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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | December 2020 www.krygierwealthmanagement.ca

Mark J. Krygier
Vice-President, Portfolio Manager & Wealth Advisor
416-733-5750
mark.krygier@rbc.com

Avital Pearlston
Associate Wealth Advisor
416-733-5751
avital.pearlston@rbc.com

Irene Hama
Associate
416-733-5752
irene.hama@rbc.com

Jessica Y. Liang
Associate
416-733-5749
jessica.liang@rbc.com

Beware of a changing of the guard…

Here we go, the final stretch of 2020, and not a moment too soon! For the first two months of this year (and it looks like for the last two as well), investors enjoyed (and will likely enjoy) some very strong investment returns. What occurred in between however…well, not so much. No doubt, for many investors 2020 has been an emotional rollercoaster. First came the initial "high" as the Pre-Covid markets hit a brief peak in early February (can you remember that far back?), with U.S. unemployment at all-time lows and the economy looking like it was set for steady growth for the foreseeable future. Then came the downturn, as Covid was found to have spread beyond China and Italy to the shores of North America, and suddenly we were faced with the unfathomable – complete economic closure and effectively a mass house arrest – was underway in "zero to one hundred" speed of about two weeks. The feeling one gets in the pit of one's stomach as a rollercoaster reverses course and seemingly heads straight down is perhaps an appropriate analogy to the sheer terror many investors felt as their financial world appeared to come crashing down on them. Fortunately, like the rollercoaster ride, both the thrills and the fears eventually came to an end, as human nature once again adapted to the latest "new" reality and life moved forward again. Human nature and our extreme emotional reactions do not change, only the circumstances in which we find ourselves change.

In the immediate aftermath of the Covid crisis, many investors gravitated to the obvious beneficiaries of the "new order", meaning closures, shutdowns and internet dependency. Zoom for video-conferences, Amazon and Wayfair for purchases, Facebook and Twitter for communicating, Microsoft for software and cloud storage, Netflix and Pinterest for leisure time, were amongst the myriad of other technologies intertwined with these means of relating to a world with Covid. As human nature would have it, the pursuit of such vehicles quickly became a self-fulfilling prophecy as valuations of these companies' stocks hit peaks not seen en mass since the big tech "dot-com" bubble of March 2000. Valuations for established companies like Apple were, by late summer, trading at 2-3 times their historical valuations. Newcomers like Zoom got so far extended in price that one has to literally go back to the dot-com era 20 years ago to find such fantasy-like valuations, which historically end up going in one direction – and suffice to say that is a lot lower than we see today. Human nature also assumes that the pattern to which one has become accustomed will continue going forward – hence the demand by financial regulators for small print at the bottom of all financial records which discuss performance numbers that, "past results are in no way a guarantee of future results." If posed the question as to which sectors and which stocks have performed the best since August of this year when Apple and Tesla did stock splits (an old marketing trick that has absolutely no economic benefit), most people would answer it was the high-tech stocks – as they were the ones which led the markets out of the "Great Collapse" in March. Would it be a surprise to know that since the market lows in October, just before the U.S. Presidential election, that the high-tech laden NASDAQ index is up 6% while the once "uninvestable" oil & gas stocks are up over 40% from their down-trodden lows?

Have you ever been on a tour of Buckingham Palace? My family and I visited London about seven years ago and we took a walking tour of the Palace which is open to tourists during the summer months. It is definitely well worth the visit and provides a peek into a past era of glory, pomp and ceremony. One of the highlights of the tour is the Changing of the Guard, otherwise known as "Guard Mounting" (who knew?). Changing of the Guard is the iconic ceremony which literally marks the moment when the soldiers currently on duty protecting the palace (the "Old Guard") exchange places with the "New Guard". The guards are dressed in formal red tunics and bearskin hats. The Old Guard collects in the "forecourt", is then joined by others from another palace, and then the New Guard arrives in a ceremony accompanied by music – it is quite a spectacle. The key to watching this special event is to arrive early, as the crowds forming to watch the ceremony can be quite large and a latecomer could miss it entirely, thereby not even realizing that the guards have changed. Why is a bit of tourist information relevant in an investment newsletter (other than to feed travel-starved people something to think about while sitting at home)? The answer is that the stock markets in recent years have been dominated by an "Old Guard" for a number of years, which may have had their last hurrah due to the economic impact of Covid. The concern for investors is that if this is true, one has to be careful to "get there early" and invest in the "New Guard" or one may miss out on this opportunity entirely!

In 2019, a year before Apple did its stock split in August of 2020**,** its "market capitalization" (market "cap" or value of all of its shares trading), representing its "worth" in the market, was more than the entire US Energy Market combined! Its "value" then doubled in the year following, giving it a value greater than the entire US "small-cap" (small companies) index. Shortly thereafter, on August 24th, Exxon Mobil was kicked out of the Dow Jones index and Apple completed its fifth stock split in its history. Since that time, Apple, and many other "Old Guards" like Amazon, Microsoft, et al have dropped in price, while Exxon, Chevron and many others in the energy sector, as well as those in the metals and mining sectors, have posted very strong performance numbers. In basketball parlance, one wonders if this is just a "head-fake" which investors should ignore? Or perhaps, is what we are witnessing the pomp and ceremony reserved for a Changing of the Guard? Why does this matter? Consider that the last time we saw such a change was in the year 2000. Investors who came "late", missed the ceremony and stuck with the Old Guard, lost a lot of investment capital which took over a decade to recover. However, those that recognized the change and rebalanced their portfolios accordingly had excellent investment returns in the ensuing years.

Bottom line

While it has been a trying year for many investors, the time for panic and wailing is long past. Most investors have recovered their losses from the Covid induced downturn and many already have decent returns for the year. A year-end provides us with the opportunity to not only be thankful for what we do have, but also to review, evaluate and make any changes that can improve our future. Let's be sure we don't miss any signs that times are a changin'!

Global benchmarks
As at November 30, 2020 (Canadian $ Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	3.8%	4.3%	5.6%
S&P 500 TR - US$	14.0%	17.5%	13.2%
NASDAQ Composite - US$	36.0%	40.8%	21.1%
MSCI Europe Index Price Return	-1.3%	0.3%	0.0%
MSCI Emerging Markets	8.2%	13.5%	2.7%
China S.E Shanghai A Price Return	17.9%	23.7%	1.2%
MSCI World Index Price Return	9.6%	10.4%	7.8%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - US$	21.3%	16.8%	11.8%
10-year U.S. T-Bond - US$	11.3%	10.1%	7.0%
Long GOC Bond (2051)	15.0%	10.3%	9.8%
10-year GOC Bond	10.6%	8.6%	5.4%
5-year GOC Bond	7.0%	6.2%	3.6%
3-month CDN T-bill	0.8%	0.9%	1.2%
US$/CDN$ (1.3000)	0.1%	-2.1%	0.3%

Source: RBC Capital Markets Quantitative Research

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