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The Krygier Report

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

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Blind leading the blind...

The month of October has undoubtedly been challenging for many investors. The TSX Canadian stock market was down 6.3% for the month, while the S&P 500 US stock market was down 6.8% in US$ currency. Investors who rarely listen to the “gurus” in the business media, and who only periodically watch the price movement of their long-term investments, may have been immune to this short-term volatility and the accompanying mental anguish. However, for those that habitually watch the daily fluctuations of their long-term investments “on-line”, as well as regularly viewing the latest BNN or CNBC headlines, this short-term volatility may in contrast have created concerns about the health of their investment capital as well as provoking the mental and/or physical strain of financial stress.

As the volatility in the markets was just starting in early October, I was in the middle of a one-week trip to Israel with my wife to attend a cousin’s wedding. While there, we visited for our first time the “Blind Museum” near Tel Aviv. The tour was led in the dark for 75 minutes by a blind person. We were given a cane used by the blind and taught how to use it. Watches, phones, and all other light emitting devices had to be placed in a locker for the duration of the tour. There was absolutely no light to which one’s eyes could adjust and for a very brief time we experienced the daily life of a blind person, as we walked into a “living room”, crossed a “street”, sat in a “boat”, and ordered drinks or snacks at a nonalcoholic bar, served by a blind bartender. At the end of the tour we had the opportunity to ask our guide about anything and everything one might want to ask a blind person – “were you born blind?” (yes), “are you married?” (yes), “do you have children?” (two), “are they blind?” (no), do you like to go on vacations and tour unfamiliar places (yes!!!). I asked her, what do you enjoy about visiting foreign countries if you can’t see the “sights” like the Eifel tower, the Rocky Mountains, the Pacific Ocean, the museums, etc. Our guide answered that she enjoys “hearing the new sounds and new languages”, “smelling and tasting the different foods”, and “touching things she has never experienced.” Aside from the feelings of gratitude for having the use of my vision, it dawned on me after the tour that to truly appreciate my life I need to do much more than just “seeing the obvious” as clearly, “seeing” is NOT always “believing”.

A year ago, in the fall of 2017, many well-intentioned investors were asking about and trying to buy into “Bitcoin” or other crypto-currencies. As Bitcoin’s price rocketed from $2,000 per unit to $20,000, such people were literally “envisioning” their way to easy street. Today, with Bitcoin hovering around $8,500, it’s funny that I haven’t heard a peep about it, not from clients, not in the papers, nada. The month of October was also eventful for Canadians as after much anticipation, industry consolidation, new stock IPOs, and wide media coverage, cannabis became legalized in Canada.

As the date for legalization drew closer, this same "get rich quick" mentality "seen" with the cryptocurrencies seemed to have overtaken many investors. Then, as highway signs, ads from *Mothers' Against Drunk Driving*, and local law enforcement messages changed from warning against drunk driving to warning against driving high, legalization became a reality. The result? Prices of the cannabis stocks have collapsed as much as 50% following the date of legalization. Prices had climbed so "high" at one point, that this industry which is anticipated to *eventually* create $5-6 billion in annual revenue "saw" the prices of the collective pot stocks being valued at over $50 billion prior to legalization. At this stage, whether or not the industry's profits will ever reach such heights is unknown. In the meantime, we will not blindly speculate on such "lottery tickets" with our clients' portfolios.

So what have we been doing in the face of such market volatility? Besides taking a deep breath, trying to get enough sleep and working-out regularly to relieve stress (all of which is true), we do what we always do and have been doing for the past 22 years. We review all of our positions, the broader themes, the sector and geographic diversification, as well as all of the individual securities. We review the fundamental strength and the valuation of the positions and we cross-reference this with both internal and external sources of information. We did make some changes to reduce volatility or "beta" and to increase dividend yields which can both help reduce risk if the volatility in the markets continue. What we don't do is to give up and sell the stocks of good companies, with strong earnings, in stable industries. We try to "see" through the noise of the day-to-day and to ignore the distractions of the local media. Finally, we have patience knowing that the history of the markets and good quality companies is that they don't go up in a puff of smoke, they persevere and build wealth – over time.

Bottom line

Watching short term volatility in the markets can be a painful reminder that wealth, like health, is built over time. It is true that "good times" are not guaranteed to go on forever and not every year results in positive portfolio results. At the same time, overreacting to short-term volatility is to ignore the sage advice of famed Portfolio Manager Peter Lynch, that "far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves." Sage advice indeed.

Global benchmarks
As at October 31, 2018 (Canadian $ Returns)

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	-3.4%	6.7%	5.4%
S&P 500 TR - US$	7.3%	11.5%	11.3%
NASDAQ Composite - US$	8.6%	13.1%	13.3%
MSCI Europe Index Price Return	-9.1%	-0.2%	3.1%
MSCI Emerging Markets	-12.8%	4.3%	3.1%
China S.E Shanghai A Price Return	-25.6%	-11.2%	6.0%
MSCI World Index Price Return	1.3%	6.1%	9.7%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	-6.8%	-0.4%	3.7%
10-year U.S. T-Bond - US$	-3.8%	-0.7%	1.2%
Long GOC Bond (2048)	-2.5%	0.2%	4.0%
10-year GOC Bond	-2.4%	-0.5%	2.5%
5-year GOC Bond	-1.3%	-0.5%	1.3%
3-month CDN T-bill	1.1%	0.7%	0.7%
US$/CDN$ (1.3152)	2.0%	0.2%	4.7%

Source: RBC Capital Markets Quantitative Research

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