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The Krygier Report

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

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How do YOU know?

Two of the greatest fears of investors is trying to figure out when is a good time to invest and what makes a good investment. Sir John Templeton coined the famous phrase, "It's not timing the markets, its time in the markets." There is undoubtedly truth to that statement, as the compounding of returns over time can lead to absolutely stunning returns. However, there have definitely been periods when investing in any asset class has been a losing proposition. The question then remains, when is it a good time to invest and what makes up a good investment, such that one's probability of success is very likely? As I have mentioned in recent newsletters, the popular IPOs (Initial Public Offerings) in 2019, of companies like Beyond Meat, Pinterest and Uber, complicate this query, as do the high returns in many real estate markets over the past 20 years. It has been my experience that peoples' memories are notoriously short when it comes to financial decision-making, resulting in them making some of the same bad choices over and over again.

I believe that three main factors can answer the question of when is a good time to invest: time, macro-environment and diversification. Time is crucial, as the longer the time one has for investing the more likely a thesis can have time to work. It is virtually impossible to have every variable work out at all times and at exactly the right time, so allowing for more time makes the probability of success more likely. Short-term events like the horrific 9/11, the recent Boeing 737 crashes, or even the relatively short Gulf Wars which involved many countries, rarely have more than a temporary impact on the broader investment environment. I have turned down many business opportunities when a potential client asks me what's a good investment for the next 1-2 years, as afterwards they intend to withdraw the money. Lack of time puts too much pressure on needing too many variables to work in too short a time period. The expression, "playing the markets", clearly comes from the world of gambling, and frankly, I think it is fair to say that investing in long-term investments like stocks or real estate for too short a period of time could be classified as gambling.

"Macro-environment" sounds like a boring economics class, but it is absolutely crucial to get a broad sense as to what is happening in the world that may affect one's investments. Is government policy pro-business or anti-business? Are interest rates rising, making the cost of borrowing higher, mortgage rates higher, and the chance of default on loans higher? Are regulations, taxes or public policy conducive for businesses to flourish or are they an impediment to investing? The stock and bond markets dropped significantly in late 2018 as the fears of higher interest rates spooked investors. Yet it took only one press release in early January 2019 by U.S. Fed Chairman Jerome Powell, indicating rates were not going higher and could go lower later in the year, to mark the turning point for markets to start their current recovery. American economist, and former President of the Federal Reserve Bank for Minneapolis, Narayana Kocherlakota, has suggested that, “If history is any guide, this [cutting rates for the first time in 10 years] will mean that the Fed is highly unlikely to be willing to raise rates for the next twenty-five to fifty [Federal Reserve] meetings.” This is positive for investing and in-line with other global central banks which are looking to further stimulate economies moribund in slow growth modes. The only hold-out in this regard has been Canada, but with a 4% increase in the Canadian dollar versus the U.S. dollar so far in 2019, already Canadian businesses are becoming concerned about negative impacts on Canadian exports. Just look at the pressure which Germany, a country heavily reliant on exports, has brought to bear on the EU to keep a low Euro in that economic union. On the other hand, a lack of trade deal between China and the U.S., together with the threat of tariffs and other barriers to trade, could be quite damaging. In order to manage risk to one’s capital, an investor cannot ignore such macro factors when deciding to invest.

Finally, diversification is often the best protection for one’s capital. Broadly speaking, Canada, as a cyclical, resource-based economy, is a horrible example of diversification for an investor. While we strive very hard to create a “global” portfolio within our *Krygier Wealth Management* Canadian portfolios, we usually need to invest in U.S. and global markets to properly diversify by accessing the vast array of opportunities that lay outside of Canada. However, we also don’t believe that we need to invest in all geographies and all sectors at all times, in order to diversify risk, as sometimes “less is more”. Spreading investment risk amongst an array of fundamentally sound businesses, and avoiding concentration risk, can help prevent small errors in judgement from turning into large losses of capital.

Bottom line

The starting point for sound investing is high quality financial strength together with a long-term vision. Next, a successful investor needs sufficient time for compounding to work its magic. Then, as long as the macro-environment is conducive to business success, and one protects one’s capital risk by diversifying and avoiding concentration in any one country, sector or company, the odds of investment success are great. For those with short time frames and a desire for the quick riches of concentrated “bets”, Vegas has good deals this time of year.

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

Asset class	YTD	3 year	5 years
S&P/TSX Composite T/R (Canada)	16.6%	7.1%	4.4%
S&P 500 TR - US$	20.2%	13.4%	11.3%
NASDAQ Composite - US$	23.2%	16.6%	13.3%
MSCI Europe Index Price Return	7.3%	4.3%	2.6%
MSCI Emerging Markets	3.9%	6.3%	3.3%
China S.E Shanghai A Price Return	13.7%	-1.4%	7.7%
MSCI World Index Price Return	12.3%	8.7%	9.1%

Asset class	YTD	3 year	5 years
30-year U.S. T-Bond - US$	12.1%	0.2%	5.9%
10-year U.S. T-Bond - US$	7.6%	0.7%	3.2%
Long GOC Bond (2048)	12.1%	1.6%	6.3%
10-year GOC Bond	5.5%	0.8%	3.5%
5-year GOC Bond	3.0%	0.6%	2.0%
3-month CDN T-bill	1.0%	1.0%	0.9%
US$/CDN$ (1.3189)	-3.3%	0.4%	3.9%

Source: RBC Capital Markets Quantitative Research

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