



The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | June 2019

www.krygierwealthmanagement.ca

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How does your garden grow?

Being a northern climate country, in Canada it's a tradition to wait until the Victoria Day long weekend in May to plant, when the possibility of frost has passed, at least for the most populated parts of the country. The reason to not plant outdoors earlier than Victoria Day is that a late frost could result in you having to do it all over again. Sometimes an especially early warm spring entices wanna-be gardeners into venturing into their garden beds, only to see their zealotry backfire with their hopes of home-grown fresh vegetables to adorn their summer meals dashed by a late drop in temperature. Those with more experience often develop their own rules of thumb, and they don't rely on the arbitrary date of Victoria Day. Elizabeth Stewart, one of 110 Toronto "master gardeners" trained in horticulture, says, "You can put cold weather vegetables in the ground [as early as mid-April, but]... Hold off on vegetables associated with Mediterranean climates, including tomatoes, beans, peppers and eggplant, until the weather is warmer." Others, like Sarah Allen, also of Toronto, says she has "everything in by May 24th" as she watches for nature's progress in deciding when to plant. As Ms. Allen notes, "You really look at nature; if you follow it year after year, it can tell you exactly how to do it." Food writer Naomi Duguid won't put tomatoes in her garden until May 10th or so, as she doesn't "trust there isn't going to be a snap back."

Investors can learn a lot from the world of gardening. Firstly, one has to have one's end-goal in mind at all times. In gardening, it might be a beautiful flower bed, or fresh vegetables to eat now, or to preserve for the winter season. In investing, the goal might be to create a source of regular income in order to provide for one's lifestyle needs. Alternatively, the goal might be to save for an upcoming purchase, like a car or an upcoming tax bill, or it could be to save and grow one's capital for one's own retirement, or even to provide for one's beneficiaries of a later generation. Whether its gardening or investing, you need sound fundamentals before you start. You can't expect your garden to flower if you don't use good quality soil, or a location which provides sufficient, but not too much sunlight, or to plant a sufficient amounts of seeds or seedlings, to diversify the risk that some don't develop as hoped. As well, to be a successful gardener, one has to assume the risk that wind, rodents or other predators might pull out the seeds or new plants before they even have a chance to root or flower, and/or to take adequate precautions to prevent against that danger to your garden-bed "capital". Barring a major unforeseen disaster, like a tornado or hurricane, with proper planning most garden beds will grow nicely. To maintain the health of a garden bed, it must also be regularly maintained, including weed removal and pruning overgrowth, in order to allow the healthy plants to flourish.

A successful gardener will not sit and watch her garden bed daily. Planting, like investing, generally takes time to see “success” or literally the “fruits of one’s labour”. Sometimes, an environment is not conducive to planting a full garden at once, and holding back some “liquidity” is needed due to short-term adverse conditions. At other times, one can practically throw seeds in fertile soil and in a few short weeks the “appreciation” of seedlings will be evident. When one first plans one’s garden, one is full of hope that every seed one plants will turn out to be the tallest oak tree, or the best tasting tomatoes, but we all know that despite the best laid plans, there will be plenty of times when one has to weed out problems, to allow the underlying health of the garden to flourish. For investors, this may mean selling some of one’s investments, even at a loss – the “weeds” - to avoid further damage to one’s capital – and just as importantly to one’s psyche - and to then reinvest the remaining proceeds in a more likely source of growth.

A gardener can rarely know his “bottom line” or “how he is doing”, simply by glancing at his garden bed at any one moment in time, much like looking at any one’s investment statement doesn’t always tell an investor about the “health” of his portfolio. Instead, the underlying fundamentals of a garden bed will be better predictors of how a garden will eventually turn out, as a sudden down pour of torrential rains, or an unseasonal heat wave, can cause a loss in even the most beautiful garden. Following such short-term “drops in value”, extra work may be needed to put a garden back in a good state. Even an apparently beautiful fruit-bearing tree, like a stock with huge capital gains (remember Nortel...), can be hiding internal rot, which can turn into eventual decay and withering. In the investing world, plenty of short-term disasters can distract even the most veteran investor from her long-term plans, whether it’s a political crises, such as a change in political leadership, or an increase or decrease in the price of oil or other commodity, or signs of an overleveraged consumer or weak mortgage market. While such short-term phenomena can often be ignored, completely ignoring a garden for too long and simply hoping for the best rarely produces positive results.

Bottom line

Investors and gardeners face similar challenges in their path to success. Ignoring ones’ horticulture or financial investment rarely provides positive results, but overreacting to short-term situations rarely produces the results one had intended to achieve. For both, if one’s plan is sound, if only quality materials are used and the right location (geography) is chosen, then with a lot of patience and sound techniques, based on experience with different environments or cycles, one should see solid appreciation. Happy planting!

Global benchmarks

As at May 31, 2019 (Canadian \$ returns, except where noted)

Asset class	1 year	3 years	5 years	Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	3.0%	7.6%	5.0%	30-year U.S. T-Bond - US\$	12.8%	3.2%	5.8%
S&P 500 TR - US\$	3.8%	11.7%	9.7%	10-year U.S. T-Bond - US\$	9.6%	1.5%	2.9%
NASDAQ Composite - US\$	0.1%	14.6%	11.9%	Long GOC Bond (2048)	13.5%	3.3%	6.3%
MSCI Europe Index Price Return	-4.1%	3.2%	1.5%	10-year GOC Bond	9.1%	1.7%	3.7%
MSCI Emerging Markets	-7.1%	8.5%	3.9%	5-year GOC Bond	5.6%	0.9%	2.1%
China S.E Shanghai A Price Return	-9.3%	-0.7%	9.9%	3-month CDN T-bill	1.5%	0.9%	0.8%
MSCI World Index Price Return	2.0%	8.0%	8.2%	US\$/CDN\$ (1.3512)	4.3%	1.1%	4.5%

Source: RBC Capital Markets Quantitative Research

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