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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | August 2021 www.krygierwealthmanagement.ca

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What is the greatest virtue for an investor?

As we enjoy the final month of summer and contemplate the final months of 2021, it is a worthwhile endeavor to introspect and think about what we did this year so far that worked out and what we did that, well…not so much. As a "type A" personality that tries to get as much as possible crammed into each day, when I do take the time to look back I realize that quite often my successes come not from what I did, but rather from what I didn't do. This is not a prescription for becoming a "couch potato", but rather a recognition that in practise sometimes it is really true that "less is more." I vividly recall discussions in my criminal law class in first year law school, back in 1988-89, in which our English accented criminal law professor spent a lot of time explaining the differences between "acts of commission" versus "acts of omission". Acts of commission are self-explanatory – one does an action and one is held responsible (hopefully) for one's action. In contrast, acts of "omission" are not as clear to place the liability. The case I recall we reviewed is one in which a police officer stopped a fellow for a traffic violation. The car was parked on a hill. When the police officer approached the car, the driver who had placed the car in park, but had not taken his foot off the brake, did so, and when he did the car rolled a short distance, just enough to have one of the tires land on the officer's foot. The officer cried out in pain and yelled for the driver to start the car and move it off his foot. The driver refused. In addition to whatever else the driver had been charged, he was also charged with the "act" of not removing the car off the foot of the police officer. Was he guilty? Can we hold someone responsible for omitting to do the right thing? The answer is yes.

When it comes to investing, often it's not what you "do" that counts, but what you "don't do." Jared Dillian writes one of the several investment newsletters which I read each day, and he suggests that the things that make a good investor are, "intelligence, experience, emotional fitness…and patience." Furthermore, he suggests that good trading requires, "90% waiting, 9% research and 1% putting on the trade." So what does that tell you? It tells me that the best returns come from being patient, once you have first done your due diligence, and checked the quality of the investment you are making. Is the company financially sound? Does it have a strong business model with a competitive advantage that if carried out can allow it to outshine its competitors? Is it in an industry with a viable long-lasting future or one which can disappear in the near-term with the emergence of a better technology or product? Who are the people running the company? What is their past track record? Who are its customers? Are they loyal or are they "tire-kickers" looking for the cheapest price? Is the investment underpriced, fairly valued or overpriced? Once such questions are answered to the best of one's ability, another question re trading is whether this is a good time to invest? After all of this, one has to have the gumption to actually commit the funds to invest and, finally, one has to be patient to let the thesis play itself out. There is nothing I hate more than to do all the right things, invest the money, and then sell out due to short-term "news" which results in not seeing the fruits of all that labour.

The stock markets are a funny place to invest. Nowhere else does an investor have the "opportunity" to have an entire world judge one's "success" on a day-to-day basis. An average investor has no problem buying a rental property for which the tenants cover the cost of the mortgage, knowing that over 20 or 25 years the mortgage should be paid off and the value of the property should have appreciated. Many investors sink money into syndicated property deals in which no return will be available until after a period of 3, 5 or perhaps even 10 years – relying only on the past record of the investors. Mr. Dillian once said that people who manage "private equity" have a huge advantage over those of us who invest in the public capital markets – which is that investors don't look at their investments day-to-day, month-to-month, or even year-to-year – because they can't remove the funds for 5 years, nor do they expect a return on their investment until the end. In other words, the advantage of managing private equity is the theme I started with above – the virtue of having patience with one's investments.

So here we are, with the Nasdaq high-tech laden index hitting new highs, the U.S. Central Bank (the "Fed") stating as loud as they can that the inflationary pressures evident in every walk of life (Try to buy a house or a car recently? Build a deck? Hire an employee at last year's wages?) are simply "transitory", that "Covid" is not over, that Central Bankers wear capes and a big red "S" under their shirts, yadda, yadda, yadda. So for a brief time after each one of these talks, the "reflation" trade which permeates our portfolios (energy, industrials versus high tech) take a dip. Despite the resource sector having outperformed most other sectors since last August, when the crux of the post Covid crescendo was completed, some investors started panicking all over again. "But what about the variants?", "look at Apple and Amazon", "oil and gas use is over!" To such questions, consider that, "Rome wasn't built in a day". The theme we are dealing with is a multi-year cycle in the making. Most high tech stocks are at ludicrous valuations, and with 25 years of investing experience, I can truly say nothing ever goes straight up or straight down – even when you get the theme right. The difference is that with age and experience comes more patience. Looking back at the inferno of emotion that resulted from Covid in March of 2020, "could've, should've, would've" permeates my mind. I could have had more cash on hand (hindsight is always 20/20), I shouldn't have sold most of the positions I sold, and I wish I would have started investing about 3 weeks earlier than I did. Life and investing however is not about perfection, it's about doing more things right than wrong, and keep trying to improve each and every day.

Bottom line

Positive returns in investing require above all patience. As Jared Dillian notes, "Part of investing is having the ability to sit in pain and discomfort for a little while." Markets don't go up or down in a straight line, and bold action is necessary at times. However, the old story about the tortoise beating the hare is often true. Thinking of your investments as private equity and ignoring it while it develops is often the best recipe for success. Happy investing!

Global benchmarks

As at July 31, 2021 (Canadian $ Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	18.2%	29.1%	10.7%
S&P 500 TR - US$	18.0%	36.4%	18.2%
NASDAQ Composite - US$	13.8%	36.6%	24.1%
MSCI Europe Index Price Return	9.8%	20.6%	4.0%
MSCI Emerging Markets	-3.1%	10.1%	4.1%
China S.E Shanghai A Price Return	-3.2%	3.0%	6.1%
MSCI World Index Price Return	11.8%	23.8%	11.0%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - US$	-4.7%	-14.2%	10.6%
10-year U.S. T-Bond - US$	-2.2%	-5.4%	7.0%
Long GOC Bond (2051)	-11.2%	-16.7%	5.4%
10-year GOC Bond	-3.6%	-5.2%	4.9%
5-year GOC Bond	-1.0%	-1.2%	3.7%
3-month CDN T-bill	0.0%	0.1%	1.0%
US$/CDN$ (1.2470)	-2.0%	-7.0%	-1.4%

Source: RBC Capital Markets Quantitative Research

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