



DRY  
ASSOCIATES  
INVESTMENT BANK

## Investment Newsletter July 2022



*Papillon Lagoon Reef Hotel 22-March-22 Courtesy J.Dry*

### **What a Difference a Few Months Make**

As we enter the second half of 2022, we are in a very different economic environment than a few short months ago. Here's a quick recap.

---

The World Bank is warning of global stagflation – “feeble growth and elevated inflation” to use their words. On June 7<sup>th</sup> the World Bank revised downwards it’s global growth projection to 2.9% from an earlier 4.1% projection.

Feeble Growth: The US economy grew at negative 1.6% in the first quarter of 2022. It is estimated to grow at negative 2.1% in the second quarter. Two negative quarters of growth is technically a recession. So, while the US may technically be in a recession, only the US National Bureau of Economic Research can declare a recession.

Here’s the World Bank’s growth figures for the US and Kenya:

<b>GDP Growth Figures</b>	<b>2020</b>	<b>2021</b>	<b>2022 (Estimates)</b>
Kenya	(0.3%)	7.5%	5.5%
USA	(3.4%)	5.7%	3.5%

Inflation: In the background, as the world exits Covid, there is obvious rising demand for services and products. These services and products cannot all be provided because of disrupted supply chains across the globe. When the same amount of money chases too few goods and services, prices rise. The Russian invasion of Ukraine, of course, has worsened a bad situation. This is inflation and it is running at 8.6% in the European Union, 8.4% in the US and 7.9% in Kenya.

Inflation is bad because it decreases the purchasing power of consumers. It makes consumers poorer and reduces standards of living. It also makes lenders less willing to lend since their interest and principal returned in the future is worth less. Less lending leads to slower economic growth.

Stock market investors are also affected. The US Dow Jones Industrial Average is down overall 16% since January 1, 2022 and the Nairobi Stock Exchange All Share index is down 21% over the same period.

### **12 People Around a Table**

To bring inflation under control (generally acknowledged as 2% inflation or less) central banks are raising interest rates. The US Federal Reserve raised the Fed Funds rate 75 basis points to 1.75% in June 2022. It is expected to raise interest rates another 75 basis points in July. Some forecasters have the Fed Funds rate at 3.75% by year end.

These interest rate rises are meant to cool down economic activity. But raising interest rates push down stock and bond prices as noted above.

Ironical isn’t it that 12 individuals sitting around a table in Washington DC can cause so much global pain to investors. The US has exported its monetary policy to the rest of the world as John Mauldin so well puts it.

---

Just an aside, but there are reputable economists who think central banks cause more harm than good. Let business cycles run their course they say and let markets seek their own level of interest rates. These economists point to the past decade of zero interest rates in the US and Europe. They argue that these artificially low rates have led to our current situation including asset bubbles. It is true that when money does not have a price, it is not directed to the most profitable ventures. It is probably also true that bitcoin and the other cryptocurrencies would never have seen the light of day were it not for loose money.

The fact is, however, central banks were invented to prevent global economic crises from getting out of hand. Even without central banks, business cycles were common enough over the centuries. So, the purpose of central banks is to prevent or limit the damage of these crises - like the sub-prime mortgage implosion of 2008. The problem is central bankers are human and make mistakes. They raise interest rates too much or too little, they tighten money supply too early or too late. As a result, there are always winners and losers, proponents and critics.



*Amboseli National Park 17-April-22 Courtesy J.Dry*

### **So What's the Strategy?**

Well, the short answer is to purchase short dated fixed income securities. Commercial paper would fit the

---

bill. Government treasury bills as well. But the longer-term solution for preserving and growing wealth is realizing that bear markets eventually turn. They become bull markets.

No one knows when the market will turn. But it will turn when inflation is brought under control (2% more or less) and central banks stop raising interest rates.

Besides the Fed, the European Central Bank is expected to raise interest rates for the first time in 11 years in July 2022. The Kenyan Central Bank raised its CBK Rate to 7.5% from 7% on May 30 and may be raising rates again at its next meeting.

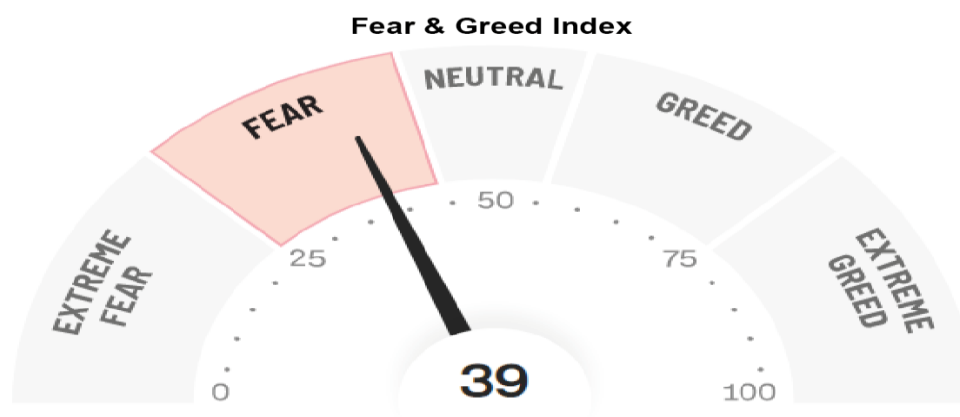
Expect all central banks to continue raising rates. Developing economies like Kenya are unfortunately on the receiving end of this process. Not only are they being forced to raise rates to temper imported inflation on goods like oil and wheat. They must also try to hold the value of the local currency against the US dollar which is strengthening. Then, of course, Kenya must pay more in shillings to service interest and principal repayments on US dollar denominated sovereign debt. So do Kenyan commercial enterprises like KPLC and KenGen that hold dollar debt. So, it's a vicious cycle until inflation is under control.

In addition to purchasing and holding short term debt paper, investors will not want to miss out on the capital gains that equities will offer once interest rates stop rising. In order to do that, we give here a simple way to capture these out sized future gains.

### **Dollar Cost Averaging**

Since no one knows when inflation will abate, markets are scared. In the Fear, Greed, Hope cycle, the needle is clearly registering fear.

*"Be fearful when others are greedy and greedy when others are fearful" - Warren Buffett*



Source: CNN Business

The best we can do on the equities side of the portfolio is “dollar cost average”. This basically means building equity positions in certain stocks, mutual funds or Exchange Traded Funds (ETFs) by purchasing them at regular intervals regardless of the price. So instead of buying 100,000 shares of Safaricom right now, buy 10,000 shares a month over the next several months. Here’s a simple example assuming we purchase over 5 intervals at various prices:

Investment	Investment	Price/Share	No. Shares Bought	Last Purchase Price	Overall Value
1	KES 10,000	30	333		
2	KES 10,000	32	313		
3	KES 10,000	25	400		
4	KES 10,000	23	435		
5	KES 10,000	31	323		
Totals	KES 50,000		1,804	X 31	KES 55,924

You could purchase 1,666 shares at the current price of KES 30 (that is, KES 50,000/30). But with dollar cost averaging, you purchase shares at set intervals regardless of the price. The usual result in a volatile market like we have is that you end up with more shares. In this case, when the market finally recovers, you have 1,804 shares instead of the 1,666 you would have if you had invested the entire KES 50,000 at KES 30/share. The value is also greater at KES 55,924.

### **Recommended Buys**

The performance of US markets during the first half of 2022 is the worst in 50 years. The Dow Jones Industrial Average is down 15%, the S&P 500 20%, the Russell 2000 Small Cap index 28% and the tech heavy Nasdaq 30%. Bond prices are also off 10% or so as yields have risen. The US 10-year Treasury currently pays 3% per annum which is double the 1.5% it was paying at the beginning of the year. So, there’s been no place to hide in these markets. The FAANG’s have all been decimated: Facebook (-54%), Amazon (-29%), Apple (-19%), Netflix (-73%) and Google (-21%).

---





*Nasdaq Index down 30%*

So what to buy? Everything looks like a bargain. But the question remains; how much further will stocks fall and when will they rise. But if the last 200 years of stock market history is anything to go by, these markets will rise again and when they do, it will be rapid.

Since the entire market has been affected, one very reasonable strategy would be to buy the market. By that we mean, take the bulk of what you can invest (for example 80%) and buy index funds which represent broad swaths of the market. Use the other 20% to purchase individual stocks that are attractive to you as an investor – if you're a doctor, perhaps a leading cancer research company (e.g. Gilead Sciences) or if you are an engineer a computer company focused on cloud-based computing (e.g. Oracle).

For example, starting with a \$100,000 investment, over the next 5 months invest \$20,000 on the July 30, August 30, September 30 and so on for 5 months. Each investment of \$20,000 would look like the following:

---

Investment	Index	Stock "Name"	Ticker Symbol
\$3,333	Dow Jones Ind. Avg.	Diamonds	DIA
\$3,333	S&P 500	Spiders	SPY
\$3,333	Russell 2000	Russell 2000	IWM
\$3,333	Nasdaq	Cubes	QQQ
\$3,333		Gilead Sciences	GILD
<u>\$3,335</u>		Oracle Corp.	ORCL
\$20,000			



A carving of King Casimir the Great of Poland, made of pure rock salt, found at a depth of 63 meters underground at the Wieliczka Salt Mine. This UNESCO World Heritage site is just outside Krakow in Poland, originally built in the 13th century and goes to a depth of 327 meters! (Courtesy: S. Dry 8-July-22)

## **Franklin Templeton**

The Franklin Templeton funds have fared no better than other markets. The US Opportunities fund is down almost 30% since the year began and the Franklin Technology fund down 35%. But the same dollar cost averaging strategy can be employed with Franklin Templeton. The US Opportunities can be a substitute for the S&P 500 index, the Franklin Mutual US Value Fund for the Russell 2000 and the Franklin Technology for the Nasdaq index.

One easy way to deal with the administration of implementing this dollar cost averaging strategy with Franklin Templeton, would be to place the intended funds for investment into Dry Associates' USD Money Market Fund (MMF) and sign a Standing Order instruction to transfer the requisite sums from our USD MMF into the Franklin Templeton funds at regular intervals.

One FT fund that has done well over the past 6 months is the Franklin Natural Resources fund which is up 32% over the past 6 months and 39% over the past year. The India fund, another popular fund, however, is down 13% since the year began but down a less 2.5% over the past 12 months.

## **Kenyan Markets**

### **Fixed Income Securities**

The silver lining in this down market is that fixed income securities – short and medium-term notes – are paying higher yields. The current yields available are as follows:

<b>Issue</b>	<b>Interest Rate</b>	<b>Source</b>
Commercial Paper – 12 months	14.5%	Dry Associates
Commercial Paper – 6 months	13.5%	Dry Associates
Kenya Treasury (tax free) 3-yr bonds	10.5% (Yield-to-Maturity)	Market Determined
Kenya Treasury Bill – 12 months	10%	Central Bank of Kenya
Kenya Treasury Bill – 6 months	9.3%	Central Bank of Kenya
Dry Associates KES Money Market Unit Trust	9.1%	Dry Associates
Kenya Treasury Bill – 3 months	8.2%	Central Bank of Kenya
<b><i>Inflation</i></b>	<b><i>7.9%</i></b>	<b><i>Central Bank of Kenya</i></b>
Commercial Bank Fixed Deposit Rate	6.6%	Central Bank of Kenya

### **NSE Equities**

The NSE All Share Index is down 19% since the year began. It was down 30% until recently. Since June 27<sup>th</sup> however, there has been a spurt of buying by mainly local investors pushing the index off its low for the year. As you can see from the chart below, the NSE All Share Index has crossed the 50-day moving

---



average (purple line) to the upside although it remains significantly below the 100-day moving average (red line).

In fact, from a charting perspective, there are a number of NSE counters that have pierced both the 50- and 100-day moving averages to the upside. These are typically captured in our Weekly Report, but they include KCB, Housing Finance, Nation Media, TPS Serena and Car & General. A few other counters - Equity Bank, StanChart, Bamburi, EA Breweries and Safaricom - are at least trading above their 50-day average. All of these are candidates for “dollar-cost-averaging”.



## Recent Issuances

Dry Associates' issuance pipeline was fairly active during the first half of 2022.



## RA International Medium Term Note

On May 16, we concluded a \$12 million private debt raise for RA International FZCO (UAE). RA International is a construction and facilities management company operating in demanding environments often for aid agencies. Its clientele are largely agencies of the US government, UK government and United Nations. The two- and one-half year fixed income notes in US dollars and GB pounds carried 8% and 7.5% coupons respectively. The notes were rated AAA by GCR (Global Credit Ratings Co).



*Constant training before an upcoming bond launch. July 14, 2022*



## GardaWorld Bond

On June 15, we concluded the 2<sup>nd</sup> Tranche of a KES 1.4 billion private debt raise for GardaWorld, the parent company of KK Security. GardaWorld is the largest privately owned security firm in the world. The 5-year notes carried a 15% coupon in Shillings and a 7.5% coupon for USD. The notes were credit rated A+ by GCR.

### Estate Planning



We'll close out this newsletter with a brief suggestion regarding estate planning. Dry Associates has on staff a full-time lawyer that works with our Private Wealth clients to discuss and implement estate and succession planning. The fact is, unexpected things happen in life, and our loved ones must carry on. Anyone over 50 years old probably has assets which he/she wants to convey to their progeny or beneficiaries in the event of their passing. Allowing assets to be caught up in probate court is a frustrating and wasteful experience. For a small fee, let us put these things in order for you. It's just good planning even though we're all going to live to be a 100.

Here's what our legal expert has penned:

"There are a variety of options available to individuals seeking to ensure that those they leave behind ... inherit certain assets. Among the options available under Kenyan law are:

1. Testate succession:  
"Set up a valid will and appoint trusted executors to effect instructions pertaining to your estate and the intended beneficiaries thereof. This process [involves] the probate courts."
2. Family Trust registration:  
"This ... allows asset owners to declare a trust over the assets they hold for the benefit of the beneficiaries. The legal ownership of the assets would transfer to the beneficiaries on the death of the owner of the assets in line with the conditions of the trust. Importantly, this process avoids the protracted and expensive processes involved at the probate courts."

As always, we commit to all our clients to help them participate in the growth and prosperity of Kenya ... and the world at large.

Sincerely,

Dry Associates Investment Bank

***WE KNOW ... INVESTMENT MATTERS.***



Dry Associates is an Investment Bank in Kenya and offers a wide range of products and services:

**Private Wealth Management | Unit Trusts | Commercial Paper | Investment Advisory Services |  
Pension Fund Management | Offshore Funds | Consulting | Corporate Finance | Treasury  
Management | Portfolio Management**

For more information visit our website [www.dryassociates.com](http://www.dryassociates.com) or speak to us directly on  
+ 254 (0) 705 799 971/ (0) 705 849 429/ (0) 738 253 811/ (020) 445 0520/1

*Disclaimer: This Dry Associates Newsletter has been prepared using information known to and within the public domain. The information materials and opinions contained on this Newsletter are for general information purposes only, are not intended to constitute legal, financial or other professional advice and should not be relied on or treated as a substitute for specific advice relevant to particular circumstances and situations. Dry Associates make no warranties, representations or undertakings whether express or implied, about any of the contents of this Newsletter (including, without limitation, any as to the quality, accuracy, completeness or fitness for any particular purpose of such contents), or any contents of any other source referred to.*