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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | January 2020 www.krygierwealthmanagement.ca

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

Avital Pearlston
Associate Wealth Advisor
416-733-5751
avital.pearlston@rbc.com

Irene Hama
Associate
416-733-5752
irene.hama@rbc.com

Jessica Y. Liang
Associate
416-733-5749
jessica.liang@rbc.com

Lessons learned: who are YOU going to believe?

Looking back over the past year, I wonder how many prognosticators got the call right on the direction the markets would take in 2019, let alone the magnitude of the gains. In the mid-2000s, I heard a talk from Bill Miller, one of the few U.S. based portfolio managers who had consistently outperformed the S&P500 (14 out of 15 years at that point), who literally mocked the bank economists who would meet in early January each year to predict where they believed the Canadian dollar would be vs. the U.S. dollar by year-end. Mr. Miller commented that after making their predictions these economists would also review their forecasts from the previous year, in order to verify their predictive abilities. He noted that invariably none of the economists got the numbers right, and worse, few even got the direction right. He commented further that in reviewing the annual list of "best stocks" to own in the coming year, produced by strategists from the big investment firms, these favoured stock lists always did very well – had you owned them the previous year – but as to how they fared for the upcoming year…on average, not so well.

With as unpredictable a year in the capital markets as was 2019, there were a lot of valuable lessons to be gleaned for the thinking investor. Some of the lessons I personally learned include:

1) **Who are you going to believe? Part I: The Canadian economy –** throughout 2019 we heard over and over from Stephen Poloz, Governor of the Bank of Canada, that due to strength in our economy, which is expected to continue, there is no need for monetary stimulus. This message came while most if not all developed countries dropped their respective interest rates to ward off moribund growth. In late 2019, the Canadian economy posted its worst month for job losses in more than a decade, and Canadian banks (a good barometer for the economy) reported earnings indicating a slowing economy, with their worst year for profits since the financial crisis in 2008.

2) **Who are you going to believe? Part II: The U.S. economy –** in December of 2018, Jerome Powell, Chair of the U.S. Federal Reserve (the "Fed") reiterated his intention to raise interest rates in 2019 at least 3 times to combat inflationary pressures in the U.S. economy. That comment was the veritable "straw that broke the camel's back", as U.S. and global stock markets collapsed in the aftermath, over concerns about the forthcoming restraints on what was already perceived to be a challenged economic environment. By December of 2019, Mr. Powell reiterated that the Fed would likely neither lower nor raise interest rates in 2020, having lowered them 3 times in 2019...

3) **Technical Analysis - Part I: It works!** In mid-October 2018, a client told me that he was glad we held a position in *Fedex Corp.*, as it is such a solid company. I sold my position in Fedex about a week later – at a price of $214.79, having trimmed gains/profits on it earlier in the year at $270.49. As I write this newsletter, despite stock market gains in 2019, Fedex is trading at $149. Why did I sell it? Technical analysis indicated its share price dropped below its longer-term “trend”, and I prefer the “shoot first and ask questions later” approach to managing risk.
4) **Technical Analysis - Part II: It doesn’t always work.** In December 2018, “everything” fell. Almost all stocks in all sectors dropped below their longer-term trends. Knowing that “a rising tide lifts all boats”, and the reverse is also true, I did not sell all of my positions into cash; in times of panic one has to use common sense. People don’t stop buying food, pharmaceuticals, cars, laptops, etc. just because shares in those companies have declined in value.
5) **Getting led astray - Part I**: **Fool me once, shame on you!** During the late 2018 market collapse, we repositioned our portfolios to both raise cash for future buys and to add some “defensive” positions to buffer the losses. As the market began its turnaround in January 2019, I listened to some “talking heads”, who insisted that several stocks I had owned, but sold for tremendous profits in 2018, should not be bought back as they had dying business models. Unfortunately, even as technical analysis indicated it was time to buy back some of those I had sold, I was too wary in the context of such advice and sat on the sidelines while a few of those stocks went on to have fabulous returns.
6) **Getting led astray – Part II: Fool me twice, shame on me!** In July 2016, *Microsoft* announced they were buying business social media company *Linked-In*. As a result, a really, really smart portfolio manager sold it from his portfolio. He believed the risks to Microsoft were too great, as it had no expertise in this area. Listening to his advice, I too sold the stock, around $50, only to watch its shares skyrocket in the months following, hitting a high of $116 by October 2018. When I sold my Fedex position in October 2018 (see above), I used the proceeds to buy back Microsoft at $107.30, on a short-term dip, painfully admitting to my earlier error, as technical analysis indicated there was plenty of room for more gains. As I write this newsletter, Microsoft’s stock is trading at a sparkling $155.

Bottom line

Managing investments is all about having a “system” that works for you, and sticking with it**,** except when common sense tells you at a particular point in time that it is not reliable. It is also really important to recognize that even professionals make mistakes, and “to err is human”. However, in order to be successful, whether in business or elsewhere in life, one has to admit to one’s errors, act to correct them, and move forward. Happy investing!

Global benchmarks
As at December 31, 2019 (Canadian $ Returns except where noted as US$)

Asset class	YTD	3 year	5 years
S&P/TSX Composite T/R (Canada)	22.9%	6.9%	6.3%
S&P 500 TR - US$	31.5%	15.3%	11.7%
NASDAQ Composite - US$	35.2%	18.6%	13.6%
MSCI Europe Index Price Return	14.3%	5.4%	4.4%
MSCI Emerging Markets	9.9%	7.7%	5.4%
China S.E Shanghai A Price Return	15.1%	-1.8%	-1.2%
MSCI World Index Price Return	19.2%	9.2%	9.0%

Asset class	YTD	3 year	5 years
30-year U.S. T-Bond - US$	16.0%	7.5%	4.0%
10-year U.S. T-Bond - US$	9.2%	4.0%	2.7%
Long GOC Bond (2048)	11.3%	6.2%	4.4%
10-year GOC Bond	4.2%	2.3%	2.5%
5-year GOC Bond	2.5%	1.1%	1.5%
3-month CDN T-bill	1.7%	1.2%	0.9%
US$/CDN$ (1.2986)	-4.8%	-1.2%	2.2%

Source: RBC Capital Markets Quantitative Research

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