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Expect the unexpected!

A year ago, in December 2018, global markets took a steep tumble, in stark contrast to the common year-end or "Santa Claus" rally, for which many had hoped. That downturn occurred within the context of the beginning of the U.S. and China trade war (still not resolved), Europe coping with negative interest rates (still not sure what that means), and Britain having voted to leave (or "Brexit") the European Union (still not resolved). The final trigger for the sharp sell-off were the comments of the U.S. Central Bank (the "Fed") in mid-December, in which it declared its intention to raise short-term interest rates, at least 3 times in 2019, to ward off expected inflationary pressures. One year later, while the U.S./China trade war seems to be inching towards a deal of some sort, despite a civil revolt in Hong Kong, and with Britain soon to be heading to an election to resolve its leadership issues, the U.S. Fed has recently indicated they will "likely" not have to lower rates, having already dropped them 3 times in 2019. December 2018 was nasty, with a sell-off in the price of most assets, and with "no-where-to-hide" being the main theme, frightening even veteran market pundits. Forty-plus year market strategist, and well-known investment newsletter author, Dennis Gartman, wrote on December 24th 2018, "This is a bear market; weakness is not to be bought." A year later, with interest rates having dropped rather than risen, and with most stock markets up double digits rather than having collapsed, Mr. Gartman recently wrote, "We stand in utter and complete awe of that continued, seemingly relentless and truly stunning strength."

While the markets in 2019 have so far provided investors with relief, it is fascinating to note their greatly varied reactions - to both the "downs" and then the "ups" over the past 12 months. There are those who "bailed" on their investments, selling and thereby crystallizing capital losses literally at or near the bottom of the downturn, with some of those turning to the safety of low-yielding (2-3%) capital preserving assets. Then there are others who were rewarded for taking the "grin and bear it" approach, hoping markets would bounce back, and hoping that once again all of the fine print warning that past returns are not indicative of future returns could again be ignored, with some of those even adding to their investments to take advantage of bargain prices. And finally, there are always some "rear-view mirror" investors, concerned a year before, who a year-later question why they weren't aggressively buying up stocks when prices were low. Assuming one can't ever know what will be the returns in the coming year, in volatile times the question always remains, how does one know "when to hold 'em" and "when to fold 'em". When is it time for an investor to take the pain of selling at a loss, and when is "grin and bear it" likely the better approach?

Being true to oneself has to be the basis to answering this fundamental question. Years ago I heard a lecture on marriage advice, in which the speaker stated, "If you are a single, depressed, miserable person and you get married, you will still be depressed and miserable." In other words, getting married won't fix your personal issues. Similarly, if one at his or her core is not an investor – perhaps they view buying a rental property with borrowed money (the basis of most if not all real estate deals), or investing in bank or utility common shares (a.k.a. "widow and orphan stocks"), as comparable to gambling in a casino – then just because they invest, and even if they do well with such investments, they are not "investors", with the result that they are likely to panic and sell at the first sign of "losses". So the first question to ask oneself is, "Am I an investor?". If the real answer is no, then be realistic, stick to GICs or CDs at a 2% yield to better sleep at night, but also recognize that you will grind down your capital over time, and earn a negative real return (after tax and inflation).

Once one has established oneself to be an "investor" – being comfortable to start a business, to use leverage to buy real estate, or to own shares in companies other than banks and utilities, then whether one continues to hold one's investments in times of volatility boils down to two remaining questions: (a) when does one need the money, and (b) what is the quality of the investment one is holding. If one needs the money in the short-term, in my mind it is truly gambling to buy any long-term investments, whether it be stocks, real estate, etc. – it might work out, but it's a huge short-term risk. So, assuming it's a long-term investment, when times are tough one has to ask – is it financially sound? Does it have a business model which can continue to thrive through various business cycles? Is it reliant on a strong, or a weak, currency, or a commodity price over which it has little to no control? Is its growth potential limited by geography or is it at risk from incoming improved technology or changing consumer tastes? These are some of the questions we at ***Krygier Wealth Management*** continuously ask ourselves with the investments we make and consider making on behalf of our clients. Only by having a comfort level with the answers to these questions are we able to "grin and bear it" in the face of volatility, and live to tell the tale.

Bottom line

Investors who held most if not all of their resolve in the face of the 2018 stock market collapse have been well-rewarded for their patience. Will we face another bout of such volatility? The odds are pretty good we will, as that has been the cyclical nature of investing, but as two out of every three years on average have historically provided positive returns, the successful investor is the one who will always expect the unexpected.

Global benchmarks
As at November 30, 2019 (Canadian $ Returns)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	22.3%	15.7%	7.3%
S&P 500 TR - US$	27.6%	16.1%	14.9%
NASDAQ Composite - US$	30.6%	18.2%	17.6%
MSCI Europe Index Price Return	12.5%	10.0%	6.7%
MSCI Emerging Markets	4.8%	4.4%	6.0%
China S.E Shanghai A Price Return	9.7%	9.8%	-5.0%
MSCI World Index Price Return	18.4%	12.1%	9.8%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - US$	20.5%	27.4%	8.7%
10-year U.S. T-Bond - US$	10.5%	13.7%	4.3%
Long GOC Bond (2048)	16.0%	21.4%	6.6%
10-year GOC Bond	6.2%	9.1%	2.6%
5-year GOC Bond	3.3%	4.9%	1.2%
3-month CDN T-bill	1.5%	1.7%	1.1%
US$/CDN$ (1.3275)	-2.7%	-0.1%	-0.4%

Source: RBC Capital Markets Quantitative Research

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Wealth Management
Dominion Securities

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