

MONTHLY INSIGHT

"The clustering of the best and worst return dates confirms how difficult it would be to time the market so that one misses the bad days and participates on the good ones."

Paired Days			
Gains		Losses	
28-Mar-80	5.1%	27-Mar-80	-5.3%
21-Oct-87	9.0%	19-Oct-87	-11.1%
30-Oct-87	5.1%	26-Oct-87	-7.6%
08-Sep-98	4.1%		
15-Oct-98	4.8%	27-Aug-98	-6.0%
31-Oct-00	4.2%		
08-Dec-00	4.2%	25-Oct-00	-8.1%
19-Sep-08	7.0%	29-Sep-08	-6.9%
30-Sep-08	4.2%	02-Oct-08	-7.0%
14-Oct-08	9.8%	06-Oct-08	-5.3%
20-Oct-08	7.2%	10-Oct-08	-5.6%
28-Oct-08	7.2%	15-Oct-08	-6.4%
13-Nov-08	4.8%	22-Oct-08	-5.7%
21-Nov-08	5.6%	27-Oct-08	-8.1%
28-Nov-08	5.9%	12-Nov-08	-5.3%
08-Dec-08	5.6%	20-Nov-08	-9.0%
		01-Dec-08	-9.3%
10-Mar-09	4.1%		
23-Mar-09	5.3%	02-Mar-09	-5.4%
Isolated Days			
12-Oct-82	4.3%		
		27-Oct-97	-6.2%
		14-Apr-00	-5.5%
		16-Feb-01	-6.4%
22-Jan-08	4.2%		

This table shows the 20 best and worst daily returns since December 31, 1979 on the S&P/TSX index.

Almost all of the big moves occurred within 6 distinct periods as shown by the highlighted dates in colour.

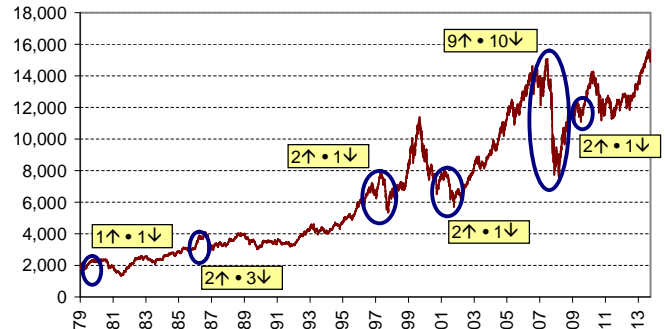
TIME IN THE MARKET, NOT MARKET TIMING

The longer an investor invests, the greater the chance they will experience a significant stock market upheaval. In this case risk does not go down with time, it goes up. It is very difficult to predict the best time to enter or exit the market as markets react to news with incredible speed and stock prices reflect any new developments almost instantly. Most investors know that trying to predict the future can be a fool's game.

It really does not make much sense to talk about missing the 10, 20, or 40 best or worst single days in the stock market other than as an academic exercise. Market timers are not trying to avoid a single bad day and get back in the next day; they generally are looking for trends to exploit. Statistically speaking, missing only the best or worst days of the market is virtually impossible. Nobody is either skilled or lucky enough to time the market so that they only miss the worst days. On the flip side, no one is skilled or lucky enough that they could magically only be invested on the best performing days.

For argument's sake, if you had invested \$100 in the S&P TSX Index on December 31, 1979 you would have \$825 today (excluding the impact of dividends). On the other hand if you happen to be the unlucky investor on earth and missed the best 20 days over this 35 year period you would have \$291. Conversely, if you were incredibly smart or lucky and somehow missed the 20 worst days then you would now have \$3,571. If you were somewhere in between and have average luck, then you have not missed a lot.

Missing the best days of the market really does not matter if investors also miss the worst days. History confirms that the best days tend to closely follow the worst days and at times they occur back to back. Therefore if an investor misses one, chances are they will miss the other. Remarkably, almost all big stock market gains and drops since 1979 were concentrated in just a few trading days over 6 periods. This is illustrated by the blue ovals in the chart to the right and the data table to the left. In fact there were only 5 days (out of 40 days: the 20 largest loss days and 20 largest gain days) where the days of highest gains or losses were not paired with dramatic market movements in the opposite direction.



This chart graphically illustrates the 6 distinct periods (shown as ovals) where all but 5 of the 20 best and worst day's returns since December 31, 1979 occurred on the S&P TSX index. The data confirms that the best days tend to closely follow the worst days. The clustering of the best and worst return dates confirms how difficult it would be to time the market so that one misses the bad days and participates on the good ones.

It is somewhat easier to miss the worst days of the market because they rarely occur in isolation but happen in steadily deteriorating markets. Statistically the worst days in the stock market tend to be much worse than the good days are good. Unfortunately the good days are equally concentrated and difficult to identify in advance. Therefore, while market timing can be alluring in theory, it is extremely difficult to get right in practice. Over short periods markets tend to reflect a lot of volatility and result in a wide range of positive or negative returns. The longer one stays invested however, the greater the probability that one's investments will generate good returns. Investors who decide to get out of the market for any period of time should do so only for sound strategic reasons. Otherwise they are straying into the difficult world of market timing and the corresponding problems that tend to follow.

MARKET DATA

30 SEPTEMBER 2014

Index Total Returns (%) (C\$)

	1 Month	1 Year	5 Years
S&P TSX	-4.0	20.4	8.7
S&P TSX Equity Income	-3.3	18.2	14.8
S&P TSX Small Cap	-9.3	14.4	7.5
S&P TSX Preferred Shares	-0.6	5.5	5.0
S&P 500	1.4	30.5	17.6
Russell 2000 (US Small Cap)	-3.4	12.1	14.9
MSCI EAFE	-1.0	14.2	9.0
MSCI World	0.2	23.0	13.4
MSCI Europe	-1.0	12.4	5.8
MSCI Asia	0.2	12.1	5.3
MSCI Emerging Markets	-5.0	11.4	4.0

Currencies: (%) (C\$)	US\$	EURO	GBP	YEN
	-2.8	-8.7	-0.8	
	-1.1	1.4	-2.1	
	0.3	8.8	1.1	
	-2.3	-2.8	-3.3	

Bond Total Returns (%) - DEX Indices

	1 Month	1 Year	5 Years	Yield
Universe	-0.6	6.3	4.9	2.33
Short Bonds	0.0	2.9	2.9	1.59
Mid Bonds	-0.7	6.7	5.7	2.39
Long Bonds	-1.4	11.3	7.6	3.33
Federal Bonds	-0.5	4.5	3.6	1.69
Provincial Bonds	-0.9	8.4	5.7	2.72
Corporate Bonds	-0.5	6.6	5.8	2.70
Real Return Bonds	-2.1	9.6	6.5	0.49
91 Day T-Bills	0.1	0.9	0.8	0.93

Barclays Aggregate Bond (US\$)	-0.4	4.0	4.1
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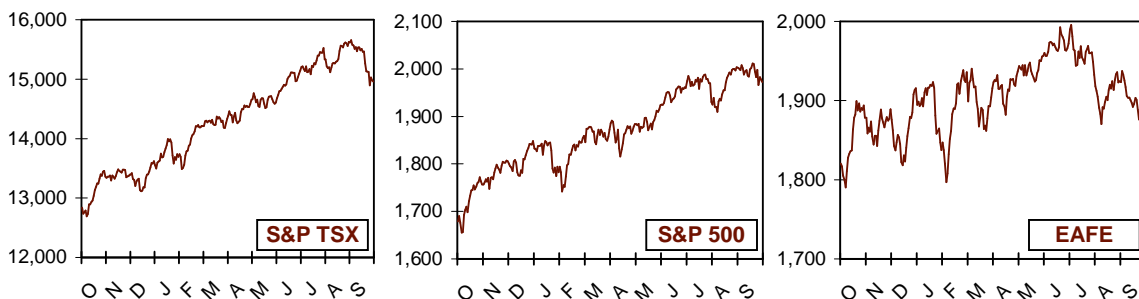
Commodities: (%) (US\$)	Index	Oil	Gold	Wheat
	-6.0	-7.8	1.3	
	-5.1	-7.3	5.4	
	-6.1	-7.9	3.7	
	-10.4	-24.4	4.0	

Sector Returns (%)

	S&P TSX (C\$)				S&P 500 (US\$)				MSCI EAFE (US\$)			
	1 Month	1 Year	5 Years	Weight	1 Month	1 Year	5 Years	Weight	1 Month	1 Year	5 Years	Weight
Consumer Discretionary	-4.0	19.7	14.2	4.9	-2.9	10.1	19.6	11.9	-3.6	-4.9	8.3	11.5
Consumer Staples	3.1	26.8	17.2	3.0	0.4	13.4	12.1	9.6	-4.7	0.8	8.5	11.3
Energy	-10.1	10.8	0.2	26.1	-7.2	9.3	10.1	10.3	-6.8	3.1	0.2	6.7
Financial Services	-2.4	19.0	7.0	35.4	0.3	16.7	9.3	15.8	-4.4	-0.3	0.2	24.9
Health Care	0.7	21.3	22.2	2.6	0.7	26.3	17.3	14.1	-0.2	17.3	10.6	11.0
Industrials	0.9	37.4	16.9	7.9	-1.3	14.3	14.6	10.7	-4.1	-2.4	5.3	12.9
Information Technology	0.4	27.4	8.8	1.9	-0.3	27.1	14.5	19.0	-1.4	5.8	2.9	4.8
Materials	-11.5	0.7	-5.5	11.8	-1.6	17.9	10.8	3.4	-8.0	-5.1	0.2	8.1
Telecommunication	-3.5	5.5	9.3	4.5	1.0	7.9	8.3	2.3	-3.0	2.6	2.8	4.9
Utilities	-0.8	9.0	4.3	1.9	-1.4	12.7	7.5	2.9	-2.8	6.2	-4.5	3.8
Growth Index	-1.2	26.3	5.6		-0.6	19.9	14.7		-3.7	0.8	5.2	
Value Index	-4.2	14.1	5.9		-1.3	15.2	12.0		-4.4	2.3	1.8	

Index Charts

12 Months ending September 2014



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