The Krygier Report

An exclusive newsletter from Mark J. Krygier, Senior Portfolio Manager | September 2024 www.krygierwealthmanagement.ca

Mark J. Krygier
Senior Portfolio Manager
& Wealth Advisor
416-733-5750
mark.krygier@rbc.com

Avital Pearlston
Associate Wealth Advisor
416-733-5751
avital.pearlston@rbc.com

Irene Hama
Associate
416-733-5752
irene.hama@rbc.com

Jacky Mai
Associate
416-733-5749
jacky.mai@rbc.com

Say it ain't so Joe...

More and more I am beginning to have that "deja vous" feeling. In the summer of 2000, shares in Canada's darling high-tech company, *Nortel Networks*, were hovering around $124 per share and represented about 30% of the entire Canadian stock market. In the previous year 1999, it led Canada's blue-chip TSX stock market with a staggering return of almost 200%. It was one of a few global leaders in manufacturing equipment for the burgeoning internet technology, which was taking the world by storm. In the summer of 2000, its CEO, John Roth, retired and in an unusual move for a retiring CEO, sold all of his stock options, if I recall in the amount of about $75 million, which in 2000 was "real money". Roth has hardly been heard from since. That same summer BCE (Bell Canada) sold about 97% of its holdings in Nortel, through which BCE's stock price in 1999 ran up by over 100%. An elderly client of mine at the time, we'll call him "Joe", held several million dollars' worth of each Nortel and BCE, which he had accumulated by buying shares in the old stodgy telecommunications company Bell Canada for its lovely dividend, over several decades, only to receive 1.57 shares of Nortel for every share he held in BCE.

In late September 2000, prior to Nortel's quarterly earnings report in October, I called up "Joe" and suggested that he donate one million dollars' worth of his holdings in Nortel to his favourite charity. By doing so, not only would he not pay capital gains tax on those shares for a huge tax savings, but in addition he would have a tax receipt for $1 million that would likely have set-off any income taxes he would owe for several years into the future – and of course his charity would benefit greatly. In response, Joe asked me, "What do your "geniuses" say (about Nortel's future price)?" Begrudgingly, I answered that our analysts had a 1-year target on Nortel of $100 USD which, with the rate of exchange to the Canadian dollar at the time, equated to about $150 CAD per share. Joe's last words to me on the matter are etched in my memory: "I'm not selling any shares, this thing is going to $200." The postscript to this story is that in September 2002, Nortel's stock dropped below $1.00, forcing the company to do a "10 for 1 reverse stock split" in order to boost its share price to $10, simply in order to avoid being delisted from the TSX stock exchange, something that eventually happened in the coming years. At that point Joe no longer had to worry about paying capital gains taxes on his Nortel stock holdings…

One of the best performing stocks over the past few years has been AI semi-conductor chip-maker *Nvidia*. In the race to achieve a stock market valuation or "market capitalization" (market "cap") of $1 trillion USD, from the time a company first became a "public" company, consider that *Nvidia* took only 24 years to achieve this target, less than famed portfolio manager Warren Buffett's company *Berkshire Hathaway*, which took over 44 years to achieve that goal, or *Apple* (over 37 years), or even *Microsoft* (over 33 years). Like in 2000, a select group of companies has been skewing "market" returns in the past two plus years, from being mediocre to being "great." The disparity between the U.S. stock market "benchmark" which measures stock market performance based on the "size" or "market cap" of a company vs. an "equal-weighted" version of the same group of stocks, was at historical highs of as much as 11% earlier this year, an astounding disparity.

What have all the geniuses been saying about the future direction of these companies' stock prices? Like in 2000 with Nortel and Cisco, etc., most have been trying to outrace each other to raise their "targets" on these stocks, implying an everlasting nirvana of future gains are nothing short of certain. Well…never say never… In the fall of 2000, John Chambers, the then CEO of *Cisco*, Nortel's main competitor, stated that since the advent of the industrial revolution there has never been as sudden a drop in demand as has occurred in the internet equipment manufacturing market. That year saw a huge plunge in the high-tech stocks which took almost 15 years to recover, even for "blue-chip" high-tech companies like *Microsoft*. Based on the market valuations at that time, Warren Buffett predicted that investors could expect mediocre returns from the U.S. stock markets in the coming decade. Was he right? Was he ever, as an investor in the S&P 500, the standard "market-weighted" US stock market benchmark, in January of 2000, achieved a 10-year compounded return by the end of that decade of (drum roll please)…0.0%. For Canadians investing CAD$ in the U.S. *S&P 500* index, with the exceedingly weak Canadian dollar at the time (sound familiar?), it was even worse, as the CAD$ climbed versus its USD counterpart over that decade as oil and other commodity prices rose (hmmm…), giving Canadians a -5.0% compounded annual return for that entire decade.

Nortel **first began its descent** after reporting earnings in October 2000, in which it posted "record" earnings which were not quite "good enough". Consider that *Nvidia*, the crowned AI "king", recently reported earnings which "beat" expectations by over 5%, and yet the stock price dropped by over 6%. Note further that its quarterly earnings "surprises" have gone from over 31% one year ago in August 2023, to 19%, to 11%, to 8.5% and now to 5%. Analysts tell us not to worry that Nvidia's CEO Jensen Huang sold $169 million worth of Nvidia shares in just the first half of 2024, and then in July, one month before the recent August quarterly earnings, he sold a further $296 million of Nvidia stock. Certainly Joe would have been interested to know that according to tech analyst Beth Kindig, over the next 6 years Nvidia's stock price will surge an additional 258% and hit a valuation of $10 trillion USD, more than the current combined value of *Microsoft*, *Meta* and *Amazon*.

Bottom line

One of the great challenges is to invest without looking in the proverbial "rear view mirror." As the small print on all investment packages remind us, "past returns are no indication of future returns." Investors need to stop to think in the face of "expert" opinion and media hype. Valuations of investments eventually does matter, and the law of diminishing returns has come to haunt many a rapidly growing company. If you or someone you know is concerned about how market volatility could impact your financial future, contact us and let's start the conversation!

Global benchmarks

As of August 31, 2024 (Canadian $ Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	13.7%	18.8%	7.6%
S&P 500 TR - **US$**	19.5%	27.1%	9.4%
NASDAQ Composite - **US$**	18.0%	26.2%	5.1%
MSCI Europe Index Price Return	11.9%	16.5%	4.4%
MSCI Emerging Markets	9.5%	12.1%	-3.5%
China S.E Shanghai A Price Return	-2.6%	-6.9%	-7.9%
MSCI World Index Price Return	17.7%	22.5%	7.6%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - **US$**	-0.1%	4.3%	-11.1%
10-year U.S. T-Bond - **US$**	2.6%	6.0%	-4.3%
Long GOC Bond (2055)	-3.6%	5.2%	-8.0%
10-year GOC Bond	1.9%	7.2%	-2.4%
5-year GOC Bond	2.7%	7.2%	-0.5%
3-month CDN T-bill	3.5%	5.2%	3.2%
US$/CDN$ (1.3493)	1.9%	-0.1%	2.3%

Source: RBC Capital Markets Quantitative Research

For past copies of ***The Krygier Report*** visit **www.krygierwealthmanagement.ca**.

Wealth Management
Dominion Securities

This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The strategies and advice in this report are provided for general guidance. Readers should consult their own Investment Advisor when planning to implement a strategy. Interest rates, market conditions, special offers, tax rulings, and other investment factors are subject to change. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. ® / ™ Trademark(s) of Royal Bank of Canada. Used under licence. © 2022 RBC Dominion Securities Inc. All rights reserved.