



The Krygier Report

An exclusive newsletter from Mark J. Krygier, Senior Portfolio Manager | October 2023

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Easier said than done!

The seasonally worst month historically for markets has come and gone. Investors have once again been “treated” to a test of their will and the opportunity to refocus on their true time horizon and tolerance for volatility. It constantly amazes me to see how easy it is to espouse the grand theory of “buy low and sell high”, yet in the face of prices being “low”, a common emotional reaction of so many is to want to “sell (when prices are) low”. Incidentally, the corollary is also true, as when prices are high (like earlier this year when 2023’s early market leader, tech giant Nvidia was trading at all-time highs at valuations over 100 times their actual level of earnings, people wanted to “buy high.” Stop and think about that reality. When we stop to think about what is the most logical way to behave, we often come up with right solutions – how else do we explain the constant innovation we have witnessed in the past 100 years from horse and buggy to self-driving cars. Yet, while we know we need to behave in a certain way, our high emotional reactions can lead us astray from acting in a manner in which we ourselves espouse and in which we truly believe when we have mental clarity. The next question would seem to be to try and figure out, how do we stay focused on what our heads tell us is the right approach, but our emotional “gut” reactions can tell us exactly the opposite.

For the past year and a half, I have been taking self-defense classes – *Krav Maga*, the Israeli method of self-defense – in an effort both to stay in shape and to learn some skills which in truth I hope never to have to use. Think about the moment when a person is confronted with an intruder, a street thug or a bully of some sort – imagine the tremendous panic and fear one experiences at that moment! Despite “knowing” that certain actions one takes will likely end up in the victim getting physically hurt or worse, a person can freeze from the strong emotions running through their body at that moment of panic. This panic starts with the emotions but quickly translates into actual physiological changes – a racing heartbeat, elevated blood pressure, sweating, feeling light-headed – exactly the worst physical situation from which to make sound, logical decisions. There is no doubt in my mind, that investors who are normally rationale and make sound decisions in both their personal and business lives, and who are highly successful in those areas, when faced with market fluctuations and rabid news headlines proclaiming the latest disaster about to befall mankind, succumb to the same emotional and physiological reactions. Being perfectly human, I can list for you the specific times when I personally went through those same emotions and physiological changes with regard to the markets, and I can assure you that very few good decisions came out of those moments of panic. My Krav Maga instructor will also assure you, that actions taken out of panic will not provide one with the necessary defense one needs when faced with the sudden emotional moment of being confronted by a potential attacker.

What are the steps one needs to take to make sound decisions in both finance and self-defense?

1. **The first step** is to have clarity about what it is that you are trying to accomplish:
 - a) If you need money to buy a house, fund a tax liability, or any other relatively short-term need – that money should never be invested in what are ultimately long-term investments.
 - b) If, on the other hand, you have a need for your money to grow over your lifetime, or to provide income for you over your lifetime, then you need to invest in long-term investments with the potential to grow beyond the rate of inflation.
 - c) In self-defense, your primary objective is first to stay alive, and second to be able to walk away intact.
2. **The second step** is to consider what options or tools you have to achieve your goals:
 - a) **For short-term investing**, GICs, bonds, money-market or other “fixed” instruments are great options. “Flipping” properties or stocks when the market was hot may be fun, but it is pure speculation, as short-term there are no guarantees of price increases with either property or stocks – both are long-term investments.
 - b) **For longer-term investing**, real estate, stocks (investing in public businesses), or investing in a private business, are great options for growing one’s capital over the longer-term at a rate above and beyond the rate of inflation. They are not cash “alternatives” and daily valuation is only relevant to provide a price for buying or selling that day.
 - c) **In self-defense, one has several options:**
 - (i) **Diffuse the situation** – the best option, but not always available.
 - (ii) **Flee the situation** – no guarantees of getting away and it may put one in a non-defensible position.
 - (iii) **Take the attack to the attacker** – following the old sport adage that the best defense is a good offence.
3. **The final step, in both investing and self-defense**, is to practice putting one’s plan of action into place:
 - a) **In investing**, this might mean starting off by investing small amounts and holding onto them over an economic cycle (at least 5 years) to get a feel for the vagaries of the markets and how irrelevant they truly are to longer-term investment results. Alternatively, it might mean holding some fixed investments to temper a portfolio’s volatility.
 - b) **In self-defense**, one needs to have “go-to’s” – ways of responding in various scenarios and regularly practicing them.

Bottom line

There are always things in life beyond our control whether in investing or elsewhere. The key to successful investing and to a successful life is to focus on changing what one can control – which is to set our individual goals, having a plan of action for how to achieve those goals, and to recognize when decisions are being made based on emotion or logic. While this may be “easier said than done”, it is our life-long challenge!

Global benchmarks

As of September 30, 2023 (Canadian \$ Returns – except where noted)

Asset class	YTD	1 year	3 years	Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	3.4%	9.5%	9.9%	30-year U.S. T-Bond - US\$	-9.2%	-11.4%	-17.3%
S&P 500 TR - US\$	13.1%	21.6%	10.2%	10-year U.S. T-Bond - US\$	-2.9%	-2.4%	-8.7%
NASDAQ Composite - US\$	26.3%	25.0%	5.8%	Long GOC Bond (2053)	-8.5%	-11.5%	-16.2%
MSCI Europe Index Price Return	5.6%	23.2%	5.2%	10-year GOC Bond	-3.6%	-3.8%	-7.2%
MSCI Emerging Markets	-0.2%	6.8%	-3.5%	5-year GOC Bond	-1.5%	-1.0%	-3.6%
China S.E Shanghai A Price Return	-4.6%	-1.5%	-2.8%	3-month CDN T-bill	3.4%	4.2%	1.6%
MSCI World Index Price Return	9.9%	17.8%	7.1%	US\$/CDN\$ (1.3577)	0.2%	-1.8%	0.6%

Source: RBC Capital Markets Quantitative Research

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