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# The Krygier Report

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

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## Financial Planning: Take 3...

**Over the years I have had the opportunity** to speak in front of audiences in various settings. I have given and continue to give financial seminars, I have spoken at my child's wedding, at funerals, and in various other situations.  There is a truism when it comes to giving speeches.  The best speech you have is the one prepared in advance (when you have all the time in the world and nobody is staring at you while you speak).  The second best speech you have is the one you remember after you have given your speech (when you remember all the things you forgot to say or which you said incorrectly). The third best speech is the one which you actually give. Remembering this truism helps you deal with the fact that the speech you are about to give will undoubtedly not come out exactly as you have planned, and that is a lesson for life.

**When it comes to creating a financial plan,** I believe it would be useful to keep in mind a parallel truism. It is almost certain that the best financial projection you can create for yourself or for your family is the most ideal one possible. Such a plan is necessarily going to be based on a number of assumptions, over which many of them you have little to no control. Firstly, how long will you live? How long will you be able to rely on your current sources of income? What will be the rate of growth in the value of your capital?  What will be your state of health?  Will extra unforeseen medical costs arise? What risk or dangers are lurking in your investments about which you are currently unaware? Are you being realistic with the lifestyle you are leading or is it based on excess borrowing in an era of artificially low interest rates? What will be the rate of inflation in the coming years and the commensurate interest rates? Do you have a specific time frame for withdrawing capital from your assets and if so does that match up with how your capital is currently being invested?

**No doubt, a good financial plan** incorporates most if not all of these factors, but as the adage goes, what you put in is what you get out.  A plan of any kind is only as good as the information being put into it. It's precisely those factors which you will forget to consider, or about which you are unaware, which will throw a "wrench" into your ideal plan. If the underlying assumptions you use turn out to be just plain wrong, when looked at with hindsight many years later, then your carefully laid plans may simply go to waste. Like with speeches, it may be that the financial lifestyle you had hoped to achieve turns out to be unrealistic based on a changing set of circumstances. Your ability to cope with a changing financial environment is comparable to the speech giver that has to adapt and to recognize that life is not always going to be ideal and therefore having some flexibility is absolutely a necessity in any form of planning.

**Thirty years is a long time in the investing world.** Up until earlier this year, for the past 30 years investors have been able to rely on interest rates declining, and living in a very modest inflationary environment. For investors in real estate this was a boon as asset prices had a natural "tail wind" with the cost of borrowing continually declining. Technology stocks, which capture the imagination of most investors or "wanna-be" investors, traditionally get valued based on a formula known as the discounted cash flow (DCF) method, which tries to determine the value of an investment based on its return or future cash flow. The lower the interest rate one uses as the discount rate in this formula, the more attractive are the future cash flows, which allowed the valuation of the stocks in technology companies to soar. Consumer sales were certainly helped while borrowing costs were cheap, in particular in the U.S. where the mortgage interest charged on one's residential home is tax deductible, incentivizing many to refinance their consumer debt into their "ATM" home mortgages. Finally, bond investors had their cake and could eat it too, as they locked in higher yields with rates declining, and the declining rates pushed up the price of their bonds – the proverbial win-win! HOWEVER, as all the fine print states, "past history is no indication of future performance."

**Inflation appears to be here to stay.** Thirty years of excess in real estate and high-tech stock market valuations, of excess in borrowing and consumer spending, of housing prices outpacing the average person's ability to own a home, all will be impacted in an era of higher interest rates. Consumers, borrowers and investors will have to adapt to a new reality. Investors have to consider into which asset classes does one invest? Will it be a continuation of Apple, Google and Amazon, and leveraged real estate plays? Will it be hard assets like gold, copper, oil and iron ore and other areas in which most have been underinvested for the past 30 years? The "perfect" answer won't be known until after the fact, but nonetheless we need to plan and move forward with the information we currently have available. Recognizing that we don't have all the answers and that we don't know all the factors that will arise, we need to at least recognize that times are a changin', and we all better be prepared to be flexible in our thinking and to act in accordance with a changing environment.

## Bottom line

Planning for your financial future is like giving a speech. The best plan is the one we create in advance – it is theoretical in nature and only time will tell if it works out in practise. The second best plan is the one we wish we had implemented once we have the benefit of hindsight, which is not particularly useful. That leaves us with likely only the third best plan we could have developed, but it's the one with which we need to live and to adapt as life happens. Happy planning!

Global benchmarks
As at October 31, 2022 (Canadian $ Returns – except where noted)

| Asset class | YTD | 1 year | 3 years |
|---|---|---|---|
| S&P/TSX Composite T/R (Canada) | -6.2% | -4.9% | 8.8% |
| S&P 500 TR - **US$** | -17.7% | -14.6% | 10.2% |
| NASDAQ Composite - **US$** | -29.8% | -29.1% | 9.8% |
| MSCI Europe Index Price Return | -19.7% | -17.4% | -1.6% |
| MSCI Emerging Markets | -25.8% | -26.3% | -5.5% |
| China S.E Shanghai A Price Return | -25.4% | -21.3% | -0.5% |
| MSCI World Index Price Return | -15.0% | -11.7% | 5.7% |

| Asset class | YTD | 1 year | 3 years |
|---|---|---|---|
| 30-year U.S. T-Bond - **US$** | -34.8% | -34.2% | -10.6% |
| 10-year U.S. T-Bond - **US$** | -18.2% | -17.7% | -5.2% |
| Long GOC Bond (2053) | -28.4% | -22.7% | -10.5% |
| 10-year GOC Bond | -12.6% | -10.1% | -3.4% |
| 5-year GOC Bond | -7.3% | -6.0% | -1.3% |
| 3-month CDN T-bill | 0.7% | 0.8% | 0.6% |
| **US$/CDN$** (1.3622) | 7.8% | 10.0% | 1.2% |

Source: RBC Capital Markets Quantitative Research

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