

LUCRI ALPHA NEWSLETTER NR 41

14 October 2024

Dear Lucri friends,

It is harvest time in the Overberg. Just like the previous year, the wheat, barley and canola fields look promising. It is highly likely that the yield per hectare will be high, but due to the fact that the input costs per hectare are rising faster than the turnover per hectare, the final financial result may unfortunately be less spectacular. We remain grateful, as a combination of higher input costs and lower crop yield will surely spell disaster.

In this newsletter, we have our usual October update of the lazy portfolio, we discuss a formula for investment performance (at long last for those that longed for a formula!) and we have a quick look at Sasol and Mustek.

On a lighter note

I hope you are not too tired of the brainless “John” jokes, because I have two more:

John: “You must come and visit me at my home.”

John’s friend: “That sounds like a brilliant idea!”

John: “When you visit, please ring the doorbell with your elbow.”

John’s friend: “With my elbow? Why?”

John: “Well, you are surely not planning to visit me empty handed, are you?”

Another one...

John’s friend: “I had a hard day!”

John: “Me too.”

John’s friend: “Tell me more?”

John: “Mine was about eight years ago...”

Question

Which function is critical for sound financial discipline, for organisations as well as individuals?

Clue: The word contains three consecutive double letters and it appears in this newsletter.

Piet Viljoen formula

Lucri has previously referred to Piet Viljoen as the “Buffett” of South Africa. Piet recently provided the following formula:

Lifetime investment results = Behaviour (to the power of) Luck + Investment skill divided by Time.

Behaviour, luck, investment skill and time are the four ingredients that determine your lifetime investment results.

The thing that you can control, modify and improve over time – your behaviour – is key. Luck, over which you have no control, amplifies the effect of your behaviour. Skill is additive, it has less impact on the outcome. Importantly, the longer the time period over which you apply good investment behaviour, the less important skill becomes.

Quotes

“Experience is what you got when you did not get what you wanted.” Howard Marks

This is so true, you need to pay school fees before you gain experience. This reminds me of the definition of a pessimist: It is an optimist with experience! This may sound cute, but it is not true for investing. You need to remain an optimist, but the experience helps you to think properly about risk, to recognise risk and to construct a portfolio that reduces risk.

“History does not repeat itself, but the behaviour of mankind does!” Howard Marks

This quote is absolutely brilliant! If the readers of this newsletter truly understand this, they will understand the cyclical behaviour of the market and some specific stocks much better.

“In investing, you get paid for mispricing and the endurance of volatility.” Morgan Housel

Let us take a closer look at this quote from Morgan:

Mispricing means you know the value of a share, but the market price is far below or far above this value. You can therefore take advantage by buying or selling.

Endurance of volatility: You manage psychology risk by not panicking when the market suddenly drops by 50%, or by managing your fear of missing out when you see that your friend is getting rich much faster than you do!

The pendulum

Howard Marks wrote in April 1991:

“The mood swings of the securities markets resemble the movement of a pendulum between euphoria and depression, between celebrating positive developments and obsessing over negatives, and thus between overpriced and under-priced. This oscillation is one of the most dependable features of the investment world, and investor psychology seems to spend much more time at the extremes than it does at a happy medium.”

In 2024 Howard elaborated further:

“When prices collapse it is not because conditions have suddenly become bad. Rather, they become perceived as bad. Several factors contribute to this process:

- Heightened awareness of things on one side of the emotional ledger,

- A tendency to overlook things on the other side,
- Similarly, a tendency to interpret things in a way that fits the prevailing narrative.

In good times, investors obsess about the positives, ignore the negatives, and interpret things favourably. Then, when the pendulum swings, they do the opposite, with dramatic effects.

An optimistic market is capable of ignoring individual pieces of bad news until a critical mass of bad news builds up, at which time a tipping point is reached, the optimists surrender and a rout begins.”

Luciri will summarise as follows: The most important cause of rising prices is rising prices, and the most important cause of falling prices is falling prices!

Sasol

In the previous newsletter, we discussed the price cycles in the Sasol share. Jim Rogers recently said the following: “*The better it gets, the worse it will be when it ends.*” Jim is talking about the high price of bonds, property and stocks in the current hot market conditions in the USA. According to Jim, we are in an everything bubble except for commodities. For example, oil is not following other prices to new highs. When we think of oil, Sasol immediately comes to mind. The low point that was indicated with high uncertainty at R110.40 on 4 June 2024, is still holding 4 months later.

Let us listen to the legendary Sir John Templeton for a change: “*Bull markets are born on pessimism, grow on scepticism, mature on optimism, and die on euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.*”

This is true for bull markets, but it is also true for the price cycle of an individual company like Sasol.

When we look at Sasol, we certainly have no lack of pessimism and scepticism currently. So, following Sir John’s advice, we should be thinking about buying. While it is impossible to know the precise time of maximum pessimism, we can be approximately correct by buying in several steps, using a rand cost averaging technique to buy more shares at lower prices. We can also use the ratio of the Sasol price to the rand per barrel Brent oil price as a guideline, as discussed in newsletter 40.

Risk versus uncertainty: Mustek

“*Equities are a claim on uncertain future earnings.*” Peter Bernstein

This is so true. The future earnings and dividends from equity investments are uncertain. We saw this again on 19 September this year when Mustek declared a reduction in headline earnings per share of 82%, and a dividend per share 90% down on the previous year. So, the share price certainly crashed on that day, right? Wrong! The share price of Mustek closed on 1320 c per share on 18 September, and

increased to 1395 c per share on 19 September after the shocking drop in earnings was announced!

Can my readers perhaps think of any explanation for this movement? Yes, it is possible that the market expected results that were even worse. But I want to offer another possible explanation.

Please have a look at the movement in the so-called net-net value of Mustek shares over the past 5 years: (just a reminder, the net-net value is current assets minus all liabilities on a per share basis)

2019 – R7.86; 2020 – R7.94; 2021 – R10.39; 2022 – R13.54; 2023 – R15.52 and 2024 – R16.12

The net-net value amounts to R16.12 per share, calculated on 19 September from the same set of results that showed the massive decline in headline earnings per share. I am of the opinion that the steady increase in the net-net value per share played a major role in the share price resilience. It almost acted as a huge magnet, pulling the share price closer to R16.

The risk associated with an investment in Mustek is low as long as the price remains below the net-net value. The uncertainty of future dividends remains high until Mustek has worked down their excessive stock in alternative energy solutions – the stock has accumulated due to the sudden drop in alternative energy demand when Eskom stopped their load shedding practise earlier this year.

Uncertainty and risk are clearly two separate concepts – uncertainty leads to volatility in results, but if this volatility occurs at a share price below the liquidation value, the risk remains low!

The Lazy portfolio

Six years ago, Lucri constructed a concentrated portfolio for a 10 year period – please refer to newsletter 17. The basic idea was that an investor does not need constant buying and selling to earn a decent return. I therefore offered to fight for a full decade with both hands tied behind my back – without any opportunity to make any changes or adjustments at all to a limited portfolio.

On 11 October 2024, the status of this investment was the following:

Name	Rand price	Share count	Dividends Cumulative	Rand value 11/10/2024	Rand value 23/10/2018
Berkshire B	8049	11.80104	0	94986.57	35000
Annheuzer Bush	1130	12.56881	1260.51	15463.27	15000
Naspers	4199.2	9.20515	304.67	38958.94	25000
Multichoice	109.73	9.20515	156	1166.08	
Prosus	758	20.06354	90	15298.16	
Reinet	466.81	105.50749	3092	52343.95	25000
			Total:	218216.97	100000

When we compare this result to two years ago and also one year ago, the lazy portfolio was far from lazy. It appreciated from R 134576 on 18 October 2022 to R174357 on 18 October 2023, and then to R 218216 on 11 October 2024. This provides us with 62% over a two year period.

When we look at the four original shares in the lazy portfolio, before Naspers unbundled Multichoice and Prosus, we find Berkshire in the lead at 171% over the full 6 year period. I believe Lucri readers will not be surprised to find Berkshire as the cornerstone in every international portfolio that Lucri constructs. It is also the second largest holding in the flagship Lucri portfolio of my family (Just if you are curious about the largest holding: No surprise there – Lewis is the largest.)

Then we have Naspers (including the unbundled shares) at 121% over the 6 year period. You will find Naspers to be a large holding in almost every portfolio that Lucri is managing on behalf of clients.

Reinet is weighing in at 109% over the 6 years – still very much in the picture.

The laggard, Anheuser Bush, has eked out a mere 3% over the 6 years. You will notice that this name has almost disappeared from your Lucri portfolios a year or two ago – this one was really lazy!

The lazy portfolio provided 118% over the 6 year period without any effort from my part at all. It is important to note that I have not performed ANY investment actions since October 2018. We are beginning to see that constant changes to a portfolio is not always adding value – this is one of the outcomes that Lucri was hoping to illustrate with this exercise.

We normally also compare the 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	11 Oct 2024	Dividend index total	Rand value	Dividend %
All share index RSA	51500	86149	15658	197680	3.4%
S & P 500 dollars	2755.9	5815			
S & P 500 rand	39640	101704	6133	272037	1.21%
RSA inflation index	88.1	116.5	0	132236	

We shall use our analogy of the Comrades marathon again to describe the relative performance. More than halfway through the comrades race (6 years completed out of 10), we see that the lazy portfolio at R 218216 (13.9% compound growth per annum) is still running in second position after passing the RSA all share index the previous year. The all share index remains in the third position at R197680 (12% compound growth per annum).

The S & P 500 index of America remains clearly in the lead at R272037 (18% compound growth per annum). Now you may understand why Lucri included it into the so-called “simple portfolio” that was introduced to Lucri readers in newsletter 38. It remains very hard to beat the S & P 500 index in rand terms. Over the last year, the lazy portfolio provided growth of 25.1% versus the 23.4% of the S & P 500 index and the 19.9% of the JSE all share index. So, we are gaining ground on the front runner, and we are pulling away from the third athlete. Do we perhaps see signs of tiring in the front runner? Next year will shed more light on the answer to this question!

The RSA inflation index is lagging far behind at R132236 (4.8% compound growth per annum) – which again confirms my rather bold statements in earlier newsletters that the RSA inflation rate is not being measured accurately.

Just before we end this newsletter:

What do you call a person who never returns any books that he or she has borrowed? A bookkeeper!

Lucri housekeeping

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

All comprehensive 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 enjoy **bookkeeping**,

Simon Streicher