The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | April 2018 www.krygierwealthmanagement.ca

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Buy, hold and...?

Recently a client asked me, "Why all the activity" in her investment account? Her reasoning was simple. She understood that the best investment approach is to "Buy, hold and prosper", so why make changes? The theory behind this approach is that an investor should buy good quality holdings at the beginning of one's investment time-frame and never sell or make significant changes to the initial positions purchased. One should then ignore the media headlines and any socio or political upheaval that may arise and then over time the investments should grow sufficiently to meet one's long-term financial goals. This is also the understanding many people have regarding Warren Buffet's investment philosophy and certainly one cannot argue with his long-term success.

The marketing slogan 'Buy, hold and prosper' is from a former mutual fund company named AIC Ltd. which was purchased by Michael Lee-Chin in 1987. When Mr. Lee-Chin purchased the company, it's flagship *AIC Advantage* fund had less than $1 million in investor assets under management. During the 90s Mr. Lee-Chin, who modelled himself after Warren Buffett, became a billionaire as the company's managed assets ballooned to over $15 billion. He preached an investment philosophy of buying value stocks and holding them for the long-term. Whether by good fortune or astute investing or a bit of both, he primarily invested in the financial sector during a time when two significant catalysts impacted the sector in what, with hindsight, may be described as a once-in-a-lifetime occurance. Firstly, Canadian legislation involving the "four pillars" of the financial sector changed dramatically. Historically the four pillars – banking, insurance, trusts and investment dealers – had to function under separate corporate structures. Following changes to Federal legislation only the life insurance companies remained independent, with the result that in the ensuing 10 years virtually all the trust companies and investment dealers were purchased by and subsumed under the big banks. The second catalyst was the collapse of interest rates from high double digits in the late 80s to low single digits over the following 30 years. It was in that context that Mr. Lee-Chin bought, held and indeed prospered.

In the early 2000s, I attended a lecture sponsored by AIC and hosted by Michael Lee-Chin. The featured speaker was Jack Welch, the CEO at that time of the huge conglomerate General Electric (GE) and one of the most highly regarded CEOs in America. Mr. Welch had a philosophy of being either number one or two in the world in any business in which he invested within GE and the stock rewarded its shareholders for many years under his leadership. Always the showman, Mr. Lee-Chin, eager to promote his famed slogan, asked Mr. Welch if his own personal wealth in fact resulted from his own "buy, hold and prosper" approach with his GE shares to which Mr. Welch smiled broadly, acknowledging the comment. After the lecture I purchased the biography of Mr. Welch entitled, "Straight from the gut" and I often recommend it to anyone interested in reading about excellence in business. At that time I was investing both in some mutual funds managed by AIC as well as shares of GE within my growth-oriented portfolios.

In the aftermath of the financial crises of 2008-09, years after I had sold my last AIC funds due to prolonged mediocre performance, Mr. Lee-Chin sold AIC Ltd. to Manulife Financial in August 2009. With a stubborn refusal to veer from his investment philosophy of holding primarily a select group of leading financial companies, which had performed so well in the 90s and into the early 2000s, the AIC funds suffered dramatic investor redemptions as the financial crises decimated the stocks of banks, money-managers and other financial companies. The sale to Manulife involved only $3.8 billion in investor assets, a far cry from its peak of over $15 billion.

The share price of General Electric peaked during the technology boom in 2000 at $US 60.50. It fell in price during that market crash to a low of $21.82 in February 2003, before eventually recovering to $US 41.40 by July 2007, together with the shares of most nontechnology related companies. The share price again fell dramatically to a low of $5.73 in March 2009 at the end of the financial crises of 2008-09, as over 50% of its revenue stemmed from highly leveraged GE Capital. In the following years, Mr. Welch's chosen successor, CEO Jeff Imelt, restructured GE to try and avoid such violent swings in its revenues and ultimately in its stock price with the goal of "deleveraging" the company. He sold off most of GE Capital and used the proceeds to diversify the company into other sectors. The stock began to recover as investors supported successive attempts by Mr. Imelt to reestablish the company as one of the preeminent industrial companies in the world. We again purchased the stock in many of our clients' portfolios and held it for several years as we enjoyed the solid dividend of over 3% and while we waited patiently for the turn-around in its earnings growth. However, in the spring of 2017, we sold our position in General Electric in our managed portfolios at approximately $US30, as the vision of management appeared to have gone stale and actual earnings growth appeared further and further away. Approximately one year after we sold our shares in GE, its shares are now trading below $US 14.00, a dramatic collapse to levels not seen since the bottom of the 2008-09 financial crises.

Bottom line

Investing successfully requires looking beyond marketing slogans. Even famed Warren Buffett buys, sells, trims and adds to his investment positions. Buying and holding a winning investment inherently makes sense but as the saying goes, when the facts change so does our opinion. The history of AIC Ltd. and GE are evidence that even "blue-chip" investments can sour. At *Krygier Wealth Management* we believe that when the circumstances of a company, sector or geography change sufficiently to impact a company's prospects going forward, it makes sense to make changes in one's investment holdings accordingly. Perhaps I can suggest a better marketing slogan, "Buy, hold while things are going well, make changes when appropriate, and prosper." Not very catchy, but in our minds very practical.

Global benchmarks
As at March 31, 2018 (Canadian $ Returns)

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	1.7%	4.1%	6.9%
S&P 500 TR - US$	14.0%	10.8%	13.3%
NASDAQ Composite - US$	19.5%	13.0%	16.7%
MSCI Europe Index Price Return	7.9%	2.5%	8.5%
MSCI Emerging Markets	18.0%	6.8%	7.5%
China S.E Shanghai A Price Return	3.9%	-5.5%	12.1%
MSCI World Index Price Return	7.8%	6.4%	12.8%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	3.5%	-0.4%	3.3%
10-year U.S. T-Bond - US$	-0.7%	-0.3%	0.6%
Long GOC Bond (2048)	3.9%	0.1%	3.5%
10-year GOC Bond	-1.4%	-0.1%	2.1%
5-year GOC Bond	-1.8%	0.0%	1.4%
3-month CDN T-bill	0.7%	0.6%	0.7%
US$/CDN$ (1.2883)	-3.2%	0.5%	4.9%

Source: RBC Capital Markets Quantitative Research

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