The Krygier Report

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

Mark J. Krygier
Senior Portfolio Manager
& Wealth Advisor
416-733-5750
mark.krygier@rbc.com

Avital Pearlston
Associate Wealth Advisor
416-733-5751
avital.pearlston@rbc.com

Irene Hama
Associate
416-733-5752
irene.hama@rbc.com

Biden our time…

On September 30, 1938, then British Prime Minister Neville Chamberlain made a deal with the devil incarnate, Adolf Hitler, in the *Munich Agreement*. Chamberlain, together with French and Italian leaders, agreed to allow Germany to lay claims to the Sudetenland, in western Czechoslovakia, following which Chamberlain returned to England with claims of having achieved "peace with honour." His infamous declaration that his leadership had provided the world with "peace for our time" was wholly disproven in March of the following year, when Hitler annexed the remainder of Czechoslovakia, an act which precipitated World War II with Germany's unprovoked invasion of Poland in September 1939. As Wikipedia notes, "The *Munich Agreement* became a byword for the futility of appeasing expansionist totalitarian states." The agreement was the result of neither France nor Britain being prepared to confront Germany in a military fashion, and the belief that peace would be the result of agreeing to Germany's demands. As Soviet military might crossed unprovoked into sovereign Ukrainian territory in the latter part of February, I was reminded of the comments of the philosopher George Santayana, "Those who do not know history's mistakes are doomed to repeat them."

Putin's aggressive actions in the Ukraine has its roots back in 2007 when Russia launched a devastating cyberattack against neighbouring NATO country Estonia, and when he sent troops into Chechnya. In 2008, Russia sent troops into the former Soviet republic of Georgia along the Black Sea as part of a so-called, "peace enforcement operation", which sounds awfully familiar to Putin's description of his "peacekeeping operation" into the Ukraine. Nobody in the West wanted to provoke Russia so Georgia was left on its own, according to Mark Galeotti, senior non-resident fellow at the Institute of International Relations Prague and an expert on modern Russian history. Finally, in 2014, during the Obama administration, Russia invaded and annexed the Crimea region of Ukraine as well as the Donbas region of the country. The consequence of such actions were mild economic sanctions placed on Putin and his associates by the United States. More sanctions were levied by the Trump administration, following the movement of Russian troops into Syria to support President Bashar al-Assad's efforts to combat ISIS and quell a civil war. The result of all that ineffective foreign policy is that "Putin feels pretty emboldened", says retired CIA Senior Clandestine Services Officer Dan Hoffman. With regard to the effectiveness of using economic sanctions to prevent Putin's aggression, Hoffman says, "It's an easy thing that makes you feel good but it does nothing to influence Vladimir Putin's calculus. He doesn't care." Rebekah Koffler, former Defense Intelligence Agency officer and author or "Putin's Playbook: Russia's Secret Plan to Defeat America", says that Putin has been outsmarting the US since his first days in office about 20 years ago. Koffler says that the U.S.'s "failure to understand" their opponent Putin, a former KGB officer, who has been using that training to disarm and deceive U.S. Presidents, has led to "bloodshed in Ukraine."

In investing, it is also a truism that "Those who do not know history's mistakes are doomed to repeat them." There have been many types of crisis during my 25+ year tenure as an advisor, including terrorist attacks, financial fiascos, wars, invasions, the near-collapse of the global financial industry, the implosion of the world's largest hedge-fund, and pandemics, and yet each time it is just enough "different" to ensure panic on the part of some investors. The same greed drives people to chase the prices of "hot" industries and into buying the next "sure thing", irrespective of their actual earnings strength or potential for profitability. The same fear keeps people from investing in long-term vehicles, which by definition can fluctuate in price in the short-term, even with the strongest earnings and the widest profit margins, or worse, it causes them to panic and sell when headline news reaches a crescendo. Just as Putin keeps fooling the U.S. Presidents, our own inner emotions of greed and fear keep fooling our intellect, and we too often keep losing the battle. The challenge of the Presidents and other world leaders is to recognize the real evil and aggressive nature of Putin and those of his ilk, and to be willing to take the moral high ground and stand up to him with force, rather than hide behind false promises of "peace in our time". The challenge of investors is to recognize that only by focusing on one's long-term goals, and sticking to high-quality investments, does one stand to benefit from the historical inflation-beating growth which the capital markets can provide investors.

One real by-product of Russia's invasion of the Ukraine is that it allows Central Bankers to step-back from their public threats to significantly raise interest rates and reduce economic stimulus as severely or as quickly as threatened. These actions are greatly anticipated and will undoubtedly ensure that the inflationary pressures that have been building in the global economy for the past few years will continue much longer than necessary. Like U.S. Presidents not taking Putin's military aggression seriously and the world suffering the consequence, so too the Central Bankers actions in not taking the threats of inflation seriously will likely result in the global economy continuing to suffer the consequences. As investors we have to protect our personal capital by positioning our investments for continued inflation for the foreseeable future.

Bottom line

We all feel shocked and saddened by the unprovoked attack of the Ukraine by Russian military. At the same time, students of history and psychology would tell you this is just a long line of expected invasions by a former KGB officer looking to recreate the former U.S.S.R. under his reign of terror. For investors, this brings more uncertainty, but it is also a test of our own mettle to see if we can stick with our long-term focus or yet again be swayed by dramatic and terrible headline news. For investors, the biggest concern is not the latest invasion, but to avoid the ravages of inflation which can wreak havoc with one's long-term financial health, and to position our investments accordingly!

Global benchmarks
As at February 28, 2022 (Canadian $ Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	-0.1%	20.1%	13.1%
S&P 500 TR - **US$**	-8.0%	16.4%	18.2%
NASDAQ Composite - **US$**	-12.1%	4.2%	22.2%
MSCI Europe Index Price Return	-7.1%	4.0%	4.6%
MSCI Emerging Markets	-4.6%	-13.0%	2.4%
China S.E Shanghai A Price Return	-3.9%	0.7%	6.4%
MSCI World Index Price Return	-7.6%	8.7%	11.2%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - **US$**	-5.3%	1.6%	8.1%
10-year U.S. T-Bond - **US$**	-2.6%	-2.4%	4.0%
Long GOC Bond (2051)	-8.6%	-5.4%	1.8%
10-year GOC Bond	-3.0%	-2.1%	2.0%
5-year GOC Bond	-1.4%	-1.7%	1.7%
3-month CDN T-bill	0.0%	0.1%	0.8%
US$/CDN$ (1.2675)	0.3%	-0.5%	-1.3%

Source: RBC Capital Markets Quantitative Research

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