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

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Beware the "Ides of March"!

In late September 2000, I recall "Mike" calling me to buy shares in Nortel, as the price of the stock had dipped from $104 to $100…a virtual "bargain" versus the peak price of $124 it had reached in August of that year (but nowhere near the "bargain" of less than a dollar that it hit two years later). During our lifetimes we live through many different cycles, and each one helps us form a mental attitude which guides our future behavior. "Bull" or rising markets train us to "buy the dip" in price in stocks, as surely any "dip" in the market is temporary in nature and higher prices are just as surely ahead. On the flip side, "bear" or falling markets train us to "sell into strength", as the future is surely more bleak than the present. Such entrenchment of mental attitude can be absolutely devastating for investors. The "perma-bulls" (permanently bullish or optimistic) will miss the signs of an impending downturn, like the proverbial deer standing in the headlights. The "perma-bears" (permanently bearish or negative) will miss the signs of recovery, only to have to rationalize why they are not participating in the gains. In the investment industry there can also be an entrenchment of approaches – "growth" versus "value", and often professional investors tend to fall into one category or the other. Over the years, I have seen that being entrenched or dogmatic about one's investment approach can result in missed opportunities for profit or to avoid losses. Growth managers may not want to touch traditional capital intensive businesses like mining, in the face of an energy boom. Value managers might not want to dabble in technology stocks as their valuations are traditionally stretched, despite revolutionary changes such as the advent of the internet, or cloud storage. In a world in which market strength swings from one sector to another, one geography to another, or one style of investing to another, the biggest enemy we face may be our lack of willingness to change in the face of a need to do so.

The impact of Covid on the psyche of the investment world has been massive, as some businesses flourished while many others floundered. We have seen the exacerbation of electronic-based and virtual communication. Companies that provided these services or products were the beneficiaries of investment dollars, while those that relied on physical presence saw investors flee. That short-term cycle has long begun to reverse its course as soon as talk of vaccines being approved was rumoured. What seems still to have been ignored by many, has been the extreme exuberance of many investors to the largest, mostly high-tech companies, pushing valuations to extreme levels not seen in over 20 years. Many investors continue to look to Tesla, Amazon, Apple, Microsoft, Facebook, et. al. to provide them with investment success in the coming years, based on their incredible success in the previous decade. While those companies were booming, those in the commodity sectors were not only floundering, they were being devastated. Cutbacks to production, onerous carbon taxes, price gouging by foreign countries (Russia and Saudi Arabia), climate-control legislation, plus slower demand in a slowing global economy has been absolutely punitive, with thousands of unemployed workers and lack of capital investment the result. There is an old saying though, which in current circumstances rings true, that the "cure" to low prices, is "low prices".

The greatest opportunities are often the ones right under our noses as they are often the easiest to miss. If, based on your understanding of what is "working" and what is "not working", you were to be asked, which sectors of the economy do you think have performed best in the stock markets over the past 6 months – what would you have answered? For many, it would be a repeat of what has "worked" in the previous 2-3 years and that's technology, technology and technology. After all, Tesla did a stock split, was finally added to the S&P stock market index, and in so doing its value eclipsed all of the other global auto manufacturers' value, despite producing less than 3% of the vehicles globally. Apple did yet another stock split and doubled in value since the Covid March 2020 lows, despite selling fewer iPhones than it did two years ago. Amazon's CEO Jeff Bezos became the wealthiest man in the world with a stock valuation of nearly 100 times its actual earnings rate. Based on one's understanding, which sectors would you expect will outperform in the coming months or years? Would you be shocked to know that since Apple and Tesla did their stock splits last August, it has been oil, copper, gold, iron ore, potash, lumber, etc. which have vastly outperformed all of these "FAANG" stocks? In fact, most of the high-tech "Fab Five" are lower in price than they were six months ago, while the "boring" commodity stocks have soared in price! In March of 2000 the high-tech laden NASDAQ index hit a high of 5000 – and then proceeded to drop over 70% from its peak in the ensuing years and took 15 years to recover. In the early stages of that rotation, out of technology to old-fashioned resource and industrial companies, tech investors were in complete denial. I recall "Peter", a retired auto-worker in his mid-60s, who had concentrated his investment portfolio in four stocks – Cisco, Nortel, Lucent and JDS Uniphase. When pleaded with to sell and diversify his holdings, he responded, "I would rather lose this whole portfolio than sell these investments at a loss." Sometimes, in the face of an obviously changing world, our own preconceptions blind us to the actions we need to take for our own financial health.

To the Romans the "Ides" or the middle of March was a deadline for settling debts. The expression to "beware of the Ides of March" was made popular by Shakespeare's Julius Caesar, in which a soothsayer warned that Caesar's life would be in danger in the near future. Today the media is often looked to as soothsayers, but historically their predictive ability is highly suspect. Often their predictions for the future are punctuated by calls for the demise of industries just as they hit the bottom of a cycle, and, conversely, predictions for continued success often come at the peak of a cycle.

Bottom line

Investors are constantly being challenged to predict the future in order to improve their chances for investment success. Like in other areas of life, investors tend to predict the future based on their recent experiences. Beware, that to be successful, one needs to challenge one's expectations and be bold enough to act in line with a changing reality!

Global benchmarks
As at February 28, 2021 (Canadian $ Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	4.0%	14.7%	8.7%
S&P 500 TR - US$	1.7%	31.3%	14.1%
NASDAQ Composite - US$	2.4%	54.0%	22.0%
MSCI Europe Index Price Return	0.8%	12.1%	1.2%
MSCI Emerging Markets	3.8%	26.7%	3.6%
China S.E Shanghai A Price Return	1.9%	25.2%	1.5%
MSCI World Index Price Return	1.4%	21.1%	8.5%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - US$	-10.8%	-9.4%	8.9%
10-year U.S. T-Bond - US$	9.1%	12.2%	11.1%
Long GOC Bond (2051)	-11.9%	-8.7%	5.8%
10-year GOC Bond	-5.5%	-0.5%	4.4%
5-year GOC Bond	-2.1%	1.7%	3.4%
3-month CDN T-bill	0.0%	0.5%	1.2%
US$/CDN$ (1.2739)	0.1%	-4.9%	-0.2%

Source: RBC Capital Markets Quantitative Research

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