The Krygier Report

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

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How much is enough?

During the "rat race" of one's income earning years, it can be very hard to focus on the post-working years. Buying a house, paying down a mortgage, perhaps getting kids through school and postsecondary studies, perhaps buying a vacation or rental property – not to mention working to support all of these activities – are all very physically and mentally time consuming. Rarely do we, in our personal lives, take the time to stop and ponder, to what end will all of this effort result? Will we have saved enough to maintain our lifestyles into our retirement years? Will we be able to leave a legacy for our children, grandchildren and/or the philanthropic endeavours we would love to support? For those already in the post-working years, as many of our clients are, you are living with these issues every day. As far as legacies go, the question may be tweaked to: "how much is enough to leave behind?", as we all know we can't take it with us.

While investors and the stock markets "cheer" every time central bankers proclaim they are either lowering interest rates, maintaining already low interest rates, or trying some other "stimulus" measure, there is another side to the low interest rate "coin". Low interest rates are indeed great and act as a stimulus for companies, governments and individuals which carry debt, as the carrying cost is low. This explains the explosion in house sizes, purchases and prices in the past 30 years, since interest rates peaked in the late 80s and have been dropping ever since. In such an environment, people can afford to make more consumer purchases, to buy bigger homes and to borrow to invest. However the "flip side" is for those who want to live off the income they have accumulated during their earning years. In truth, without a reasonable investment strategy designed to provide sufficient amounts of tax efficient income, the prospects of doing so can be daunting. For those unwilling to assume "risk", investing at 2% on a "safe" GIC or government bond, one can only create $20,000 of annual income per $1 million accumulated, and worse, that $20,000 is fully taxable as interest in one's highest marginal tax bracket, to add proverbial salt to the wound. Clearly, there are two approaches to dealing with a prolonged era of low rates: either one will need to accumulate more money from which one can draw upon to provide sufficient income in the post-working years, and/or one will have to visit more aggressive investment strategies rather than simply investing in GICs or bonds. Again the question remains how much is enough?

I have heard it suggested that periodically selling some of one's capital to supplement the income it produces can make up for any differences between pre and post-working years' income. However, unless one knows exactly how long they are going to live, has a steady alternative supply of income, such as a company pension, or is fortunate to have accumulated enough through working, or inheriting such a large amount of capital that it would be virtually impossible for one to spend or lose all of ones' money, that is not such a simple calculation. Even those fortunate to have extensive amounts of capital have to reconcile this reality with the often greater demands on their capital – from family, business opportunities or charitable organizations, so simply draining one's capital even for such investors is rarely a good option. From this perspective it sometimes appears that there can never be enough.

In investing, the question of "how much is enough?" arises often as the result of reviewing one's investments, and trying to determine how much is enough of a gain or a loss that I as an investor can tolerate? Do I need to sell a stock which has had a 50% increase? Should I sell a stock which has dropped 15% in value since I purchased it? Studies done at the discount brokerages for do-it-yourself investors consistently show that average investors sell their winners (great fodder for conversation around the water cooler) and hold their losers ("just until they come back to what I paid for them"). At Krygier Wealth Management of RBC Dominion Securities, our philosophy is to hold onto our winners (perhaps trimming them when appropriate, such as to reduce risk exposure to a single security) and to sell – early – our losers. This approach creates longer-term gains, which are mostly tax deferred, and realized losses for tax purposes which can be used to reduce taxes from realized gains. How much is enough on the gain side is often a question of how much exposure to a concentrated risk should an investor maintain? On the loss side it may be a question of whether a particular investment is breaking down fundamentally, or is it simply part and parcel of the day-to-day vagaries of the capital markets, with which one has to be able to tolerate if one will be around to enjoy the longer-term gains.

Bottom line

To answer the question of how much is enough, one has to do a little introspection. How much income do you need to generate from your investments to maintain your lifestyle? How much of a legacy do you want to leave behind and to whom? How much insurance do you need to cover shortfalls if you don't create a large enough pool for either of these needs? As for investors, to answer these questions, we need to establish rules by which we can determine how much of a gain or loss we can tolerate before making changes. Plan in advance to avoid nasty surprises and let us know how we can help with that process!

Global benchmarks
As at June 30, 2017 (Canadian $ Returns)

Asset class	1 year	3 years	5 years
S&P/TSX Composite Total Return (Canada)	11.0%	3.1%	8.7%
S&P 500 TR - US$	18.2%	17.0%	20.3%
NASDAQ Composite - US$	27.2%	19.2%	21.7%
MSCI Europe Index Price Return	18.1%	3.6%	11.1%
MSCI Emerging Markets	21.5%	5.3%	6.6%
China S.E Shanghai A Price Return	7.2%	20.1%	11.4%
MSCI World Index Price Return	16.3%	10.1%	14.6%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	-8.6%	6.1%	2.4%
10-year U.S. T-Bond - US$	-5.4%	2.7%	0.9%
Long GOC Bond (2048)	-7.3%	6.3%	3.2%
10-year GOC Bond	-3.8%	3.9%	2.7%
5-year GOC Bond	-2.3%	2.0%	1.8%
3-month CDN T-bill	0.5%	0.6%	0.7%
US$/CDN$ (1.3500)	0.3%	6.7%	5.0%

Source: RBC Capital Markets Quantitative Research

Wealth Management
Dominion Securities