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The Krygier Report

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

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Putting things in perspective...

The month of April was a devastating one for the people of Toronto. It wasn't the volatile stock market, nor the unusually cold spring and ice storm, nor the angst of tax filing season, rather it was the crazed van driver attack that left 10 dead and many more injured. An event like this, which happened literally outside of our office windows, is unfortunately increasingly too common in the world, with tragic stories in recent years from London, Paris, Jerusalem, Boston, and too many others to list. It is only human nature that when such an event occurs in one's own backyard it always hits home more deeply and demands, at the very least, a moment or two of reflection. "It could have been me" is the normal response of any empathetic human being, as we seek some logic to actions which are indefensible and incomprehensible. For at least a few moments afterwards, our day to day worries pale in comparison to such events and they make most of our daily concerns seem rather mundane. In the end we, the survivors, have to move forward with our lives, but with that privilege comes the responsibility of recognizing the opportunity handed to us which ought to include, at minimum, an obligation to show more appreciation for what we have been given.

Tax season always brings out the most interesting emotions in people, especially in light of increasingly complicated tax filings. Frustrations run high as investors are faced with delayed and amended tax reporting from various entities, missing documentation, and in the end perhaps a tax bill which nobody really wants to pay. Investors are often further frustrated as they get mixed and sometimes contradictory messages from their different advisors. A tax advising accountant may tell his client that the client has a "realized" taxable gain and therefore, sorry for the bad news, but taxes are owing. The investment advisor tells that same client the "good news" – you made so much money this year that we trimmed some of the gains in your portfolio! Or, an accountant tells her client that she "lost money" as she had net realized losses for the year – so no taxes are owing. The investment advisor tells the same client that her capital grew, as they held on to the winners in her portfolio and sold only the losing positions. Accountants can also get frustrated, as clients all need their personal tax preparations completed by the same deadline. With the late tax reporting clients often don't have all the forms to provide to their accountant, or they can't find all of the necessary documentation to complete their returns, and naturally all clients are secretly hoping they will be told they don't have to pay taxes this year. In the end, in light of the horrible events of late, we have to be thankful that we have made money, the consequence of which is that taxes need to be paid, and we have to recognize that deadlines generally get met, refunds get issued, and life gets back to normal…until next tax season…

Another frustration in life is being right, but taking time to know it. For years investing in tobacco stocks was a great way to make money. Despite the obvious ethical issues, these companies were virtual cash cows, their earnings were growing, their dividends were high, and investors were thrilled with the money to be made in that sector. Intuitively however, something didn't seem right. How could earnings keep climbing in spite of increasingly restrictive legislation around the industry? Worse, from the perspective of tobacco company executives, has been a steadily declining demand for these products in the face of increasing public awareness as to the health dangers of tobacco. At one time we had held some tobacco stocks in our portfolios but we sold them years ago, both due to the ethical issues and due to what was bound to be a "catching up" of the obvious bad future news to the companies' bottom line. Recently, the stock of *Phillip Morris International* – the ex-United States division of the U.S. company – has started to collapse. As one pundit put it, "basically their business is shrinking to the tune of 5-10% a year, and there is nothing they can do about it." Again, in the context of recent events, is "being right" really the most important goal one can attain?

A real fear being promulgated by the media is the impact of rising bond yields. Recently, headlines have been filled with dread-filled concerns about what havoc will be reeked upon the global economy when the 10-year US treasury yield rises above 3%. The assumption underlying this fear is that the U.S. economy is only growing due to the "sugar high" of low interest rates and "Quantitative Easing" by Central Bankers. However, First Trust Chief Economist Brian Wesbury recently commented, that the lack of "acceleration" of money supply is proof that the excess reserves caused by such fiscal stimulus did in fact not create the signs of inflation we are seeing today. Fears of the impact of inflation he suggests are overblown, unless it becomes of the "hyper" variety. At its essence, inflation means growth, and growth at a reasonable pace implies a healthy economy with a positive future. With corporate profits in America rising, and purchasing managers showing more optimism in the economy in over a decade, he suggests the future remains bright. Such concerns, following recent events, lack the dramatic impact the headlines imply.

Bottom line

We live in a sometimes violent and unpredictable world in which at times things just don't make sense. As a result, it behooves all of us to stop for a moment, be thankful for what we have, be compassionate to those who are less fortunate or who are suffering, and to appreciate the opportunities with which we continue to be presented. At *Krygier Wealth Management*, we continue to appreciate each and every day and the opportunity to work with our valued clients – we thank you for continuing to put your trust in our services!

Global benchmarks
As at April 30, 2018 (Canadian $ Returns)

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	3.1%	3.9%	7.8%
S&P 500 TR - US$	13.3%	10.6%	13.0%
NASDAQ Composite - US$	16.8%	12.7%	16.2%
MSCI Europe Index Price Return	3.9%	3.5%	8.3%
MSCI Emerging Markets	11.9%	5.7%	7.4%
China S.E Shanghai A Price Return	0.0%	-10.2%	11.9%
MSCI World Index Price Return	4.4%	7.7%	12.5%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	-0.6%	0.1%	1.8%
10-year U.S. T-Bond - US$	-3.4%	-0.6%	-0.1%
Long GOC Bond (2048)	-2.8%	0.2%	2.2%
10-year GOC Bond	-4.7%	0.0%	1.5%
5-year GOC Bond	-2.9%	0.1%	1.1%
3-month CDN T-bill	0.8%	0.6%	0.7%
US$/CDN$ (1.2838)	-6.0%	2.1%	5.0%

Source: RBC Capital Markets Quantitative Research

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