The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | June 2017 www.krygierwealthmanagement.ca

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No pain, no gain!

We are all too familiar with the old adage "no pain, no gain" yet I find it quite amazing how many people willingly ignore this truism in many areas of their lives. For instance, how many people try crash diets, lose weight, and then gain all the weight (and sometimes even more) back? How many people set goals for themselves – "I am going to exercise four times a week" or "I am going to read one self-help book a month" or "I am going to set aside time to spend with my significant other every week" and then none of these goals come to fruition? As investors, we might add, "I will regularly set aside a certain amount of my earnings to add to my retirement savings" or "I will meet with my financial advisor once a year to review my overall wealth strategies" and then these goals are often not met. The problem in not meeting one's goals may lie in simply not being willing to put in the effort and/or the time, or the proverbial "pain" to get the "gain" one is seeking.

I once heard the idea that societal pressures are often at the root of our confusion in these matters. While conceptually we understand without pain there is no real gain, society often lulls us into thinking we can actually have real gains without any pain whatsoever. How else can we ascribe the popularity of lottery tickets, gambling casinos, and any other "get-rich-quick schemes" by the latest promoter? The reality of this adage is obvious – have you ever heard of an athlete training for the Olympics complaining of the pain it takes to train for gold? Impossible. Can you imagine a mountain climber changing her mind about climbing to the peak of Mt. Everest because it's too exhausting? Ridiculous. Finally, would it be reasonable for any parent to give up their kids because raising them is just too darn frustrating? Inconceivable. The reality is that for any true long-lasting gain, one has to be willing to put up with some pain, and for really big gains one has to be willing to tolerate really big pains. Think of the medical specialist that has to endure 10 or more years of schooling, grueling hours of training and apprenticeship, and then subpar pay for years to finally get to the point where they are getting paid higher-than-average incomes, about which many can only imagine.

As investors, there is absolutely no doubt that there is likely going to be some "pain" involved in trying to achieve real gains. It takes discipline to set money aside today to reap the rewards of financial independence tomorrow. It is painful to live within one's means when the world is awash with cheap credit. It is hard not to purchase when financial institutions press upon us the ease of obtaining credit cards, credit lines and other credit vehicles. It is hard not to upsize one's lifestyle when consumer goods are advertised 24/7 and our neighbours and friends are following the latest trends. The real question is who is going to reap the real gains when all is said and done?

I heard a comment recently which struck a chord with me – retirement implies one is being "retired" from active duty of some form, whereas "financial independence" sounds like a goal worth striving towards. Keeping up with the "Joneses" in lifestyle unfortunately may result in very little independence later in life, for those that get lulled into short-term indulgences versus seeking the true pleasure of that independence later in life. With the greatest challenges facing most investors being their own longevity and low investment interest rates, many have a need to plan for a much longer "retirement" than they ever imagined in their "accumulation" years as investors.

A real source of pain for many investors is the volatility in the markets. Many retail investors define "risk" in terms of "volatility" whereas true risk to one's hard-earned capital has to take into account the deeply painful ravages of inflation and taxes in calculating one's true "real return." A 2% GIC investment accrues on a real return basis at a negative rate – as inflation is running at about 2% and taxes in many Canadian provinces on interest income can be as much as 50% or more, depending on one's marginal tax rate – leaving the GIC investor with a "real return" of about negative 1.5% – talk about real pain and no gain! On the other hand, a bank from the same institution issuing that 2% GIC has a quarterly dividend of between 3.5-4.5% which, as a Canadian eligible dividend, is taxed at a maximum of about 38% in Ontario vs. 53% for the GIC interest. So, higher income and lower taxes and a positive real return? Sounds too good to be true? What's the catch? The answer is the "pain" of not knowing what one's capital is worth on any given day, month or year, i.e. the volatility. Is such an investment good for all investors and for all of one's money? Obviously not, as one's short-term needs for liquidity and certainty of capital preclude such investments which have no short-term certainty. But for long-term investors, tolerating the pain of day-to-day volatility is what is needed to reap the long-term gains of both higher and more tax-efficient income. While not conclusive, if history is any guide, such pain is also the means to growing one's capital above the rate of inflation.

Bottom line

While societal pressures influence our emotions to live for instant pleasure, the challenge for investors is to take control of their own behaviours. The faster one recognizes, that without some pain, there can be no truly lasting gain, the faster one will stop focusing on the day-to-day frustrations of volatility and instead one will enjoy the gains which are the byproduct of the years of pain – just ask your parents!

Global benchmarks
As at May 31, 2017 (Canadian $ Returns)

Asset class	1 year	3 years	5 years
S&P/TSX Composite Total Return (Canada)	12.3%	4.7%	9.1%
S&P 500 TR - US$	17.5%	10.1%	15.4%
NASDAQ Composite - US$	25.3%	13.5%	17.0%
MSCI Europe Index Price Return	13.8%	-2.6%	7.7%
MSCI Emerging Markets	24.5%	-0.7%	2.1%
China S.E Shanghai A Price Return	3.3%	11.9%	4.2%
MSCI World Index Price Return	9.2%	4.2%	3.7%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	-2.0%	5.4%	1.8%
10-year U.S. T-Bond - US$	-1.3%	2.9%	0.9%
Long GOC Bond (2048)	-0.6%	7.0%	3.5%
10-year GOC Bond	1.7%	5.1%	3.4%
5-year GOC Bond	0.5%	2.7%	2.2%
3-month CDN T-bill	0.5%	0.6%	0.8%
US$/CDN$ (1.3500)	3.1%	7.6%	6.1%

Source: RBC Capital Markets Quantitative Research

Wealth Management
Dominion Securities

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