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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | November 2020 www.krygierwealthmanagement.ca

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Time for a story?

The writing of this newsletter comes at an auspicious time. No, it's not because it's the eve of Halloween, which will undoubtedly be the most subdued trick or treating in many years under the fear of Covid Part II. [As an aside, amongst the many pictures I received via What's App, from one of the many with far too much time on their hands, was a picture of a front-lawn decorated for Halloween with the main feature being a large sign with the number "2020" and the caption: "I couldn't think of anything more scary!"] Rather, it's because I am writing in the days prior to the most contested U.S. Presidential election in decades. The sheer raw emotion on display from supporters of both of the two main contenders, for what is arguably the most powerful political position in the world, is at an absolute frenzy. What was once a hair-splitting exercise between either side of political center has turned into a much more polarized event, meaning, that whatever will be the result, there will be large swathes of the electorate that are left deeply dissatisfied. As if investors didn't have enough on their hands, as they are challenged to try and determine how the second wave of Covid will impact their investments and how best to position their investments currently and for a post-Covid world.

My son recently sent me a video of my little granddaughter "reading" the children's book by Dr. Suess, *Mr. Brown can moo*. In the vein of thought that *All I need to know I learned in kindergarten*, in the midst of all of this political and economic pandemonium I thought about another children's classic, *The Tortoise and the Hare*. If you recall, a race occurred between two unlikely competitors, the speedy rabbit and the slow moving turtle. The rabbit easily runs ahead of the turtle, and rather than keeping his eye on the end-goal and finishing the race, it gets so far ahead that it decides to take a nap, and while napping the tortoise plods ahead and finishes the race first, just ahead of its fast-footed friend. The year 2020 may very well be a parallel to such a plot. There have been a handful of fanciful companies whose "stories" captivated the minds and investment pockets of many, mostly retail and first-time investors and for a period of time they "zoomed" ahead (pun intended). Some of these companies do make money, and may stick around, but many of their valuations are the stuff of pure fantasy with the likely ending not one of "happily ever after." Other companies will likely never make net earnings, as their costs will likely always be higher than their actual revenue. For those of us with an investment memory longer than the minimum age to vote, think back to the year 2000 in which the storyline was also about technology companies and their massive stock price increases, with a similar following of mostly retail and first-time investors. Now it is "cloud computing" and "on-line businesses" while at that time it was the advent of the internet gaining critical mass in the business community. In 2000, the so-called "dot-coms" had less than a zero chance of financial success. Yet, there were many companies, many of which are still around today, which even at that time were profitable with sustainable business models, but alas, their valuations were stretched to that of pure fantasy. Unfortunately, the ending of that chapter perhaps foreshadows the current one – spoiler alert – it was more of a nightmare than a comforting bedtime story.

One lesson of which I was personally reminded during the frenzy back in March, during the intial stages of Covid Part I**,** is something I have seen over the years, and always in times of tremendous volatility, and that is the difficulty of “timing the market.” One would think with all the financial industry marketing to avoid such actions, investors would be well aware of the follies in trying to escape the invariable short-term moments of negativity – whether they be politically instigated (think US election), economically instigated (such as forced closures or supply and demand imbalances) or from a proverbial “black swan” event (like a global pandemic). I have yet to hear of anyone, human or machine, that can consistently get out of the way of the periodic stock market “pot holes” and then get back into it, just before the road gets smooth again. Instead I saw a handful of investors sell very early, but then wait too long to reenter the market, or switch strategies in the midst of the volatility, and then there were others who mostly ignored the “pot holes” and simply “rode through” the volatility and panic-stricken headlines. Months later it was the latter group that has been the most successful – yet again!

So how am I approaching investing in the face of such a contentious election? I am trying to be realistic about my capabilities and stick to what I know how to do best. For clients who are already retired and relying somewhat or primarily on the income generated from their investments, we continue to invest in companies (stocks and bonds) which can provide them with a steady stream of income and, over time, grow their investment capital above the rate of inflation. It’s not an exciting “story”, but one which allows those investors to sleep well at night, knowing their bank account input is equal or greater than its output. On the other hand, for those investors who are solely focused on generating “returns” on their investment capital, we continue to take the longer-term view that it doesn’t matter who ends up in the White House, because at the end of the day if parts of the economy are growing then corporate profits in those areas will rise, providing such investors with reasonable returns without needing to pursue fantasies. The key for both types of investors is, like the hare, to keep the end-goal in sight!

Bottom line

Investing, like any good story, needs a good plot. The protagonist in the lifetime plot is the individual investor, while the antagonist is often the media - which I often need to remind myself are not objective narrators but instead are in the business of selling news, and nothing more. Raging crowds, panic, and concern over all the issues that popular media can throw our way might make for eyebrow raising headlines and higher advertising revenue, but it rarely if ever results in successful investor strategies. While not as exciting as the latest Elon Musk invention, successful investing often requires nothing more than remembering that most often slow and steady wins the race.

Global benchmarks
As at October 31, 2020 (Canadian $ Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	-6.1%	-2.3%	2.2%
S&P 500 TR - US$	2.8%	9.7%	10.4%
NASDAQ Composite - US$	21.6%	31.6%	17.5%
MSCI Europe Index Price Return	-13.5%	-10.2%	-4.2%
MSCI Emerging Markets	1.5%	7.2%	0.6%
China S.E Shanghai A Price Return	12.8%	17.2%	-0.9%
MSCI World Index Price Return	-0.3%	3.9%	5.2%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - US$	18.5%	13.6%	11.4%
10-year U.S. T-Bond - US$	10.9%	8.9%	6.8%
Long GOC Bond (2051)	12.6%	8.5%	9.7%
10-year GOC Bond	10.7%	8.2%	5.7%
5-year GOC Bond	7.1%	6.1%	3.7%
3-month CDN T-bill	0.8%	1.0%	1.3%
US$/CDN$ (1.3317)	2.5%	1.2%	1.1%

Source: RBC Capital Markets Quantitative Research

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