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The Krygier Report

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

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How do you measure success?

It has now been a year since President Trump was elected into the Oval Office. Much anxiety about the impending doom which would occur as a result of his victory according to some, and overly optimistic hype about what would be accomplished from others, continues to dwindle. Despite the bizarre headlines and “tweets” emanating from south of the 49th parallel, there have been few winners on either side of this political debate. In contrast, the clear winner in the investment world since the Presidential election has been those who chose stock exposure over bond exposure. In the past 12 months to the end of November 2017, the Canadian TSX composite benchmark is up 9.6%, the powerful U.S. S&P500 (in CAD$) is up 18.0%, while the 5-Year Government of Canada Bond was down -1.0% and the “long” (2048) Government of Canada bond was up a meagre 0.9% in the same time period. Investors may be concerned that they focused too much on the negative news and, as a result, that they missed stock-driven market gains over the past year. Some may even be beating themselves up mentally for “missing” the proverbial investment boat. In light of this mindset, how can one create and maintain a positive attitude in trying to plan and invest for one’s future?

For the past 5 years, I have been attending workshops in a program called “Strategic Coach” by Dan Sullivan. Mr. Sullivan has come up with a brilliant insight into human nature which can help anyone maintain a positive attitude – an absolutely necessary ingredient to plan for a “better tomorrow”. To invest successfully, as with any area of life, one has to set goals. An individual’s goals could be to lose weight, to complete a particular educational program or to travel to an exotic destination. For investors, a goal could be to set aside sufficient funds to maintain one’s lifestyle throughout one’s retirement years and/or to create a legacy for future generations. The problem in any such planning is that negative attitudes often creep into our thinking on a regular basis, and this negativity often holds us back from accomplishing our goals. Mr. Sullivan suggests that this negativity stems from us falling mentally into what he coins “the gap” – the result of us confusing how to set our goals versus how to measure our success. He compares setting goals to driving in the direction of the “horizon” – an imaginary line which divides between the earth and the sky. In driving towards a destination we aim towards the horizon in the direction we are going – but we never reach it, as it is a constantly moving target. Even when we reach our destination, we never hit that “target”, so measuring our success by whether or not we hit our target is inherently a frustrating and useless exercise – creating nothing but negativity (i.e. falling into the “gap”). To maintain a positive attitude and gain the necessary energy to “fight” another day, Sullivan recommends that we measure our success not by looking towards that imaginary target of the horizon, but instead by looking backwards. Learning to run is hard work, so an infant starts by learning to crawl, which gives it the confidence to try and walk. Learning to walk in turn gives an infant the confidence to try and run. So too, in any “walk” of life, if we measure our success by looking at our past successes, we will have the energy and confidence to press forward.

Over the years we have had our fair share of successes and failures. I believe as long as we learn from both types of experiences then both become our successes. Did we sell Nortel in our portfolios near its peak of $124 in August of 2000 against the grain of thinking at the time? No, but we did start aggressively selling at $30, still against the grain of thinking, and indeed that became both a lesson learned and a success. Did we buy into oil stocks when oil fell below $20/barrel in the early 2000s only to watch it soar to $140+ by the mid-decade? Very little, but we did avoid buying more after the run-up, in spite of predictions that oil would climb to $200+/barrel, and by doing so we avoided the destruction of capital (Warren Buffett's no. 1 rule) caused by its collapse to $60 in a matter of months from that optimistic prediction – a success. Did we hold Microsoft, one of the top five performing stocks in 2017, in our managed growth Portfolios? No, we sold it in early 2016, after reading commentary from a reputable Portfolio Manager who was concerned about its future after it bought "Linked-In". However, we owned Apple, Facebook and Amazon, three of the other five top performing stocks, as well as the NASDAQ index ETF which provided indirect exposure to Microsoft – a success. Similarly, while we sold General Motors (GM) in our portfolios on concerns for slowing sales in Asia, only to watch its successes in other parts of the world propel its stock price much higher, we added and held other auto exposure in the face of the media's "noise" regarding NAFTA negotiations, like Magna in Canada and Lear Corporation in the U.S., both of which performed very well in spite of this noise. If we focus on our failures we can easily fall into the mental "gap" of negativity. Instead, if we count our blessings and our successes then we will keep moving forward. In response to the oft-asked question about what I think market returns will be in the coming year, I will jokingly respond, "if you get me next year's newspaper today, then I can tell you what will be the coming year's returns." Whatever the future has in store for us, we are determined to fight to maintain a positive attitude, and that determination makes us confident that we will keep having more successes.

Bottom line

Success in investing or in any other worthwhile endeavor demands setting goals and implementing a plan of action to try and achieve those goals. Focusing on targets which may not be achievable or realistic will usually result in failure and a negative mindset. Instead, recognize and focus on past successes (rather than dwelling on "the one that got away") to develop the requisite positive mental attitude needed to foster your future successes.

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

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	9.6%	6.0%	8.8%
S&P 500 TR - US$	22.9%	10.9%	15.7%
NASDAQ Composite - US$	29.1%	12.8%	18.0%
MSCI Europe Index Price Return	21.6%	5.9%	10.3%
MSCI Emerging Markets	24.7%	8.0%	7.6%
China S.E Shanghai A Price Return	2.2%	9.1%	15.4%
MSCI World Index Price Return	16.5%	10.5%	15.4%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	7.2%	2.9%	2.7%
10-year U.S. T-Bond - US$	2.1%	1.3%	0.7%
Long GOC Bond (2048)	0.9%	3.1%	2.7%
10-year GOC Bond	-0.1%	2.4%	2.4%
5-year GOC Bond	-1.0%	1.3%	1.6%
3-month CDN T-bill	0.6%	0.6%	0.7%
US$/CDN$ (1.2894)	-4.0%	4.1%	5.3%

Source: RBC Capital Markets Quantitative Research

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