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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Senior Portfolio Manager | December 2021 www.krygierwealthmanagement.ca

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Life Is About Choices

As I write this newsletter, the last one of 2021, yet another Covid variant has the markets roiling on fears of Shutdown Part IV, or is it V… it's so hard to keep track. Not to sound flippant, and certainly not to minimize the risks of this disease, but if one can take a moment to consider this whole scene from an outside point of view, there certainly seems to be a number of unexplainable behavioural inconsistencies. I have personally observed in the past several weeks behaviours that I do not understand. For instance, I continue to see individuals driving their automobiles alone, while wearing a mask, in order I presume to avoid contracting Covid from some hidden source emanating perhaps from their car vents. I have seen others jogging outdoors, alone, far from others, wearing masks. More curious are the cyclists, at least a dozen of whom I have seen wearing masks – but not wearing a bicycle helmet, presumably because they have determined that the odds of contracting Covid, while outdoors and passing others in less time than it takes to ask, "how are you?", to be greater than the odds of falling off one's bike by being hit by a careless driver or for any other reason, such as hitting one of the many potholes in the city, and getting a head injury. I wonder if they visited any of the city's hospital emergency wards to form such opinions. Finally, most incredulous, was the young couple I passed while driving on a busy street (north on Bathurst for those familiar with Toronto) who were illegally jay-walking – while wearing masks! I would love to know what thought process goes on in the minds of such people when they balance the risks of day-to-day life.

Ironically, when I discuss the idea of risk with a client, I often use the analogy of crossing the street. There are risks in practically everything we do in life. There is the risk of going outside of one's home for fear of a potential marauder (human or virus) versus staying cooped up and never getting fresh air. There is the risk involved in taking a vaccine versus the risk of contracting a disease. There is a risk in seizing an opportunity in business to upgrade one's earning potential versus remaining in a staid stable job with no significant earning upside. Even doing nothing at all is a risk of getting left behind by friends, family and certainly in business or investing. There is a risk in virtually every scenario one can imagine, so the question is not one of taking or not taking risk, but rather what is a reasonable risk. I recall in law school we spent an inordinate amount of time discussing the idea of what is considered "reasonable". If a person normally crosses an intersection at the corner, waiting for the lights to show the "walk" sign, looking both ways before crossing, not looking at their phone when they cross (can you imagine?), is there still a possibility of getting hit by a wayward car? Yes, it is still possible, but it is also highly improbable and it is the kind of "risk" which most people are comfortable taking every day, and so they should. In contrast, if a person tries to walk across a busy highway while blindfolded (or texting), could they make it safely across to the other side? Yes, it is possible, but highly unlikely, and not a risk most people would or should be willing to take. Risks can therefore be categorized as either probable or merely possible, a discussion of which was also a favourite topic back in law school.

In investing, the risk between choices are not always clear-cut, yet the approach to making investment choices should be. In any given scenario one has to ask oneself, what are the risks I am taking and what is the probability of those risks coming to fruition? At one extreme, I can leave all of my money in cash, a GIC or a CD earning less than 1% a year, while inflation has gone over 3% and some are calling for 4% or more inflation in the foreseeable future. The “risk” to the owner of such cash is to devalue the owner’s purchasing power by 2, 3 or more percent per year (the “nominal” rate earned minus both taxes and inflation). Professor Milevsky of York University’s Schulich School of Business has published studies showing that if ones’ assets do not grow at the rate of inflation, then at only 3% inflation one’s purchasing power reduces by 2/3 over 20 years. That’s a real risk to maintaining one’s long-term lifestyle. At the other extreme, one can “invest” in things that will over time perhaps not grow at all, or may even drop significantly in value. Think of companies that make no profit and which will likely never make a net profit under their current business model (perhaps some of the electric car manufacturers that rely on government subsidies or “carbon credits” to stay in business). Think of sectors in the economy which may become antiquated by new technologies (remember RCA or Blockbuster video?). Think of real estate, stocks or other investments, which may be of sound quality, but whose current valuations subsume years if not decades of future growth (real estate buyers in the peak of the late ‘80s took over 12 years to break-even on their investments; similarly, the U.S. S&P 500 stock market index had a 0% annualized return from 2000 to 2010 after hitting extreme highs in early 2000 during the previous high-tech boom).

Consider one’s probability of success in investing in areas overlooked by many investors, due perhaps to the sector not being exotic enough to capture media headlines (like well-managed retail stores which sell products people regularly consume or transportation companies which deliver the goods these stores are selling). Consider the risks of investing in areas of the economy which are perhaps politically incorrect by current standards, but which are integral to the functioning of an economy (like producers of the raw materials needed to fuel an economy, build homes or manufacture automobiles, including electric cars and the charging stations needed to keep them rolling). Finally, consider the chance of succeeding when investing alongside some of history’s most successful investors or in the type of investments they have favoured over time.

Bottom line

Whether investing or making day-to-day choices, we are continually required to assess risks in all that we are doing. Successful investing and living involves thinking about the probability of success of each choice we make. Doing what is popular may feel good, but many a lemming wished it had made up its own mind. Be sure to realistically assess your own personal set of circumstances before determining your future course of action and best of luck in the New Year!

Global benchmarks

As at November 30, 2021 (Canadian $ Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	21.4%	23.5%	14.2%
S&P 500 TR - US$	23.2%	27.9%	20.4%
NASDAQ Composite - US$	20.6%	27.4%	28.5%
MSCI Europe Index Price Return	7.2%	9.8%	6.6%
MSCI Emerging Markets	-5.7%	-1.1%	5.4%
China S.E Shanghai A Price Return	5.6%	6.8%	13.2%
MSCI World Index Price Return	15.8%	18.0%	13.5%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - US$	-1.9%	-3.5%	12.8%
10-year U.S. T-Bond - US$	-3.7%	-4.3%	6.2%
Long GOC Bond (2051)	-13.1%	-14.0%	4.8%
10-year GOC Bond	-5.9%	-5.9%	3.7%
5-year GOC Bond	-3.1%	-2.9%	2.7%
3-month CDN T-bill	0.1%	0.1%	0.9%
US$/CDN$ (1.2779)	0.4%	-1.7%	-1.3%

Source: RBC Capital Markets Quantitative Research

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