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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Senior Portfolio Manager | January 2022 www.krygierwealthmanagement.ca

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A year for the books!

"Should've, could've, would've" might be the theme for the past year. Few people could have predicted what ended up happening in 2021, between Covid, vaccinations, politics and the stock markets. Many were able to make a lot of money and others either made no money or lost significant amounts. As we enter 2022, that Covid is still headline news and continues to impact the psyche of consumer spending, government regulation, travel plans and stock market gyrations is itself a "variant" from what most expected a year ago. After the SAARS virus in the early 2000s rolled in and out in fairly short-order, and with vaccines being distributed on almost as many street corners as cannabis is in Toronto (thanks a lot for that one Mr. PM), one would have thought this pesky virus would have already left the public limelight. Still, one can have hope for the near future.

As per tradition for my first newsletter of the year, I want to list a few of the many observations and lessons which I personally gleaned over the past 12 months. If any of them strike a chord with you kindly let me know your thoughts, as follows:

1. **(a) Transitory by any other name is still transitory – Part I:** Throughout 2021, the US Central Bank (the "Fed") and its chief spokesman, Fed Chief Jerome Powell, towed the line that despite apparent inflationary pressures in virtually all aspects of the economy, it all remained a temporary result stemming from government stimulation in response to Covid.
   (b) Transitory by any other name is still transitory (until it's not) – Part II: Only in the last two months of 2021 did Mr. Powell finally conclude what every layperson on the street knew for months – "Houston, we have a problem!" – inflation is real and the Fed needs to deal with it before it get out of hand. From handouts and stimulus to dramatically cutting back stimulus and looking to raise interest rates to combat inflation, the Fed (yet again) does a complete policy about-face.

2. **(a) "Lies, [darned] lies and statistics" – Part I:** Investors often use stock market indice returns to "benchmark" how their stock-based portfolios are performing. This is a problem when most of the stock market returns are driven by literally a handful of stocks, thus deceiving the casual observer as to the overall market performance. In 2021 the "market cap" or stock value of the top 50 stocks on the U.S. S&P 500 was 56% of all the 500 stocks listed – **the third highest** concentration in history – after the 1999-2000 "dot-com" era at 61% and the "Nifty-Fifty" of '72-'73 at 65%. Caveat emptor!
   (b) "Lies, [darned] lies and statistics" – Part II: Is it just me or is anyone else having a hard time following the logic in the incessant Covid-related reporting. Is it the amount of people testing positive on a daily basis that matters, or is it the amount of serious hospitalized patients that matters? If it's the latter, then do the numbers of the latest variants differ greatly from that of the common flu? How many people are ill or dying because of lack of treatment due to Covid closures? And are the amount of people ill or dying from anything other than Covid being reported? Hmm…

3. **(a) Andy Warhol – Part I:** Historically, stock markets provide positive returns in 2 out of every 3 years. However, if one screams "bear market" long-enough, eventually one will be right. Case in point, Nouriel Roubini was one of the "gurus" who "predicted" the 2008-09 subprime financial crisis, earning him the title "Dr. Doom" and guarantying his proverbial Warholian "15 minutes of fame". However, if one listened to Roubini or other "perma-bears" before or since 2008, one would never invest and instead one would have missed out on 2021 and all the other great years in stock market history. **(b) Andy Warhol – Part II:** In 2020, coming out of Covid, nobody hit it "out of the park" in the investing world better than Cathie Woods, chief strategist of ARK Funds, with an almost 150% return based on her "disruptor" themes. Predictably, in January of 2021, I received calls asking about investing in this "hot" fund. In 2021, her flagship ARK Innovation fund was down over 24%, while legendary Warren Buffet's "non-disruptive" old-style of investing - in companies that produce real products and services (and p.s. that have real cash flow and real profits) - was up over 29%.

4. **(a) Supply and demand – Part I:** Never has something so little had such a dramatic impact. Firstly, the Covid virus walloped the global economy. Then we had a supply problem with "semi-conductors" – the tiny chips that provide the computer brains of today's appliances, cars, etc. Without these little things, the supply of most produced items dried up. **(b) Supply and demand – Part II:** With Covid restrictions destroying demand for transportation and therefore the demand for fuel, and with alternative energies further reducing demand for traditional fuels, one would think oil prices would crater. However, remember there are two sides to the equation, and with no new production of mines and environmental pressure to reduce carbon levels, there has been a supply shortage of most natural resources – sending prices soaring!

5. **Is this time really different?** Investment predictions are usually extrapolations of what happened in the previous year(s). In 1999, hyper-growth in the advent of the internet spawned the rise and the fall of the "dot-coms" tech bubble which burst and took 15 years to recover. In 2021, we saw hyper growth in the electrical vehicle industry and in crypto-currencies. JP Morgan Chief U.S. equity strategist Dubravko Lakos-Bujas says the skewed US markets (see point 2 (a) above) are okay, because today's "companies have several advantages over prior leaders…" Really? Consider the great investor Sir John Templeton's famed comment, "when you hear investors say, "this time is different" you should start worrying."

Bottom line

In reviewing one's own investment strategy, take a moment to think about what are one's own long-term needs. Media headlines, marketing slogans, and government proclamations do not necessarily inform or educate us, but rather may be used to sell products, advertising space or to push an agenda. Consider the lessons of history, ask a lot of questions and stay focused on one's own end-goals. Most of all, never forget what's most important in life! Let's hope for a great year!

Global benchmarks
As at December 31, 2021 (Canadian $ Returns – except where noted)

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	25.1%	17.5%	10.0%
S&P 500 TR - **US$**	28.7%	26.1%	18.5%
NASDAQ Composite - **US$**	21.4%	33.1%	23.8%
MSCI Europe Index Price Return	12.9%	9.3%	6.0%
MSCI Emerging Markets	-5.3%	5.7%	6.1%
China S.E Shanghai A Price Return	6.8%	13.6%	3.8%
MSCI World Index Price Return	19.2%	16.7%	11.6%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - **US$**	-4.2%	9.8%	7.2%
10-year U.S. T-Bond - **US$**	-4.2%	5.0%	3.6%
Long GOC Bond (2051)	-8.8%	4.9%	4.4%
10-year GOC Bond	-4.6%	3.2%	2.5%
5-year GOC Bond	-2.3%	2.4%	1.6%
3-month CDN T-bill	0.1%	0.8%	0.9%
US$/CDN$ (1.2634)	-0.8%	-2.5%	-1.2%

Source: RBC Capital Markets Quantitative Research

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