The Krygier Report

An exclusive newsletter from Mark J. Krygier, Vice President & Portfolio Manager | October 2017 www.krygierwealthmanagement.ca

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Aging has its silver lining!

Recently I read about a fascinating Japanese tradition. Apparently, since 1963, the Federal Government in Tokyo has been giving away a silver sake cup to each Japanese citizen over the age of 100 – what a nice way to recognize a truly milestone event. In the first year of this program, the government gave away 153 cups. By 2009, the government cut the size of the cups as the number of cups being given away had risen dramatically. The last official count of Japanese centenarians was in 2014 when the government gave away a stunning 29,357 silver cups! Is it any wonder market commentators have described the Japanese demographic situation as a fly in search of a windshield? That being said, a tradition is a tradition and at least in Japan aging has its benefits.

While hoping to hit our own silver cup milestone, as investors we have other matters to consider. The two main drivers of investor psychology in the past two decades has been decreasing interest rates and increasing longevity. Lower interest rates has forced many yield-hungry investors into riskier securities – from high-quality bonds to lower-quality bonds, and from bonds into stocks, REITs, etc. With interest rates globally looking like they may have found a "floor", one would expect that some of the drive for riskier yield producing assets will slowly unwind. In contrast, the longevity rates continue to climb, which as certain fashion magazine publishers might say, "That's a good thing!" However, like with any "good thing", there is the other side of the coin to consider – and that's the challenge for many investors – that is, how do you ensure you maintain your lifestyle as you entertain thoughts of sipping sake in your very own personalized cup?

In Jeremy Siegel's famed book, "Stocks for the Long Run", Professor Siegel gives some legendary advice for investors: "The focus of every long-term investor should be the growth of purchasing power - that is, monetary wealth adjusted for the effect of inflation." For an investor not to take into account the ravaging impact of inflation or taxes on their investment returns is to completely miss the forest for the trees. Outside of real estate, Siegel points out that "the growth of purchasing power in equities [stocks] not only dominates all other assets, but also shows remarkable long-term stability." He notes that this is true, despite changes in economic cycles (booms or busts), or various forms of political and social upheaval, the return on stocks for the past 200 years has been "between 6.6 and 7.0 percent after inflation in all major subperiods." These numbers contrast significantly with the low "real" (after tax and after inflation) returns on other popular asset classes. Since 1926, Siegel notes that bonds have returned a paltry 0.7% above inflation. With regard to gold, the "go-to" asset class for the nervous investor in times of crisis, Siegel comments that, "whatever hedging property precious metals possess, holding these assets will exert a considerable drag on the return of a long-term investor's portfolio."

I have yet to meet a successful investor who makes decisions from the morning headlines, BNN, CNBC or dare I say even the “Squawk Box”. Every day the news is filled with all sorts of interesting and entertaining pieces of information, some of which is true, and all of which is intended to primarily do one thing – and that is to sell ad time on the air, the print, or whichever medium is conveying that information. Publishers know full well that fear and greed drive many an investment decision, and most headlines seem to try to extract from its consumers either one or the other. With this in mind, it is clearly fear that drives a long-term investor into buying short-term instruments and fretting about whether or not they can squeeze an extra 0.2% out of a short-term instrument. Just as clearly, it is greed that drives an investor into buying into a company which has no earnings, has no foreseeable way of making earnings, and about which the “investor” knows nothing – except perhaps that a “reliable” source recommended it. As they say, that and a buck (25 cents plus inflation…) will buy you a coffee…

The first priority in investing is being realistic about one’s time frame for investing and that cannot be stressed enough. There is NO substitute for cash or truly cashable instruments when one has short-term needs, no matter how low is the rate of return on that investment. However, the flip side is that that there is NO substitute for long-term investing than asset classes which can truly and consistently beat inflation – and Professor Siegel’s numbers show that equities have a significant part to play in any long-term investment planning. So whether North Korea’s loony leader fires off another missile, whether President Trump is able to pass any significant legislation, or whether we see another attack by another megalomaniac terrorist group, at the end of the day there truly is “nothing new under the sun”. As this is not the first loony leader we have seen, nor the first politician that cannot deliver on his election promises, none of this should impact one’s short or long-term investment decision-making.

Bottom line

Getting older has its pluses and minuses and in Japan it can even have its silver lining. Anyone achieving that milestone has seen their share of economic changes – depressions, recessions, boom times; political changes - emancipation of women and of visible minorities, wars, terrorist attacks; and scientific changes – medical devices and procedures prolonging life, people traveling faster than the speed of sound and the advent of instant communication. Let us raise our proverbial sake glasses to those achieving that milestone, just as we salute the single-mindeness of the “non-headlines” driven investor that has had the benefit of history as his or her guide to maintaining their lifestyle.

Global benchmarks
As at September 30, 2017 (Canadian $ Returns)

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	9.2%	4.5%	8.1%
S&P 500 TR - US$	18.6%	10.8%	14.2%
NASDAQ Composite - US$	22.3%	13.1%	15.8%
MSCI Europe Index Price Return	13.1%	5.2%	10.5%
MSCI Emerging Markets	13.8%	6.2%	6.5%
China S.E Shanghai A Price Return	6.3%	13.4%	14.0%
MSCI World Index Price Return	10.2%	9.5%	14.1%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	-8.3%	4.8%	2.6%
10-year U.S. T-Bond - US$	-4.4%	2.5%	0.8%
Long GOC Bond (2048)	-14.4%	3.1%	1.7%
10-year GOC Bond	-7.1%	2.6%	2.0%
5-year GOC Bond	-3.5%	1.5%	1.5%
3-month CDN T-bill	0.5%	0.6%	0.7%
US$/CDN$ (1.2472)	-4.9%	3.7%	4.9%

Source: RBC Capital Markets Quantitative Research

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