The Krygier Report

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

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Investing shouldn’t be so taxing…

The year 2017 finished off with a much more pleasant ending than most had expected heading into the year. Despite the usual concerns over crazy-talking (or tweeting) politicians, both here in North America and abroad, concerns over geopolitical conflict, overindebtedness of consumers, a bubbling housing market, et al., the year was pretty good by most standards. In my twentieth year of writing this newsletter, as per my usual year-end newsletter format, I would like to share some of the lessons I personally learned over the past year, as follows:

1. **Taxes really do motivate behavior Part I** – in Canada, in 2016, the Federal Government raised personal tax rates for high-income earners. The result of this change was a lot of legal activity to open up holding companies for many of these high-income earners and a consequent shifting of their personal assets into the newly opened corporations to take advantage of the lower small business tax rates.
2. **Taxes motivate behavior Part II** - in 2017, the same Federal Government attempted a second time to raise tax revenues by drafting legislation which would limit the tax advantages of the small corporations. The result was a massive backlash by Provincial Medical Associations, various tax groups, Chambers of Commerce, and many others, which caused the Federal Government to do some back-peddling on the attempted changes to try and save face. What the final budget changes will be in the spring of 2018 is therefore at this point quite unclear.
3. **Taxes motivate behavior Part III** – in the U.S., before year-end, President Trump signed legislation which will significantly lower corporate tax rates, in particular for the largest multinational corporations which have been hoarding literally hundreds of billions of dollars overseas. The result is that many U.S. companies are planning to pay billions of dollars of tax revenue (at the lower rate) by repatriating billions more back into the U.S. economy.
4. **Who needs money?** In the age of e-transfers, Paypal, Apple Pay, et al., Bitcoin and other “crypto” currencies were all the rage around the proverbial water-cooler in 2017. Like many others, I have and continue to field many inquiries about buying into such “investments”. Curiously, almost nobody I speak to seems to understand what it is that they want to buy, breaking one of famed investor Warren Buffett’s rule to “never invest in a business you cannot understand”. Recently the area gained some legitimacy as the CME/CBOT index created a “futures” market for cryptocurrencies. Bitcoin dropped 30% in price following this change on no news. Dennis Gartman, author of *The Gartman Letter*, asks, “What is the “value” of Bitcoin? It hasn’t scarcity in its favour…for there are thousands of cryptocurrencies being created every day…[it does not] pay a dividend…[it cannot] be used to pay any nation’s taxes.” Gartman answers his own query by suggesting, “Value is simply derived from the hope that someone else will bid for that which is already owned…the so-called “Greater Fool Theory” at it’s best.”

5. **Sometimes politicians actually keep their election promises** – in Canada, Prime Minister Trudeau was true to his promise to introduce legislation to legalize marijuana. This change "jointly" set-off a wave of competitors trying to take advantage of this "high"-flying business opportunity and has s"toked" much investor interest. Consequently, MADD (Mothers Against Drunk Driving) Canada, and more recently the Federal Government, has taken to the media to advertise the dangers of driving high on drugs. In the U.S., President Trump has also been keeping election promises, such as to lower corporate taxes. This change has set-off a wave of companies, such as AT&T, promising bonuses to employees or increased dividends to its investors, with the money they are saving.
6. **The Toronto housing market can actually experience a slowdown** – 2017 saw the introduction of a foreign buyers tax as part of the Provincial Government's "Fair Housing" policies, two Bank of Canada rate hikes (affecting variable mortgages immediately), and mortgage stress test rules by OFSI which take effect in 2018. These changes have already negatively impacted buying trends as well as house prices. The mentality of "buy now [your new home] and sell later [your current home]" to take advantage of rising house prices has caught many homeowners off-guard, who wished they had instead "sold now and bought later".
7. **What's in a name?** Some argue that a name is not so important, and that it's the substance behind the matter that counts. Tell that to the owners of Riot Block Chain Inc.! A once failing drug company called Bioptix, "RIOT" simply changed its legal name to include "Block Chain" (the "science" behind crypto-currencies) and the stock jumped from less than $5/share to just over $45/share in a matter of a few weeks! During the internet craze in 1999 and early 2000, when junior gold miners had a hard time raising money after the Bre-X fraud scandal, some gold companies changed their names to technology monikers and presto, money magically flowed their way. The most bizarre example, of where a name change made someone a buck, had to be the marketing campaign of Dunlop Tires back in 2002. Following that campaign, four Canadians legally changed their last name to "Dunlop" in order to successfully claim and equally split the $25,000 total award being offered to do so. Wow!

Bottom line

The world of investing has never been more interesting or perhaps more confusing. However, investing can still be boiled down to a few common sense ideas. Firstly, be realistic about how much money one needs for short-term liquid needs, keep it in a cash equivalent, and don't be greedy about seeking higher returns with that money. Beyond one's needs for liquidity, be realistic about one's longer-term needs and conquer any fear about investing in longer-term inflation-beating investments. At *Krygier Wealth Management*, this is simply business as usual.

Global benchmarks
As at December 31, 2017 (Canadian $ Returns)

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	9.1%	6.6%	8.6%
S&P 500 TR - US$	21.8%	11.4%	15.8%
NASDAQ Composite - US$	28.2%	13.4%	18.0%
MSCI Europe Index Price Return	14.2%	6.5%	9.5%
MSCI Emerging Markets	25.6%	9.5%	6.8%
China S.E Shanghai A Price Return	6.4%	1.8%	12.1%
MSCI World Index Price Return	12.3%	10.0%	14.8%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	9.8%	2.6%	3.6%
10-year U.S. T-Bond - US$	2.7%	1.3%	1.0%
Long GOC Bond (2048)	3.4%	2.2%	2.8%
10-year GOC Bond	-0.3%	1.7%	2.3%
5-year GOC Bond	-1.5%	0.9%	1.5%
3-month CDN T-bill	0.6%	0.6%	0.7%
US$/CDN$ (1.2577)	-6.5%	2.7%	4.8%

Source: RBC Capital Markets Quantitative Research

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