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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Senior Portfolio Manager | February 2024 www.krygierwealthmanagement.ca

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When, NOT if...

The global capital markets are currently focused on "if", and "when," interest rates will start to drop in the United States and elsewhere. The reason for this intense scrutiny is to get a sense of when the "brakes" on the economy will be released, so that the focus of Central Banks can shift from trying to dampen inflation to instead once again allowing the economy to grow. What we have just experienced in the past two years was the fastest increase in interest rates in the shortest amount of time since the early '80s. This economic experiment is trying to use monetary policy to slow inflation without throwing the economy into a deep recession. So far, while signs of slowing down are apparent in the housing market, in consumer spending and elsewhere, the "R" word is not yet apparent. One thing which seems to be clear, is that interest rate hikes seem to be over for now, as interest rates on bonds, GICS, CDs and mortgages have pulled back from the high levels hit late last fall. With inflationary pressures seemingly easing, it therefore seems to be a matter of "when" and not "if" rates will start to decline.

This same mindset of "when" and not "if" would seem to have application to many other areas in life, such as the only "sure" things in life, death and taxes. Being "sure" things, it behooves us to plan for both. With regards to minimizing taxes during one's lifetime, one needs to consider the use of any of the legitimate tools available, including:

a) RSPs/RIFs, TFSAs, RESPs, RDSPs and FHSAs for Canadian taxpayers, or
b) 401Ks and Roth IRAs for American taxpayers.
c) Income splitting whenever possible.
d) Holding most interest paying fixed income instruments in one's tax-exempt registered accounts if possible.
e) Holding investments which can provide tax efficient long-term capital growth in taxable accounts.

When planning to minimize taxes for one's estate after one's passing, some of the tax savings ideas include:

a) Naming beneficiaries on registered accounts.
b) Having joint ownership on bank and investment accounts when it makes sense, based on one's family dynamics.
c) Having an updated Will(s) and Powers of Attorney – there are more tax-efficient ways of leaving an estate.
d) Holding tax efficient life insurance to help cover estate taxes and to provide liquidity for the settling of an estate.
e) Drawing down large, registered holdings during one's lifetime to avoid leaving a large tax bill upon one's passing.

Another example of planning for "when" and not "if" is aging. For someone complaining about the aches and pains of aging consider that "the alternative is much worse." Realistically, one needs to plan for aging, for the physical and mental challenges, as well as for the financial challenges. Living a life of extravagance (which I will define as beyond one's current means) and throwing long-term plans to chance, is as unlikely to succeed as "planning" to win the lottery. There is truth to the fable that "slow and steady" usually wins the (long-term) race. Chasing the latest trend is more likely to result in failure.

While stock markets can be very volatile in the short-term, historically two out of every three years have produced positive results. While history does not perfectly repeat itself, many patterns appear. I would therefore venture to say that achieving good investment performance may also fall under the category of "when" and not "if" – but, with some obvious caveats:

(i) Having a long-term mindset is crucial. Decisions made based on short-term factors are more likely to be made based on high emotion (greed or fear) than on sound logical principles.
(ii) Following the "herd" (i.e. investing based on what "everyone" else is doing, or what is posted on the latest media headlines) cannot be the way to succeed, as statistically most people have not saved sufficiently for retirement.
(iii) Check your emotions at the door! It is so easy to quote the mantra, "Buy low and sell high," but it is very difficult in practice to follow suit. Far too much money has been lost on those who instead, "buy high and sell low."
(iv) Create a plan and have patience. Daily checking one's portfolio balance is bad for one's blood pressure and daily changes rarely provide useful information about one's long-term success. I have heard of some of the most successful CEOs and Portfolio Managers that bar employees from checking stock prices at work.
(v) Plans change over time. Having a plan helps you set targets, but those targets also need to be evaluated periodically, along with evaluation of results to ensure one's plans are still in synch with one's current situation in life.

Bottom line

Life presents its challenges in many different forms. While "everyone else" seems to have it easy, the reality is that each of us face our own unique set of challenges. The common ground we share is the need to plan for the "likely" scenarios we will face during our lifetimes, and there is no time like the present to tackle those tasks that need to be done. Too many people turn a blind eye and never find the time to plan for retirement, vacation, aging, and other health concerns. Set aside the time to figure out what is the weakest part of your long-term plans and let's start talking!

Global benchmarks

As of January 31, 2024 (Canadian $Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	0.6%	4.6%	9.9%
S&P 500 TR - **US$**	1.7%	20.8%	11.0%
NASDAQ Composite - **US$**	1.0%	30.9%	5.1%
MSCI Europe Index Price Return	1.3%	8.3%	5.4%
MSCI Emerging Markets	-3.3%	-4.5%	-8.3%
China S.E Shanghai A Price Return	-5.9%	-18.5%	-8.9%
MSCI World Index Price Return	2.6%	16.2%	8.2%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - **US$**	-2.0%	-5.6%	-12.0%
10-year U.S. T-Bond - **US$**	0.1%	0.4%	-5.6%
Long GOC Bond (2053)	-4.4%	-2.9%	-10.1%
10-year GOC Bond	-1.5%	-0.1%	-4.3%
5-year GOC Bond	-0.7%	1.5%	-1.9%
3-month CDN T-bill	0.4%	4.8%	2.2%
US$/CDN$ (1.3434)	1.4%	1.0%	1.7%

Source: RBC Capital Markets Quantitative Research

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