Wealth Management
Dominion Securities

RBC Dominion Securities Inc.

The Krygier Report

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

Mark J. Krygier
Vice-President &
Portfolio Manager
416-733-5750
mark.krygier@rbc.com

Avital Pearlston
Associate 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

Headlines confusing? Get back to basics!

The 2018 year has started off with an absolute bang! Globally, stock markets continue to climb higher and pundits almost universally have no expectations for a recession for the foreseeable future. While interest rates are continuing their ascent higher, expectations for inflation remain fairly modest. The "problem" for many investors is a good problem – what do you do with investments that have climbed high, and what do you do with new money available for investment following such good returns in the markets? If we go back to the aftermath of the 2008-09 subprime-mortgage induced market collapse, the question for investors at that time was how does one break the mentality of fear to invest at basement bottom prices? The corollary, after such a big market run, has to be how does one break the mentality of greed while trying to invest in a world in which many investments have hit all-time highs?

The internet age has provided the average investor with significantly more information than was available in previous eras. However, the same could be said of many other fields. Just ask your local physician what he or she fears most and often the answer will be the hyper-sensitive patient who has "googled" their way into self-diagnosis, based on which they are expecting for themselves absolutely the worst prognosis. Unwinding much of such "misdiagnosis" likely occupies much of a physicians' time in this era of "uber" information. Similarly, unwinding much of investor excitement (or fear) could be a source of full-time work in the investment industry.

Relying on such information from the media implies relying on their predictive abilities. To evaluate these abilities consider the cover pages of many financial journals at crucial times in history. A headline cover story and pictorial in *The Economist* describe a world, "Drowning in oil", implying oil prices will only go lower, came in March 1999 when oil was at $12/bbl., right near the bottom of oil prices. A *Forbes* magazine cover story in November 2007 crowned Nokia as the mobile phone king came when the company had a commanding 37% market share. Fast forward just over 10 years to now and Nokia has less than a 2% market share (do you know ANYBODY that has a Nokia phone today?). Looking further back to November 1987, both the *Time* and *Newsweek* headline stories warned about the impending economic doom one could expect following the October 1987 market crash (copies of which I have in my office for anyone interested), following which began the greatest stock bull market in history. CNBC's "Mad Money" guru Jim Cramer advised television viewers on March 11, 2008 "Don't move your money from Bear [Stearns]". On March 14th the stock fell 92 percent on news of a Fed bailout and a $2 a share takeover by JP Morgan. There are many, many more such examples of headline news which the discerning investor has to wade through in order to make sensible decisions for his or her own future prosperity.

Today media headlines are replete with talk regarding "Artificial Intelligence" or "AI". How to benefit from companies in the AI field is one investment consideration, with the flipside being a concern for any negative economic impact it may have if job losses rise dramatically in the wake of increasing automation. The self-interested investor has to at least consider that when the media is screaming such messages, or how wonderful are the prospects for economic growth in the foreseeable future, or when crypto-currencies with no intrinsic value or marijuana producing companies with no net earnings offer "investors" (or rather "speculators" based on those metrics) the lure of quick profits, when all appears to be rosy, one has to at least ask if there are risks "out there" which have to be considered.

Bond investors also have to take a good hard look in the mirror. For 30 years bonds have had the "tailwinds" of falling interest rates and slowing global economies. In contrast, years of economic stimulus is starting to be removed by Central Banks globally. Most if not all major economies are showing some signs of growth, albeit modest from post WWII standards, and inflation can once again be the subject of discussion with a straight face. In such a world, a bond investor has to recognize that risks which have not been seen in over 30 years are starting to appear. Thirty years is an adult lifetime to many investors and is certainly more than enough time to create a predilection for interest rates to keep going down and commensurately for bond prices to keep rising. "Bond King" Jeff Gundlach points out, "for the first time since 2007, not one of the 45 economies in the OECD Expansion Contraction Growth Indicator is contracting." As one of today's largest and most successful bond portfolio managers, Mr. Gundlach points out that, "the global economy is in a synchronized upswing for the first time in a decade…this is good news for everything, except bond prices." While GICs and fixed government bonds may offer higher yields in a higher rate environment, recognize what they don't protect against are the ravages of inflation.

Bottom line

It is absolutely wonderful to have information readily available for investors. However, as George Orwell might have said, "not all information is created equal". An investor has to think for him or herself as to what are their true needs and to think beyond the front-page headlines. It seems obvious that when fundamentally sound investments are cheap, they ought to be bought. However, when investments are expensive, even if they could climb higher, consider opportunities to sell or at least trim some gains in order to manage risk. The discerning investor has to at least be willing to consider the less populist viewpoint, as neither The Economist, Forbes, Time, Newsweek nor CNBC will offer you any guarantees if their "predictions" prove wrong.

Global Benchmarks

As at January 31, 2018 (Canadian $ Returns)

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	6.7%	5.9%	7.8%
S&P 500 TR - US$	26.4%	14.7%	15.9%
NASDAQ Composite - US$	32.0%	16.9%	18.7%
MSCI Europe Index Price Return	19.2%	4.5%	8.9%
MSCI Emerging Markets	30.4%	8.1%	7.7%
China S.E Shanghai A Price Return	14.0%	1.4%	12.3%
MSCI World Index Price Return	16.7%	8.5%	14.2%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	5.4%	-2.4%	3.7%
10-year U.S. T-Bond - US$	0.1%	-1.2%	0.9%
Long GOC Bond (2048)	3.4%	-1.9%	3.2%
10-year GOC Bond	-2.0%	-1.0%	2.2%
5-year GOC Bond	-2.3%	-0.5%	1.4%
3-month CDN T-bill	0.6%	0.5%	0.7%
US$/CDN$ (1.2313)	-5.5%	-1.1%	4.3%

Source: RBC Capital Markets Quantitative Research

For past copies of ***The Krygier Report*** visit **www.krygierwealthmanagement.ca.**

Wealth Management
Dominion Securities

This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. ®Registered trademarks of Royal Bank of Canada. Used under licence. © 2017 RBC Dominion Securities Inc. All rights reserved. 17_904011_xxx_002