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The Krygier Report

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

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Be pragmatic, not dogmatic!

In any field of study there are divergences of opinion and certainly the world of investing is no different. The debate about anything substantive is often masked by the “noise” of those who can shout the loudest. In trying to sift through the opposing sides in any disagreement, the challenge in making decisions can at times appear overwhelming. For investors this challenge is readily apparent. Daily headlines and news reports are constantly screaming about the latest crisis or fad, pushing already confused investors to do the wrong thing at the wrong time. Witness the plethora of behavioural finance studies which show, time and time again, that investors in mutual funds (or ETFs) do not personally achieve the same rates of return as those of the underlying funds in which they invest. The reason? Simply put – investors tend to en mass buy at the top and sell at the bottom. There is an old saying, you should be buying when they are crying and selling when they are yelling. This may be easy to say but, in practice, in the face of hard hitting headlines, it is hard for most of us to follow-through.

I have found, over the past 20+ years, that investing for success entails having a plan and sticking with it**.** However, an important caveat to this rule is that, when circumstances change, an investor has to ask him or herself whether or not their initial plan should also change. Confusion often arises when an investor has to make a decision as to the timing of when a particular amount of money is required. Money which is needed as a deposit for a real estate purchase, or to pay an upcoming tax bill, is not money that can be invested beyond the time frame when it is required. In such an instance, short-term investing options ought to be the only framework within which one is considering investing. In contrast, money that is essentially inter-generational, and will likely not be relied upon during one’s lifetime, is money that can and perhaps ought to be invested in long-term investments. Panic understandably can result, if an investor takes money from the first category to invest in long-term investments which, in the interim, as we are seeing in the stock markets in the past few months, can be more than a little uncomfortable at times.

Amongst professional investors, a raging debate can be found over the merits of “growth” oriented investing versus “value” oriented investing. Growth investments typically pay little to no income, and are purchased primarily for their long-term capital appreciation potential. The price one pays for a growth investment is usually not as important as the price it is expected to reach over time. In contrast, value investments are those which are by definition currently priced below their intrinsic true value, and are purchased because the investor believes the true (higher) value will eventually be achieved in time. Throughout history, markets tend to fluctuate between favouring growth versus value investments.

In 1996, when I entered the investment field, it was the advent of the internet age. High tech stocks, with their huge potential for growth, captured the imagination and dollars of investors. Huge potential was expected to create huge rewards and for a time it seemed no price was too high to pay for this rate of growth. Along came the threat of Y2K, as the demand for growth investments peaked in early 2000. The aftermath of this peak in demand was devastating for those too late to the “growth” party, and for those who took too long to recognize that the tides of fortune for such companies had changed. Some disappeared, while many that survived (including such tech stalwarts as Microsoft, Cisco and Intel) took as many as 15 years to recover to the prices they hit during those heady days. “Growth” investing went from the headlines to the doghouse. Did that mean that during that era there was no way to make money as a stock investor? Absolutely not, as value investors reaped the rewards of their patience during the high-tech rage when they “underperformed”, with their investments in solid “old world” industrial, resource and consumer companies.

Turning to today’s volatile markets, we have seen the falling stocks of Facebook, Apple, Amazon, Netflix and Google (the “FAANG” stocks), amongst others, which in recent years drove the markets to new all-time highs. These dramatic price declines should mostly be of concern to those unwilling to bend to the changing tides. Being “dogmatic” about being a “growth” or “momentum” investor may result in financial losses. I recall one investor in 2000 who, at his direction, had moved over half of his hard-earned RIF pension assets into three stocks – Nortel, Cisco and JDS Uniphase – all plays on the burgeoning fibre optic market. As the tech market started to turn down, I pleaded with him to sell most or all of those three positions and, he responded, “I would rather lose my whole RIF than sell these at a loss…”, giving new meaning to the expression “be careful what you wish for…”.

Bottom line

Capital markets have been volatile and may continue to be so for the next little while. At the same time, interest rates remain at historically low levels, employment is strong, inflation is modest, and the outlook for at least the North American economy is still fairly positive. Investors holding onto “yesterday’s winners”, in particular if the winner is in a “hot” sector that has turned “cold”, or is so overpriced that anything less than perfection will result in a lower share price, or is one of several “bubbles” that we have seen in the past year (Bitcoin, Cannabis, and Tesla), may be setting themselves up for failure. In contrast, for those investors that can be pragmatic, pay attention to valuations, find attractive industries and companies, there is every reason to be optimistic for the coming year!

Global benchmarks
As at November 30, 2018 (Canadian $ Returns)

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	-2.5%	7.2%	5.6%
S&P 500 TR - US$	6.3%	12.2%	11.1%
NASDAQ Composite - US$	6.6%	12.8%	12.5%
MSCI Europe Index Price Return	-9.2%	-0.3%	2.6%
MSCI Emerging Markets	-8.5%	6.7%	4.1%
China S.E Shanghai A Price Return	-23.6%	-11.8%	5.0%
MSCI World Index Price Return	1.3%	6.2%	9.4%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	-6.0%	0.6%	4.7%
10-year U.S. T-Bond - US$	-2.2%	0.0%	1.8%
Long GOC Bond (2048)	-1.0%	1.1%	5.1%
10-year GOC Bond	-1.0%	0.3%	3.1%
5-year GOC Bond	-0.2%	-0.1%	1.6%
3-month CDN T-bill	1.1%	0.7%	0.8%
US$/CDN$ (1.3293)	3.1%	-0.2%	4.6%

Source: RBC Capital Markets Quantitative Research

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