The Krygier Report

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

Mark J. Krygier
Vice-President &
Portfolio Manager
416-733-5750
mark.krygier@rbc.com

Avital Pearlston
Associate Advisor
416-733-5751
avital.pearlston@rbc.com

Irene Hama
Associate
416-733-5752
irene.hama@rbc.com

Tiffany Wong
Assistant
416-733-5749
tiffany.x.wong@rbc.com

Are you starting to “feel” the heat?

As the summer winds down, for those of us living in the GTA it didn’t “feel” like we had a great summer. Unlike the dry and hot weather of the summer of 2016, the temperature this past summer was cooler than we expected and it seemed to rain every other day and on most weekends. In short, it didn’t feel like “summer” and yet here we are heading back into the fall with little chance for much heat for another six months or more. Like many Canadians, I find that the weather often factors into many of my introductory conversations. “How are you?” is often followed by “How is the weather?” or “Are you going somewhere warm this winter?” Another fascinating thing about the mindset of Canadians with regards to the weather is the expression, “If you don’t like the weather, wait 5 minutes.” However, knowing theoretically that things can change in short order can be at odds with how one “feels” at any given moment. With this in mind I thought it would be interesting to see how the past two summers stack up against the historic ranges for both temperature and precipitation of the previous 30 years to get some perspective.

For the past 30 years, the temperature in Toronto, according to weathernetwork.com**:**

- For the month of July, the average was 22.2 degrees Celsius, with a range of 17.9 to 26.4.
- For the month of August, the average was 21.3 degrees Celsius, with a range of 17.3 to 25.3.

In 2016, the temperature in Toronto:

- In July, it averaged 24 degrees Celsius (above the average), with ranges of 13 to 35, and
- In August, it averaged 24 degrees Celsius (above the average), with ranges of 14 to 35.

In 2017, the temperature in Toronto:

- In July, it averaged 22 degrees Celsius (slightly below the average), with ranges of 14 to 32, and
- In August, it averaged 20 degrees Celsius (slightly below the average), with ranges of 11 to 30.

In summary, the summer months in 2016 indeed had higher temperatures than did the same months in 2017. However, the temperatures in both years were well within the average ranges of the past 30 years. With precipitation, we see that the average precipitation over the past 30 years in Toronto: for the month of July it was 67 mm, and for August it was 80 mm. In 2016, the precipitation was 39.8 mm in July and 66.8 mm in August, both well below the norm of the past 30 years, which makes sense of all the “brown” lawns by early August of that year. In 2017, the precipitation was 37.6 mm in July and 74.8 mm in August, slightly lower in July and slightly higher than August for the same months of 2016, but, perhaps surprisingly, both years were below the historical norms.

Why should an investor care about the average summer temperatures in Toronto? Firstly, consider the average rates of return in the capital markets over lengthy periods of time. For this exercise we will use the time period of December 31, 1999 to the end of December 2016 – 16 years of recent history, as follows:

- During that time period the Toronto stock market had an average annualized return of **+6.0%**, gross of any fees which would be associated with owning the “index”.
- The best year for the TSX in that time period was a +35.1% return in 2009 and the worst was -33% in 2008.
- The U.S. S&P 500 index averaged **+5.0%** in US$, gross of any fees, which translated into a +4.1% return in Canadian dollars, as the US$ vs. the CAD$ had a -0.8% average change during that period.
- The best year for the S&P 500 during that period was +32.4% in 2013 in US$, and the worst was -37% in 2008 in US$.

Secondly, it is self-evident that only an investor who was fully invested with one lump sum of capital from the beginning of that time period to the end of it would have achieved these average returns. In contrast, anyone who invested in anything less than that full period, or who either added money or withdrew money during that time period, or who did not fully reinvest their dividends, could not have achieved those average returns and would have had either a higher or a lower return, depending on the timing of those transactions. Lastly, these “average” returns are probably surprisingly lower than many expected, and therefore these averages ought to provide some perspective on returns over the past decade and a half.

Bottom line

Before one invests, whether it be stocks, bonds, real estate, etc., one has to come to grips with several realities. The first is to set realistic expectations as to what sort of returns one might achieve within the time frame one intends to invest, and to recognize that it may not be as much as one anticipates. The second is to be realistic about the potential volatility (both the “ups” and the “downs”) that may ensue during the time period one is invested, and to try and understand how one will “feel” in the face of such volatility, as a lot of poor decisions are made out of both euphoria and out of depression. Finally, no matter what the return on one’s investments, being fiscally prudent with one’s spending will only enhance one’s long-term financial well-being and the corollary is that a lack of prudence in this regard may not be able to overcome even the best of returns.

Global benchmarks
As at August 31, 2017 (Canadian $ Returns)

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	7.2%	2.1%	8.1%
S&P 500 TR - US$	16.2%	9.5%	14.3%
NASDAQ Composite - US$	23.3%	12.0%	16.0%
MSCI Europe Index Price Return	10.7%	3.8%	10.4%
MSCI Emerging Markets	15.9%	4.7%	7.8%
China S.E Shanghai A Price Return	5.2%	17.5%	14.9%
MSCI World Index Price Return	8.5%	8.7%	14.2%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	-7.5%	4.9%	2.5%
10-year U.S. T-Bond - US$	-2.7%	2.7%	1.0%
Long GOC Bond (2048)	-11.1%	3.8%	2.7%
10-year GOC Bond	-4.8%	2.9%	2.6%
5-year GOC Bond	-3.9%	1.1%	1.4%
3-month CDN T-bill	0.5%	0.6%	0.7%
US$/CDN$ (1.2480)	-4.8%	4.7%	4.%

Source: RBC Capital Markets Quantitative Research

For past copies of ***The Krygier Report*** visit
www.krygierwealthmanagement.ca.

Wealth Management
Dominion Securities