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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | April 2019 www.krygierwealthmanagement.ca

Mark J. Krygier
Vice-President, 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

Tiffany Wong
Assistant
416-733-5749
tiffany.x.wong@rbc.com

Spring is finally in the air...

After a brutal winter in Toronto, the hints of spring are finally in the air. I recall grumbling in mid-January about paying my snow removal service bill for the season, at which point we had experienced only one snowfall, mid-way through the winter. However, as the last remnants of winter are finally melting away, I can honestly say that I got my money's worth – that was a lot of snow and it was a really, really cold winter. For a number of years, the advent of spring meant that I was coaching baseball for two of my children. The great thing about coaching younger children is the opportunity to teach them the basics, in order that they will better understand the game. Probably the most common expression on the lips of a sports coach for youth is to, "Keep your eyes on the ball." It sounds simple, but in the face of a shining sun, passing cars honking, or kids from a nearby park hollering away, it isn't always so easy to stay focused.

Following the brutal market drop in the last quarter in 2018, and in particular in December, the rebound in the markets in the first quarter of 2019 has brought a lot of relief for many investors, as the value of their portfolios have mostly if not fully made back the paper "losses" of late 2018. Many crises, both political and economic, seemed to collide all at once in that last quarter, striking fear into the hearts of even seasoned market observers, and resulting in a lot of negativity. In over 20 years of investing in the markets, I have to say that the hardest thing to do in an environment of high emotions, is to "keep one's eye on the ball." The generation of the Great Depression had a hard time spending money, as they experienced extreme poverty. Those who survived the Holocaust had a hard time throwing out food, as they experienced extreme hunger. Investors who lived through the 2008-09 sub-prime mortgage induced market collapse often have a hard time staying invested in tough times, as they experienced extreme "paper losses" in their net worth. Those who reacted out of panic or fear, and who sold investments at depressed prices, likely made choices detrimental to their long-term financial "game plan". In contrast, those who kept their eye on the proverbial ball, and recognized that "this too shall pass", stayed the course and once again were made whole.

If an investor is to stay focused on his or her long-term investment horizon, at what point is it worthy of taking note of short-term events? Every time a "talking head" on CNBC screams in panic that its time to get "bearish" or "bullish"? When a war breaks out? After an unexpected result in an election? After an "uptick" in unemployment numbers? So at what inflection point does it make sense to make changes in one's investments or in one's investment strategies? I believe part of the answer can be boiled down to a few principles, or rules of thumb, as follows:

1. **When do you need the money?** Are you buying or building a house? Marrying off a child? If so – leave the funds in money-market investments so they are available in full, exactly when you need them. If they are invested in long-term instruments such as stocks, real estate or long-term bonds – sell well in advance of your capital withdrawal.
2. **Do you need the income your investments generate?** If so, unless there is something fundamentally wrong with your investments, such as an inability to continue paying dividends (or rent/lease in the case of a tenant in a rental property), hold onto the investment and enjoy the income stream until the market values of your investments return.
3. **Did the dramatic event have a broad or narrow impact?** Could anything be more dramatic or horrific than the 9/11 twin tower attacks? Beyond the tragedy, the broader economic impact was nominal for investors in a broadly diversified portfolio. On the other hand, the recent horrific Boeing airplane crash had significant financial implications for Boeing specifically. Investors have to decide whether its future earnings ability will be negatively impacted.
4. **Does a changes in political leader change government policy?** Very often the political base in a country is centered around the "middle" – Conservatives vs. Liberals in Canada, which very often have very common economic policies. In contrast, Mexico's last election brought in a far-left socialist regime, which may have far-reaching implications for Mexico's economic future, if the economic implosion of Venezuela is an indication.
5. **Don't fight the Fed!** Central bankers have become the poster children for economic power. Changes in interest rates – both the quantity and the direction – can have major impacts on the ease of access to money. When the U.S. Fed did a 180-degree about-face in early January, signaling that fiscal policy was going to be stimulative rather than restrictive like the previous three years, it was time for investors to shift gears.
6. **Finally, what about market ups and downs?** Consider Warren Buffet's famous saying, "You should be buyin' when others are cryin', and sellin' when they are yellin'." When markets peak out of panic buying or plummet out of panic selling – investors are challenged to use peaks of emotion as a "contra-indicator" for when to buy or sell.

Bottom line

Spring ushers in the rebirth of life in the world around us. We get a chance to see the miracle of nature and the changing cycles of life. Investing too has its cycles, and an investors' challenge is to recognize that cycles happen, but if one keeps one eye on the ball – one's own long-term financial goals - the rest is put in proper perspective.

Global benchmarks
As at March 31, 2019 (Canadian $ Returns)

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	8.1%	9.3%	5.4%
S&P 500 TR - US$	9.5%	13.5%	10.9%
NASDAQ Composite - US$	9.4%	16.6%	13.0%
MSCI Europe Index Price Return	-3.2%	4.4%	2.0%
MSCI Emerging Markets	-6.3%	9.1%	5.1%
China S.E Shanghai A Price Return	-5.1%	0.5%	11.2%
MSCI World Index Price Return	5.7%	9.5%	8.7%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	6.3%	1.3%	5.7%
10-year U.S. T-Bond - US$	5.9%	0.4%	2.8%
Long GOC Bond (2048)	9.7%	2.7%	6.6%
10-year GOC Bond	6.4%	1.2%	3.8%
5-year GOC Bond	4.3%	0.5%	2.1%
3-month CDN T-bill	1.4%	0.9%	0.8%
US$/CDN$ (1.3344)	3.6%	0.9%	3.8%

Source: RBC Capital Markets Quantitative Research

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