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The Krygier Report: SPECIAL EDITION

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

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Time to go sailing?

Recent market excitement warrants some direct response, so I felt that it's once again time to write a mid-month "*Special Edition*" newsletter. As we have fielded only a handful of calls and emails to-date, with questions or concerns about the market, I want to stress that we are always available to meet or even just chat, should you, your friends, family or colleagues be concerned and have specific questions about a personal financial situation or portfolio. Regarding the markets, I believe that headline issues facing the global economy generally, and the capital markets (both stocks and bonds) specifically, are three-fold: A) The still-not ended Covid virus, B) ongoing inflationary concerns with the increase in price of almost everything, and C) The Russian invasion of the Ukraine. Are any of these new issues, the likes of which investors have never before seen? No. There have been multiple wars, invasions, periods of inflation and non-economic threats in the past and will undoubtedly be again in the future. So while each situation is obviously unique, for investors the right approach usually boils down to the same simple, yet effective 3-step evaluation process, as set-out below.

In any crisis, it behooves an investor to first review one's own essential needs, as follows:

a) **Do I have enough liquid cash set aside,** or readily accessible, should an urgent need arise or, which is needed in the short-term, such as a down payment for a condo or an upcoming tax bill? If the answer is yes, then proceed to step number two. If the answer is no, then irrespective of the current price of one's investments – create enough cash, whether it's actual cash or even access to cash via a low-interest credit line, then move on to the next step.

b) **The second step,** is the question of whether one has a need for income from one's investments. If not, move on to the third step. If yes, then does one need <u>all</u> of one's capital to be invested in order to create the necessary amount of income? Any amount above that which is needed to generate income is in reality being set-aside for long-term growth. With this latter portion of one's capital we can turn to the final step number three.

c) **The third and final step for an investor facing any crisis**, is to review and to be comfortable with, the quality of one's holdings. While a quality review should also be done at step number two, a review at that stage should focus primarily on the likelihood of one's assets being able to continue paying steady streams of income throughout the vicissitudes of life, and to be able to continue as an on-going concern. In this step however, a "quality control check" goes well beyond that initial level of review.

A deep-dive quality control check of ones' investments should include the following queries: Do one's investments make sense for the current market environment? For instance, we know that technology stocks historically fare well in a low inflation environment and poorly in a high inflationary environment. *Amazon*'s stock (which we sold from our portfolios in August 2020 well above today's prices), which made many a millionaire over the previous decade, is down 35% so far this year. Is the company highly leveraged and exposed to rising interest rates or is it flush with cash and fairly immune to rising rates? Are the companies' products or services in demand now and are they likely to continue to be in demand in the foreseeable future? *Peloton* and *Netflix* investors (amongst which we were not included) found this out the hard way, as once Covid restrictions lifted and people left their homes, the demand for such products and services dropped dramatically (*Peloton* is currently down 61% so far in 2022 and *Netflix* is down 71%). Can the companies in whose stock one invests pass on rising material and labour costs to its customers? Stock in *Restaurant Brands International*, owners of *Tim Hortons*, *Wendy's*, *Popeye's*, etc. is down 15% this year. Do you hold stock in producers of raw products whose prices are rising and which will therefore increase the profitability and stock prices of those producers? In our portfolios we have been investing in commodity producers since June 2020 in order to profit from such rising prices. Finally, it is crucially important that one develop a comfort level in the quality of one's investments and a belief that the high quality will allow their value to rise over time. We can't control the day-to-day fluctuations, but we can ensure we hold a diversified basket of financially solid companies in order to greatly increase our probability of long-term success.

Many years ago my father took sailing lessons. The couple teaching the course split up the class by gender, with the husband teaching the men and the wife teaching the women. They explained the split as follows: if it wasn't for the men, many women wouldn't venture out far into sea; if it wasn't for the women, most men wouldn't make it back to shore. Each one of us has a more adventurous side which wants excitement and wants to explore, and when it comes to investing, tantalizing treats and promises of "sure thing" get rich quick schemes are always abound. "Crypto", "cloud", "genomics", "fintech", et al. make great headlines. But then there is that side in each of us that craves safety and the stability of "dry land". Studies show that women often make better investors than men as they are less likely to venture beyond their level of comfort and therefore are less likely to sell in times of panic. However, in what is still a historically low interest rate environment, and particularly in an inflationary one, sticking with only the most conservative investments like GICs or CDs will likely not help one meet one's financial goals, whether for sufficient tax-efficient income or for the type of growth which can preserve one's longer-term purchasing power. As the famed scholar Maimonides said over a thousand years ago, the best approach (the "golden path") in all aspects of life is one of balance, and how much more so in today's topsy-turvy world.

Bottom line: In my *Special Edition* newsletter of February 2020, just as North America was beginning to deal with the Covid virus, I wrote, "I can't sum it up any better than Warren Buffett, who recently said, "we certainly won't be selling." During the current crisis, Mr. Buffett has been buying.

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