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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | March 2019   www.krygierwealthmanagement.ca

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Timeless tips to financial success!

With capital markets continuing to rally from the late December lows, investors again have the opportunity to think outside of the day-to-day vagaries of the markets and the latest headlines. Recently, I came across a piece of ancient text which reads like an essay on financial advice for the ages. Written in the aftermath of the Ancient Roman era, the sages of the Babylonial Talmud addressed many of the same challenges we face today, 2000+ years after they wrote. While Madison Avenue and the rest of the advertising world would have us believe that "the latest" is "the greatest", when it comes to the way people relate to money, apparently there is "nothing new under the sun." I thought it would be a worthwhile exercise to look at a translation of the original text which, while it was written in an agrarian society, provides broader advice for today's world of modern finance.

Sage advice for both achieving financial success and finding balance in one's life:

Lesson No. 1: Live within one's means. The Talmudic text states very simply, "Eat meat infrequently, otherwise overspending will lead to poverty." How did consumer debt become such a topic de jour? Central bankers in most western countries point to its burdensome impact on their respective economies, and seemingly every other city bus or billboard advertises a bankruptcy specialist to help those who did not heed this lesson. Whatever one earns, it's not how much you make at the end of the day, but whether you can live within the actual income one generates (after tax and after inflation). In whichever socioeconomic level one finds oneself, one has to ask, "can I really afford this upgrade, or to buy that "thing", or to live in "that" neighbourhood?" Even the super wealthy have their limits, as typically the higher the income and lifestyle, the higher are the costs associated to maintain it.

Lesson No. 2: Putting one's spending in perspective. Related to lesson no. 1, part of living within one's means is being realistic with one's total financial picture. As the text explains, "A person with $100 can buy a pot of vegetables. One with $1000 can buy a pot of fish. One with $5000 can buy a pot of meat. One with $10,000 can have a pot cooked for him every day." Avoiding keeping up with the "Joneses" means living according to one's ***own*** means, irrespective of what others are doing and can afford. To ironically paraphrase a local casino commercial, "know your limit, and "spend" within it."

Lesson No. 3: While it seems obvious, using credit to support consumer consumption is financial self-destruction. As the text notes, "One's clothing should be from the fleece of your lambs." Consumer spending has to be in relation to one's reoccurring income. As consumer bankruptcies attest, no matter what is one's level of income, regularly using credit to buy consumer goods can result in an unmanageable debt crisis.

Lesson No. 4: **Managing one's finances** does NOT mean having to endure an ascetic lifestyle. Life was meant to be enjoyed, and its okay to treat oneself, but not to excess. The text proposes that one, "Accustom oneself to eating meat only when one has a special desire for it." Bottom line – there is a limit to everything, and the lottery commercial's alluring slogan to "just imagine" might be good for ticket sales, but bears little semblance to common sense. One has to consider whether one really needs the higher-end model of "that"? Or how many pairs of "that" does one really need?"

Lesson No. 5: Everyone needs balance amongst their financial assets, between their liquid assets to meet their short-term needs, and their longer-term income-producing assets. The text recommends that, "One should not slaughter one's entire herd or flock." Put simply, selling a rental property, or a dividend- paying stock, to pay for "the" vacation, or some other consumer purchase, will reduce one's ability to produce income and one's purchasing power into the future.

Lesson No. 6: Everyone needs balance "part 2". As the text notes, **"**One's own sustenance comes before the sustenance of his household." Today we have the phenomenon of the "sandwich" generation, i.e. those that both financially assist adult children, while often also caring for and assisting elderly parents. Being effective as a "bread-winner", "care-giver" or "provider", necessarily implies making one's own physical and mental health a priority.

Lesson No. 7: "Entitlement" attitudes are self-destructive. The text explains, "Give life to your youth. A parent should not accustom his child to eat meat and wine, but instead he should teach his child to be satisfied with a little – the basics, as by doing so the parent is providing the child with "life"." Much of today's historically high debt problems, amongst individuals, institutions, and governments are often the result of unrealistic lifestyle expectations.

Lesson No. 8: Financial success takes time. As recognized by the text, "One who wishes to become rich should engage in the raising of small cattle." Achieving long-term, sustainable financial success requires hard work, a strategic plan with achievable goals, and normally results from the production of high quality goods or services.

Bottom line

Prudent financial advice does not necessitate having to "reinvent" the wheel. Undoubtedly, financial plans and projections, assumptions about inflation and market returns, asset mixes, and fundamental company research, are interesting and are important. However, often the tried and true advice can make the biggest long-term impact.

Global benchmarks
As at February 28, 2019 (Canadian $ Returns)

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	6.9%	10.8%	5.5%
S&P 500 TR - US$	4.7%	15.3%	10.7%
NASDAQ Composite - US$	3.6%	18.2%	11.8%
MSCI Europe Index Price Return	-5.8%	4.5%	1.4%
MSCI Emerging Markets	-9.8%	11.4%	5.3%
China S.E Shanghai A Price Return	-12.4%	1.4%	9.3%
MSCI World Index Price Return	1.1%	9.5%	8.2%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	3.9%	-0.4%	4.7%
10-year U.S. T-Bond - US$	4.2%	-0.6%	2.2%
Long GOC Bond (2048)	6.4%	0.4%	5.2%
10-year GOC Bond	4.9%	0.2%	3.2%
5-year GOC Bond	3.3%	0%	1.7%
3-month CDN T-bill	1.4%	0.8%	0.8%
US$/CDN$ (1.3166)	2.6%	-0.9%	3.5%

Source: RBC Capital Markets Quantitative Research

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