watson

“Today, money is part of some bank’s database sitting in a server farm somewhere in the world. Do not focus on money – rather focus on skills. Build your own craft.”
Garry Tan

“Cash is just like oxygen – it will only really be noticed when it is in short supply”
Warren Buffett

“Money is just a mechanism to overcome the limitations of bartering” David Icke

Lucri want to acknowledge Sensei (pseudonym) for the following discussion.

Money is merely an intermediary in the trade of commodities and services. People can sell their labour directly for bread and potatoes, or they can earn money and exchange it for bread and potatoes. Ultimately, they are still paid in the form of bread and potatoes. They cannot eat money. Money serves no purpose other than being a medium of exchange and a unit of account, a convenient intermediary between labour and bread.

The government does not increase or decrease the supply of labour relative to the supply of bread and potatoes when they print more of the intermediary. The new money competes with the old money for the same amount of commodities.

Having all this as background (it may be quite obvious, but many does not think along the lines above) it should also be clear to Luciri friends that there is a lot of room for mischief when new printed money is being used to buy labour and bread – nothing is being exchanged for something. The new printed money (nothing) looks exactly and acts exactly as the old money – but the old money represents direct labour and commodities while the new money was taken out of thin air. Now, if also follows that the utility (value) of old money will be diluted down when you blend it with new money – if you blend 10 units of something with 10 units of nothing you get 20 units of “half-something”, but you still end up with 10 units of something in total.

The first recipient of the new money (bankers, mostly) benefits from this process, while those that stand last in line for the new money (salary earners) receives “half-something” in exchange for something (their labour). Those who are further removed from the new money supply never fully realise that they have been conned (although they know something is wrong, as their buying power reduces) for, at face value, the new money is identical as an exchange medium to the old.

Also, investors should not sit too long on old money before exchanging it for a productive asset that can produce something to protect and even increase their purchasing power – the longer you wait, the more dilution takes place. When interest rates decline and stay low for long periods, the extent of dilution of the value of old money increases. The interest does not reward the saver for the dilution of old money with identical new printed money.

While this exchange of nothing for something creates the illusion of wealth, it actually increases inequality because it enriches those who are closest to the new money (central banks and other bankers) while it impoverish those who are the furthest. The process transfers spending power from those who do not own assets to those who do. It also transfers spending power from those who own assets that are far removed from the source of the new money supply (far away from America in the case of the world currency, dollar) to those who are nearest to America and especially nearest to the Federal Reserve. When the Federal Reserve creates liquidity it actually transfers real wealth from those who use the dollar (everybody in the world) to the USA.

Just check this out for yourself: How does the growth rate of the GDP of a country compares to the yield on invested capital in that same country? You do not need to look any further for the driving force behind increased inequality – as long as the

economy grows at a slower rate than the reward on saved capital in that country, the gap between rich and poor will open up further.

Wealth accumulation from a zero (even negative) position

Now that you know that invested capital provides an enormous advantage (you may see this as fair or unfair – depending on where you stand), you may want to know how to break away from a zero position and accumulate capital. The way that helped me was to accumulate capital slowly, against serious head winds. Throughout your life span, the process of wealth accumulation can be described or compared to you pushing a snowball uphill over wet snow.

At first, you start while still very young at the bottom of a long hill covered with wet snow. You need to push this miniscule snow pebble (to call it a ball, will be a gross exaggeration) up-hill, while others are constantly putting hurdles in your way, or even take chunks out of the small snowball – yes, I am looking at you two, mister tax man and mister banker! If you start with debt, you have a much steeper hill and there are a constant melting away of your snowball – but you should just grind your teeth and persist. You need to underspend your income at a time when your income is relatively low and your needs high, with basically no assistance from investment income. It is hard work for little progress – some people just give up and move even deeper into debt – their snowball just melts away. Others do not even attempt it – they have not seen anybody succeeding, anyway.

If you keep at it diligently for many years, you one day notice that the hill is getting a little less steep and that your snowball, while still miniscule, is growing steadily. You are encouraged and keep on pushing uphill, adding snow from savings by underspending your income. You still have little investment income, but you keep at it day by day.

One good day, you reach the plateau section at the top of the hill. By now, your snowball is benefitting from investment income, but you still need to underspend your increased income – while you relax your strict savings drive to celebrate more and more.

Then, suddenly, you reach a tipping point at the end of the plateau when you strike the downhill section. The invisible hand of capitalism (refer to Adam Smith, “The wealth of nations”) starts pushing the snowball downhill, and to your amazement it gathers momentum under the force of gravity without you doing anything. It runs downhill all by itself, growing larger and larger. You can now overspend your income, taking large chunks of snow away constantly, but the snowball just grows larger and larger. Even when you start blessing others with large chunks of snow, the snowball keep its momentum.....When you reach this fortunate (and quite predictable) result, you just need to adhere to one more principle – stay humble and NEVER compares your snowball to those of others.

I hope this analogy motivates my younger readers (and others with melted snowballs and dreams) to diligently start pushing uphill again. You can start pushing uphill at a later stage in your life as well – but remember, it will be hard work.

Yes, this process describes my own effort. I started at age 17. It took me 20 years to reach the plateau, and another 13 years before I could reach the downhill tipping point. I am now 9 years into the downhill portion, and stand amazed at the momentum that is building in spite of overspending my pension by a factor of three. The Lucri snowball (per unit, the unit count also grew) has grown from R2.39 per unit to R813 per unit (dividends included, tax excluded and costs subtracted gives 18% compound growth per annum) over the past 35 years. The number is overstated due to tax payable on capital gains, but surely real purchasing power has increased substantially – it paid handsomely to underspend income. For the first 7 years, I did not measure accurately per unit, I blended savings effort (unit count) with investment growth (price per unit). I therefore cannot provide the investment record over the full 42 years.

Lucri housekeeping

The Lucri year-end for this year will be end of day on Friday, 25 February 2022. I hope you will find that your snowballs have grown from last year!

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, I promise to answer in a few days.

Kind regards and snowball investing,

Simon Streicher