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The Krygier Report

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

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Life lessons learned…

The first year of this decade is now behind us, and what a year it has been. One year ago we were entering a world in which the global economy looked like it was finally getting back on its feet, after one of the slowest recoveries from a recession (the sub-prime induced 2008-09 "shebang") in history. Interest rates were extremely low, housing markets were strong, stock markets were coming off a decent rally in 2019, politics were mostly stable heading into a Presidential election, and then…Covid, Covid and still more Covid. We finished off the year with interest rates unimaginably lower, the economies of most countries teetering under forced closures in retail shopping, travel, tourism, restaurants and schooling, and, despite all of this, stock markets rebounded from one of the most severe short-term collapses in history to finish the year (for those that hung on) in positive territory. With Covid stage 3 (or is it 4?) and new strains of the virus appearing, further mass closures just starting, and the potential for yet more political bedlam in the U.S., with the upcoming U.S. Georgia Senate elections determining the ability of the incoming US President to exert control, one has to wonder what more we could possibly face.

What I like about a year-end is having an opportunity to review the past year, to find out what worked, what went wrong, and what lessons we can learn, in order to make the upcoming year a better one. As has been my custom for over a decade, my first newsletter of the year (which is now celebrating its 23rd year of production) is dedicated to some of the lessons which I personally learned during the past year, as follows:

1. **The benefits of "Cash":** Those investors who held cash going into the sudden March market collapse were fortunate to see at least that portion of their investment portfolio remain stable, and to have liquidity for buying when prices got low.
2. **The detriments of "Cash":** Those investors who continued to hold cash after the sudden March market collapse were unfortunate to see that portion of their investment portfolio remain stable, while the market began its remarkable rebound.
3. **"Timing the market" is nearly a "herculean" task:** while I know of one investor who actually sold out his portfolio (at the "top") a week or two before the collapse, something I have never seen before, I do not know of one person, including the one who sold early, who reinvested (at the bottom) right before or at the beginning of the market rebound.
4. **It's not just a cute marketing slogan:** "time in the market" really supersedes "timing the market". Like many investors, I was humbled by the reminder that sticking with good quality investments and ignoring short-term "noise", no matter how severe the headlines, historically provides better investment returns than trying to avoid even extreme short-term volatility.
5. **"Don't fight the Fed":** yet again. When the U.S. Central Bank (the "Fed") became the backstop to liquidity, by cutting interest rates and buying back bonds and other financial instruments, on or about March 23rd – it was time to buy! Take solace that even famed "value" investor Warren Buffett was caught off guard and did almost no buying near market lows.

6. **The "stock market" is NOT the economy:** while the global economy continued to worsen in the face of mass closures, markets rapidly priced in a post-Covid world as they optimistically looked towards a better tomorrow.
7. **Unintended consequences Part I:** trying to invest in an environmentally "friendly" way can have significant unintended consequences. For instance, electric vehicles require five times as much copper in its manufacturing than conventional vehicles. I wonder if the production of copper creates more environmental damage than the benefit electric cars provide?
8. **Unintended consequences Part II:** the increased focus on creating solar energy is resulting in higher silver prices, which by the laws of supply and demand will undoubtedly lead to more silver mining.
9. **Unintended consequences Part III:** the dramatic cutbacks in oil and natural gas production, perhaps due to lower demand from less driving and higher carbon taxes, is driving oil prices higher, resulting in increased production of oil!
10. **Government bailouts:** Howard Marks of Oaktree Capital suggests that government bailouts lead to bad behaviour. When an individual or a business takes a bailout, it teaches them that it's okay to make risky investments; as if you are wrong, no worries, big brother will bail you out. Allowing bankruptcies forces risk takers to measure their risk-taking.
11. **Fool me once, shame on you, fool me twice shame on me:** I started my investment career with RBC DS in August 1996, catching the tail-end of the tech boom of the late '90s. When oil and gold traded under $20 and $300 respectively, it seemed those industries were dead. Ironically, it was technology that "died" and oil, gold, etc. boomed. Just sayin'…
12. **Parallel to the 2000 tech collapse Part I:** stock market gains on IPOs (new stock offerings) on their first day of trading are the highest since 2000, and 80% of these IPOs have negative earnings – the highest since 2000, and 2018, at 81%.
13. **Parallel to the 2000 tech collapse Part II:** Solar energy is all the rage and environmentalists look forward to the day it replaces oil. The frenzy to buy solar energy has pushed the "relative strength indicator", or RSI, of solar energy stock Emphase Energy to 97 ("overbought" is anything over 70), possibly the highest overbought signal since the 98.5 reading of Cisco, the internet equipment manufacturer, in 2000. As an aside, Cisco's stock is worth 45% of its price in 2000…
14. **Finally, be careful what you wish for:** Electric car darling TESLA was recently added to the S&P500 US stock market index, at a valuation which puts it in the top 10 most valued companies. With a "price to earnings" or P/E ratio of over 1000, and a "forward" P/E of over 200, TSLA may be pricing in over a decade's worth of growth. When the tech-laden NASDAQ index peaked in March of 2000 based on similarly overpriced stocks, it took 15 years to make new highs…

Bottom line

A new year brings with it new possibilities and loads of potential. While we face a number of challenges, as Covid continues to linger on well beyond its initial "welcome" and economies try to get back on their feet, the forward-thinking investor will draw lessons from the past year as well as parallels from similar situations in history. Be sure to take advantage of conducting a year-end review to ensure your investments are aligned with your best interests! Stay safe!

Global benchmarks
As at December 31, 2020 (Canadian $ Returns – except where noted)

Asset class	1 Year	3 Years	5 years
S&P/TSX Composite T/R (Canada)	5.6%	5.7%	9.3%
S&P 500 TR - US$	18.4%	14.2%	15.2%
NASDAQ Composite - US$	43.6%	23.1%	20.8%
MSCI Europe Index Price Return	1.1%	1.2%	2.1%
MSCI Emerging Markets	13.6%	4.1%	8.4%
China S.E Shanghai A Price Return	19.1%	2.0%	-2.1%
MSCI World Index Price Return	11.8%	9.0%	8.3%

Asset class	1 Year	3 Years	5 Years
30-year U.S. T-Bond - US$	19.2%	10.5%	8.4%
10-year U.S. T-Bond - US$	10.6%	6.6%	4.5%
Long GOC Bond (2051)	13.9%	9.7%	5.8%
10-year GOC Bond	10.6%	5.9%	3.3%
5-year GOC Bond	7.2%	4.0%	2.0%
3-month CDN T-bill	0.8%	1.2%	1.0%
US$/CDN$ (1.2730)	-2.0%	0.4%	-1.7%

Source: RBC Capital Markets Quantitative Research

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