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The Krygier Report

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

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The importance of finding “balance”!

In today’s world of constant information flow and the speed of change which we witness in our everyday dealings, it seems to be harder than ever to achieve a semblance of balance in our personal lives. The proverbial “rat race” demands that we put in good quality time into our careers in order to be successful. At the same time, we also need to take the time to nurture the relationships with our families and friends, if we are to create and maintain good relations (not many retirees are heard to regret the time that they could have spent in the office). We also need to remember to take time out for ourselves, to eat right, exercise and sleep sufficiently, otherwise the stresses of everyday living can take their toll on our physical and mental health. In short, trying to achieve balance in life isn’t easy in the best of times, let alone when additional stresses enter the picture. Those stresses can stem from the obvious candidates – health issues, family issues, employment or investment issues (say it ain’t so…). Even positive changes in our lives such as moving, marriage, having children and retirement can contribute to the overall feeling of being overwhelmed. One of the main challenges we each face throughout our respective lifetimes is to try and achieve some balance even as we juggle all the different demands on our time. As well, since no two people face the same challenges, seeking advice or finding role models on how to achieve this balance is not always simple.

We are once again living in an era of elevated interest rates, in fact the highest in over 15 years. Since the spring of 2022, Central Banks around the globe have been raising interest rates in the most rapid pace since the 1980s, ostensibly to ward off the evils of inflation. The current state of inflation was created by overspending, stagnated population growth and excessive debt on the personal, corporate and government levels, and it appears that some level of higher rates is here to stay for the foreseeable future. It seems that the Central Bankers are facing this same challenge of trying to achieve balance. On the one hand, lower interest rates benefit consumers and investors who borrow to invest (“good” debt) and spend (“bad” debt – despite what the commercials say about encouraging us to borrow to take a vacation because “we deserve it”). On the other hand, higher rates discourage excessive borrowing which in turns curbs inflation, as people consume less and invest less. However, if consumer spending and/or investing stops too abruptly, the result can be a huge jolt to economic growth. Part of the challenge for the Central Bankers is trying to analyze how their actions directly impact the economy, when many of the indicators upon which they rely are often “lagging” indicators rather than “leading” indicators. Another problem is that it can take a lot of time for the impact of higher or lower rates to make actual economic changes. The goal however is the same, trying to maintain growth in the economy without crushing the consumer or business activity – in short, achieving balance.

Finally, when it comes to investing, a key goal must be to try and achieve the right balance. On the one hand, we need sufficient growth in our investments to have our capital at least keep up with inflation while, on the other hand, we need to minimize the risks to our capital during the process. In one's retirement years, one challenge may be to create a sufficient stream of income from our investments to be able to maintain our lifestyles throughout our lifetime. The challenge arises since firstly, we don't know for how long that will be; secondly, we can't know where inflation will be over that time period and thirdly, we cannot know what future costs will be, in particular for potentially costly unknowns such as health care. In a world of 1-2% bond yields, bonds/GICs/CDs hardly contributed to any of our goals as investors, as they provided nominal returns for the "privilege" to invest in them. In contrast, investments like stocks or income trusts paying high yields and those with high growth potential looked very attractive (*TINA* or "There Is No Alternative" was the mantra de jour). The result following that era was that many investors ended up, after over two decades of declining interest rates, with little to no exposure to bonds and a very high exposure to stocks, creating a very "imbalanced" and potentially much more volatile investment profile than many investors are willing to tolerate. However, in the past 15 months, with interest rates hitting 4-5% or more, conservative and moderately conservative investors once again can "rebalance" their investment mixture back to a more reasonable exposure to stocks. In this vein, one might ask, so why hold stocks at all? The answer is simple - inflation erodes our purchasing power over time, as bond/GIC/CD interest rates move lockstep with inflation. Achieving balance as an investor often means providing sufficient stability in one's portfolio to be able to "stick" with the long-term plan, while continuing to focus on investing to beat inflation over time to maintain one's purchasing power.

Bottom line

Trying to achieve balance in life is not easy at the best of times. Challenges exist for individuals to keep our heads "above water" on a day-to-day basis, for governments as they juggle the challenges of balancing growth needs while tempering inflation, and for investors within their investment structure. In trying to achieve balance it is crucial that we maintain a flexible attitude to account for the different scenarios and challenges that may come our way, while also being bold enough to take advantage of the many opportunities that are also bound to come our way. This approach undoubtedly will allow us to be successful going forward!

Global benchmarks

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

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	6.9%	8.5%	10.4%
S&P 500 TR - **US$**	18.7%	15.9%	10.5%
NASDAQ Composite - **US$**	34.1%	18.8%	6.0%
MSCI Europe Index Price Return	9.5%	22.7%	6.0%
MSCI Emerging Markets	2.2%	1.5%	-2.7%
China S.E Shanghai A Price Return	-4.3%	-4.8%	-3.5%
MSCI World Index Price Return	14.4%	16.9%	8.0%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - **US$**	-1.9%	-12.3%	-14.9%
10-year U.S. T-Bond - **US$**	0.5%	-4.0%	-7.6%
Long GOC Bond (2053)	-0.2%	-4.6%	-13.3%
10-year GOC Bond	-0.1%	-0.6%	-5.9%
5-year GOC Bond	-0.2%	0.3%	-3.1%
3-month CDN T-bill	2.9%	4.0%	1.5%
US$/CDN$ (1.3507)	-0.3%	2.9%	1.2%

Source: RBC Capital Markets Quantitative Research

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