



The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | March 2020

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Virus concerns? Ask a doctor!

I absolutely love my children's' pediatrician. Dr. Best (not his real name) is the consummate professional. He is knowledgeable, experienced, punctual, and friendly and he clearly cares about all of his patients' well-being. But I think what I appreciate most about him is his thoroughness and the consistency of his methodology. When you walk into his office, you enter one of his three patient rooms. Within minutes of your actual appointment he walks in, always with a smile, and he asks you about why you are here for the appointment. He then listens to your concerns and to your listing of the symptoms your child is experiencing, following which he examines your child. What follows is truly amazing, as more often than not, he will address you as follows: based on the symptoms you are describing and following my examination, your child can only be suffering from one of three things. In order to have number one or two, a patient must be exhibiting three or four of the following symptoms. Since two of these are missing, it is more than likely only the third potential issue, and we will therefore treat accordingly. The result is that when you leave his office you invariably feel a sense of relief – firstly, that a trained professional really listened to your story, secondly, that he looked at the patient and finally, based on his experience, that you received solid advice that was personal to your individual situation.

In the past few weeks, fears of the Coronavirus have been building. The last week of February brought the fears to a crescendo, and markets reacted violently to the news that the virus was not yet contained but instead continues to spread, an unnerving bit of news for even the most experienced investors. Naturally, as one would expect, we received a couple of emails and a few phone calls (not bad considering the media hype) from clients who had concerns both about the economic ramifications of the virus and secondly about our approach, i.e. "what's your plan?" for dealing with the potential risks. So, how would my doctor approach these issues? Firstly, what are the concerns? Aside from the obvious and tragic human suffering from those directly impacted, on a broader basis, what might be the concerns for an investor? Concern over a permanent loss of capital? Concern that the virus will have a deleterious long-lasting impact on the global economy? Concern over a virus-induced recession? Concern that companies will be so financially devastated that they will slash their dividends upon which so many investors rely for their income? Secondly, examine the individual investor's situation: did he or she plan on withdrawing a significant amount of the invested money this month? This year? In the next 2-3 years? Is he drawing income from his investments to support or maintain his lifestyle? How much volatility can he withstand in the capital value before he becomes distinctly uncomfortable?

To draw up a “plan” for dealing with crisis, consider the macro-environment for investing. Globally, interest rates remain at or near all-time lows. Debt levels of consumers, governments and corporations remain at historically high levels. The economies of North America are stable, and there are few signs of a recession on the foreseeable horizon. Prices of some financial assets – both stocks and real estate - are quite high, and are in need of a “refresh” to make them more affordable. While there are pockets of “bubbles” i.e. nonprofitable investments, they are fairly identifiable to be able to avoid. As for this virus, this is not the first epidemic that wreaks havoc on the lives of those impacted. That does not however mean it will have a long-term impact on the stock markets. A recent RBC study looked at this issue. Using the MSCI World Index as a proxy for global stock markets, it considered the impact of: HIV/Aids, Pneumonic Plague, SARS, Avian Flu, Dengue Fever, Swine Flu, Cholera Outbreak, MERS, Ebola, Measles/Rubella, Zika, Ebola #2, and Measles #2. The average market return 1-month after the outbreak was +0.44%, after 3-months +3.08% and after 6-months it was +8.50%, hardly a reason for worry. “Could” it be different this time? Sure, but based on the balance of probabilities I would say, probably not.

As for a “plan” – our approach, like that of my doctor, is the same, every single time. We start by asking - when do you need the money you are investing? If it is intended to be withdrawn soon for a capital expenditure we won't invest it – period. Secondly, do you need income from your investible assets? If so, we will create a stream of predictable income using financially sound and well diversified financial instruments. Could the daily value of such instruments fluctuate in value? Obviously, as zero fluctuation exists only with GICs/CDs, and for those who can generate sufficient income to maintain their lifestyle based on those low yields, perhaps that is the correct strategy. Thirdly, we look to see if any of the individual investments we manage are directly impacted by the current crisis? If a significant amount of an individual company's revenue is generated or impacted by the regions most affected by it, we will sell that security to lower the capital risk to the overall portfolio and reinvest the proceeds into securities that do not appear to have the same exposure, as long as they fit within the investor's overall long-term plan. We rely upon various sources of objective criteria, and together with our experience in both exuberant and depressed markets, we “write our prescription”.

Bottom line

Fears of coronavirus are real, and our thoughts go out to those impacted. Are we changing our strategy for preserving and growing our clients' hard-earned capital? While we always “tweak” to reduce risk, drastic and reactive changes rarely succeed. As famed investor Warren Buffett said recently, “We certainly won't be selling”.

Global benchmarks

As at February 29, 2020 (Canadian \$ Returns – excepted where noted)

| Asset class | YTD | 1 year | 3 years | Asset class | YTD | 1 year | 3 years |
|-----------------------------------|-------|--------|---------|----------------------------|-------|--------|---------|
| S&P/TSX Composite T/R (Canada) | -4.3% | 4.9% | 5.0% | 30-year U.S. T-Bond - US\$ | 17.5% | 37.3% | 12.7% |
| S&P 500 TR - US\$ | -8.3% | 8.2% | 9.9% | 10-year U.S. T-Bond - US\$ | 7.6% | 17.3% | 6.3% |
| NASDAQ Composite - US\$ | -4.5% | 13.7% | 13.7% | Long GOC Bond (2048) | 9.9% | 22.1% | 9.7% |
| MSCI Europe Index Price Return | -9.0% | -1.9% | 1.5% | 10-year GOC Bond | 5.2% | 9.0% | 3.7% |
| MSCI Emerging Markets | -6.9% | -2.7% | 2.7% | 5-year GOC Bond | 3.2% | 5.1% | 2.0% |
| China S.E Shanghai A Price Return | -3.0% | -4.5% | -4.2% | 3-month CDN T-bill | 0.3% | 1.7% | 1.2% |
| MSCI World Index Price Return | -6.3% | 4.4% | 5.5% | US\$/CDN\$ (1.3396) | 3.2% | 1.7% | 0.3% |

Source: RBC Capital Markets Quantitative Research

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Wealth Management
Dominion Securities

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