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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Senior Portfolio Manager | November 2023 www.krygierwealthmanagement.ca

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When the going gets tough…

Most people I speak with lately are feeling pretty tense. I can only imagine that registered massage therapists have fully booked schedules these days. The recent horrific terrorist attacks in Israel, followed by an increase in antisemitic incidents around the globe, on top of the seemingly never-ending war in the Ukraine, and combined with weakening economies, have a lot of people on edge, me included. There are plenty of reasons to worry, reasons to panic, reasons to fear the worst. I find at times like these it is helpful to mentally “step back”, stop and think and to try and put things in perspective. Is this the first terrorist attack Israel has experienced? Is this the first time Russian military belligerence has arisen? Is this the first economic slowdown we have seen? The answers to all three questions are (unfortunately) a resounding, “No, No and No.” Therefore, if that’s the case, rather than wallow in self-pity, or panic over the short-term, or stuff my money in the proverbial mattress, it is instead time to grab the proverbial bull by the horns and think about how I should move forward. A simple example of why this is the right approach is to consider the whole question of whether our economy is in a recession. The technical definition of a recession is when the economy experiences two consecutive quarters of negative GDP growth. How useful is that definition in predicting what will happen in the coming months or years? Absolutely useless, as the necessary information to make this declaration can only be known with hindsight – AFTER those two quarters of negative GDP have been recorded. Consider further that reported statistics are almost always revised months after the initial statistics are reported. From my experience over the past quarter of a century, by the time a recession has been officially declared, it is literally months after the peak of the recession and, often, by that time the economy is already on its way to recovery. Rationally therefore, the adage of “when the going gets tough, the tough get going” is very applicable to investing in tough times. Waiting for the “Goldilocks scenario” when everything looks great usually means buying well after prices have recovered!

Where is the best place to start in fashioning a plan during tough times? I think the first thing one needs to do is to take an accounting of one’s assets, both financial and non-financial. For instance, anyone who is carrying debt right now, specifically nondeductible debt, ought to do what they can to pay it off. Even debt for which the interest is deductible must be examined to see if the carrying cost of that debt is in fact lower than the return on the investment. With rates having risen three-fold over the past 18 months, any variable rate debt costs considerably more to service than it did two years ago. The second item to review is the quality of one’s investments. Is there an element of speculation or overleverage in one’s investments? Are the investments financially sound enough to successfully make it through the business cycle? Is the growth in one’s investments dependent on consumer spending, which is likely to get worse before it improves? Taking this type of approach is not only empowering, it gives one something concrete to do, which can only strengthen one’s financial resources for moving forward.

In trying to be forward looking with one's planning, yesterday's crisis must be recognized as tomorrow's opportunity. Rather than being concerned over how far interest rates have climbed in the past 18 months, consider where they will likely be in a year from now, or two years from now. Can the consumer tolerate these rates? Can the housing market thrive in an era of higher rates? Can governments continue to afford the interest payments on their enormous debt loads with the current rates? Want a hint as to the answer? Take a look at GIC or CD rates from 1 to 5 years – in a healthy economy a financial institution needs to pay a higher level of interest to get an investor to commit to a longer maturity date. However, today the longer the maturity the lower the yield, implying expectations are for lower rates going forward. How does that affect your thinking? Looking at what happened with rates in the past is like looking at the many points of crisis around the globe, which only tells you what happened yesterday, not about what will happen tomorrow. Judging can be done about the past, but planning requires one to have some foresight for the future.

On the nonfinancial side of the equation, one needs to take a similar approach. Firstly, what are my own assets? Whether physically, mentally or emotionally, in what state do I find myself? What are the areas in which I can improve? What skills do I have that position me to cope with the future? What difficulties in life have I already overcome that should give me confidence that I can deal with whatever life throws my way in the future? What support do I have around me? Can I reach out to family, friends, work, neighborhood, or community? Like cutting out nondeductible debt, what are the "low-lying" fruit I can tackle to build a sense of confidence for moving on to bigger and better things? Can I lose 5 or 10 pounds? Can I learn a new skill? In what area would building knowledge or self-awareness be most helpful? Taking this approach in one's personal life will undoubtedly help shake the feelings of tenseness and prove to be the building blocks of creating a better future.

Bottom line

There are always endless reasons to be concerned in both our financial and nonfinancial lives. Dwelling on the negative aspects surrounding us is a sure fire means of planning for failure. Rather than letting ourselves be overcome by negativity, we must recognize that there is always a silver lining in every cloud. Making mistakes in business, in our personal lives, or finding ourselves in a mental lull can occur from time to time. Our ongoing task is to take the time to stop, think and plan for an improving future. We owe it to ourselves and to those around us!

Global benchmarks

As of October 31, 2023 (Canadian $Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	0.1%	0.4%	9.8%
S&P 500 TR - **US$**	10.7%	10.1%	10.4%
NASDAQ Composite - **US$**	22.8%	17.0%	5.6%
MSCI Europe Index Price Return	3.8%	14.8%	6.7%
MSCI Emerging Markets	-2.0%	9.9%	-4.8%
China S.E Shanghai A Price Return	-5.6%	6.1%	-3.7%
MSCI World Index Price Return	8.9%	10.7%	8.0%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - **US$**	-14.3%	-10.8%	-17.5%
10-year U.S. T-Bond - **US$**	-5.2%	-3.3%	-8.9%
Long GOC Bond (2053)	-9.2%	-8.6%	-15.5%
10-year GOC Bond	-3.6%	-3.5%	-7.0%
5-year GOC Bond	-0.6%	-0.1%	-3.3%
3-month CDN T-bill	3.8%	4.4%	1.8%
US$/CDN$ (1.3577)	2.4%	1.8%	1.4%

Source: RBC Capital Markets Quantitative Research

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