The Krygier Report

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

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Here we go again…

Two major "repeats" stand out at this time of year, about which investors are or ought to be grappling with in light of changing market conditions. Those two repeat issues are cannabis stocks and hot U.S. stock markets, and both of these can be boiled down to one overriding theme – investor psychology. Clients will very often ask me to forecast what sort of returns I expect from a given portfolio. My standard reply, said only partly in jest, is "if you can get me next year's newspaper today, then I can tell you what sort of performance you can expect." The reality is that we really don't know how returns will pan out in practice, and the best a prognosticator can do is to rely on historical averages. The only fairly accurate number one can provide **in advance**, with a future looking outlook, is the projected income one could generate from a given portfolio, assuming the payout (dividends, interest, etc.) remain consistent in the coming year. However, the fluctuations from gains or losses in a given year can, in contrast, only be determined **at the end** of a given time period. That being said, there are some indications as to what sort of expectations one might have as to future returns, based on overall market conditions.

Pot (cannabis) stocks are once again very much in the newsmedia "high"lights, as Canadian legislation will soon allow for cannabis to be sold legally for medical and some recreational purposes. Stocks of companies in this sector have been on fire, despite no real (i.e. net) earnings, with the anticipation of the growth in the industry that lies ahead. Large consumer corporations in other businesses, such as beer and other alcoholic beverages, are trying to get in on the fun and are buying up ownership in several of the larger players in the industry. While on an ethical basis I have a hard time buying shares in companies whose main product, aside from medicinal purposes, is a mind altering substance which will impact drivers and pedestrians alike, as an investor I have some other concerns.

In January of 2000, a company named 724 Solutions was the last significant IPO in Canada to come to market as a public company during the high-tech craze era of Nortel, JDS Uniphase, Microsoft, Cisco, etc. as well as the Nasdaq tech-laden stock index. The Nasdaq itself peaked in price in March of 2000 at 5132, and did not set new highs until June 2015, at 5164 – over 15 years later! Think about it. That means anybody who bought the Nasdaq index, or a basket of the most heavily-weighted stocks in the index, near the peak in early 2000, took over 15 years to see any return on their investment. Today that market indicator is at 8099, almost 57% higher than it was in June 2015 which is an amazing approximate 19% annualized return in the past 3 years, but a very poor 3% annualized return from March 2000. In January of 2000, near the peak of the tech psychology madness I received several calls from clients, each one more eager than the next, to "get in on the action" of buying into the IPO of 724 Solutions – the next "sure thing" to money-making as you could get. Indeed, as an IPO, 724 was a huge success, becoming Canada's most successful IPO ever. Its IPO price of approximately $CAD 37 paled in comparison to its first day of trading at $103.50 and it climbed to nearly $350 in the ensuing two months – now that's some serious return! One year after the IPO 724 was trading below $10 and by 2006 it was being delisted from the stock exchanges.

In the spring of 2008, oil prices were rocketing above $US 120/bb and, the CIBC Chief Economist (at the time), Jeff Rubin, predicted oil prices would climb to $US 200/bb by year-end. After peaking at about $US 147/bb that summer, around the time of the Beijing, China, Olympic games, oil prices plummeted to below $US 30/bb, down by more than 80%, by early 2009. In a case of "fool me once shame on you, fool me twice shame on me", I had the good fortune to remember the lessons of 724 Solutions when clients frantically contacted me in early 2008 to "buy more energy exposure" following the Rubin call for dramatically higher oil prices. It was a deja vous moment as it dawned on me that I had heard the sounds of the "need" to buy oil some time before and that time was January 2000 with the technology stock craze. J.P. Morgan was said to have sold his stocks before the Great Depression in the 1930s when the barber starting giving him investment advice. This past month alone I have had several calls from clients "needing" to buy pot stocks even as prices of those stocks go parabolic on the dream of quick riches. One caller recently told me he needs to buy one "and it really doesn't matter which one." This will not end well.

Bottom line

In 1996 my father told me that there was an advantage to my going grey early when I joined RBC Dominion Securities as an Investment Advisor. He said people would assume I was older and wiser and in a position to give advice. Twenty-two years later I can honestly say, "Dad, I've earned my grey hair!". Whether it's the need to buy stocks in technology, energy or pot, I have learned from the "school of hard knocks", that investors have to constantly be asking themselves what it is they are buying. Are they investing with a reasonable expectation of profit, or are they merely speculating (i.e. read "gambling")? As noted Investment newsletter writer Jared Dillian recently commented, "what if it [ie. Cannabis usage] already has widespread acceptance?" so that going public won't in fact boost the demand to the extent the current stock valuations would imply? At *Krygier Wealth Management* we will sit this one out.

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

Asset class	1 year	3 years	5 years
S&P/TSX Composite T/R (Canada)	10.1%	8.7%	8.3%
S&P 500 TR - US$	19.7%	16.1%	14.5%
NASDAQ Composite - US$	26.1%	19.3%	17.7%
MSCI Europe Index Price Return	4.2%	2.6%	6.7%
MSCI Emerging Markets	1.4%	8.6%	7.0%
China S.E Shanghai A Price Return	-18.3%	-7.7%	7.6%
MSCI World Index Price Return	16.0%	9.5%	12.8%

Asset class	1 year	3 years	5 years
30-year U.S. T-Bond - US$	-3.0%	2.3%	5.4%
10-year U.S. T-Bond - US$	-3.9%	0.3%	2.1%
Long GOC Bond (2048)	2.5%	1.7%	5.5%
10-year GOC Bond	-2.7%	-0.4%	3.0%
5-year GOC Bond	-2.6%	-1.0%	1.4%
3-month CDN T-bill	1.0%	0.6%	0.7%
US$/CDN$ (1.3037)	4.5%	-0.3%	4.4%

Source: RBC Capital Markets Quantitative Research

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