Monthly Insight

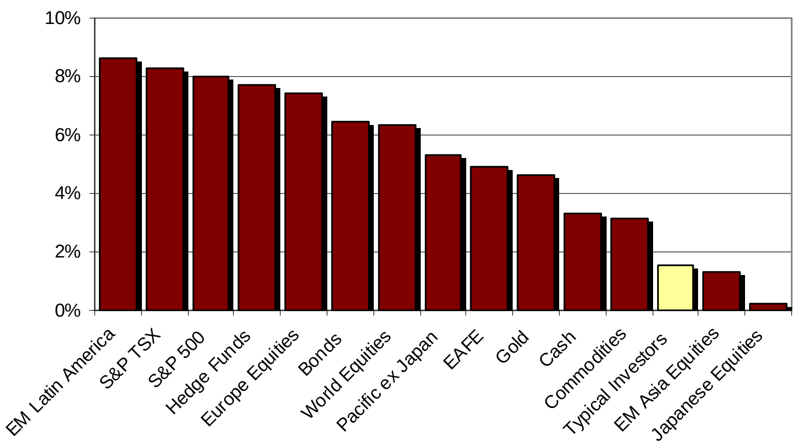
Typical Investors

"If investors can properly allocate their investments and then hold onto them through thick and thin, they are likely to achieve above average returns."

When havoc strikes, the typical investor tends to head for the hills and ends up suffering long term underperformance. In fact the typical investor earns much less than the mutual funds they had been invested in as they attempt to time the markets. Mutual fund firms often tout the results of buy and hold to investors. However investors are often impatient and frequently move in and out of the market, torpedoing their returns. Dalbar, a leading U.S. financial services research firm, has gathered extensive data that shows investors simply do not have the patience to stay invested for more than a few years.

Dalbar analyzed mutual fund investor behavior for the 20 year period ending December 31, 2013, encompassing: the crash of 1987, the drop at the turn of the millennium, the crash of 2008, as well as the recovery periods of 2009, 2010 and 2012. Their U.S. study incorporated the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. It captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and other costs. This data was then used to calculate the performance achieved by a hypothetical typical U.S. investor.

The chart below and the data to the left show the average annualized returns that U.S. mutual fund investors (adjusted to Canadian dollars) earned relative to various benchmarks. With the exceptions of Asian emerging markets (EM) and Japanese equities, the average investor had abysmal returns; they even managed to badly lag cash. This is due to persistently poor timing in reaction to increased volatility. The average investor tends to sell after experiencing paper losses and only return after markets recover.



This chart confirms that typical U.S. mutual fund investors, as represented by the light coloured bar, had poor returns compared to various benchmarks (all returns adjusted to Canadian dollars) which was attributed to their attempts to time markets.

Investors are often driven by greed and fear, not by sound investment practices. They typically choose top ranked funds and if those funds subsequently fail to deliver they are sold. Alternatively, many investors wait for markets to rise before investing. On the other hand, long term investors who hold onto their investments have generally been more successful than those who try to time the market.

20 Year Returns	
EM Latin America	8.6%
S&P TSX	8.3%
S&P 500	8.0%
Hedge Funds	7.7%
Europe Equities	7.4%
Bonds	6.5%
World Equities	6.3%
Pacific ex Japan	5.3%
EAFE	4.9%
Gold	4.6%
Cash	3.3%
Commodities	3.1%
Typical Investors	**1.5%**
EM Asia Equities	1.3%
Japanese Equities	0.2%

This table highlights the average annualized return that U.S. mutual fund investors earned (adjusted to Canadian dollars) relative to various benchmarks and confirms that they were only able to outperform Asian emerging markets (EM) and Japanese equities.

Regardless of whether the market is booming or dropping, investment results are often more dependent upon investor behavior than on market performance. At no point in time had average investors remained invested long enough to derive the full benefits of the markets. That average investor generally abandoned investments at inopportune times, often in response to bad news.

Investors normally have two goals, to make money and not lose it. Successful investors should implement and stay with portfolios based upon prudent investment decisions. Investors who rely on advisers are more likely to be successful in the long run than investors who do not because good advisers help investors get on the right path and stick with it. If investors can properly allocate their investments and then hold onto them through thick and thin, they are likely to achieve above average returns.

PROVISUS™
WEALTH MANAGEMENT

MARKET DATA
31 OCTOBER 2014

Index Total Returns (%) (C$)

	1 Month	1 Year	5 Years
S&P TSX	-2.1	12.6	9.1
S&P TSX High Dividend	-2.2	11.0	14.2
S&P TSX Small Cap	-8.3	0.9	5.6
S&P TSX Preferred Shares	0.5	6.1	5.4
S&P 500	3.7	27.5	18.7
Russell 2000 (US Small Cap)	7.8	16.1	18.1
MSCI EAFE	-0.2	8.7	9.2
MSCI World	2.0	18.9	14.1
MSCI Europe	-1.4	4.8	5.7
MSCI Asia	-0.9	8.6	5.5
MSCI Emerging Markets	2.4	7.2	4.3

Currencies: (%) (C$)	1 Month	1 Year	5 Years
US$	-1.3	-8.4	-1.0
EURO	0.3	-0.4	-2.3
GBP	-0.2	7.9	0.3
YEN	-1.1	-5.4	-3.3

Bond Total Returns (%) - DEX Indices

	1 Month	1 Year	5 Years	Yield
Universe	0.6	5.8	5.0	2.37
Short Bonds	0.3	2.6	2.9	1.60
Mid Bonds	0.6	6.0	5.8	2.48
Long Bonds	0.9	10.7	8.0	3.41
Federal Bonds	0.6	4.3	3.8	1.69
Provincial Bonds	0.6	7.8	6.0	2.79
Corporate Bonds	0.4	5.7	5.8	2.80
Real Return Bonds	0.5	7.4	6.1	0.60
91 Day T-Bills	0.1	0.9	0.8	0.89
Barclays Aggregate Bond (US$)	1.0	4.1	4.2	

Commodities: (%) (US$)	1 Month	1 Year	5 Years
Index	-6.0	-12.0	-1.0
Oil	-11.5	-15.3	0.2
Gold	-3.1	-6.4	2.3
Wheat	9.7	-21.6	5.1

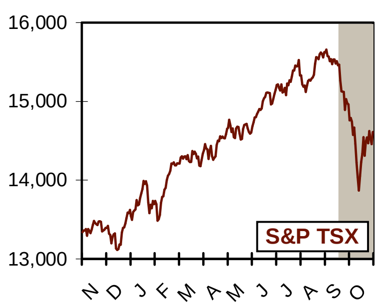
Sector Returns (%)

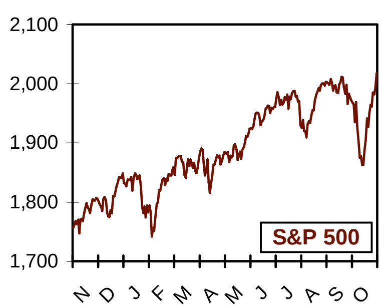
	S&P TSX (C$)				S&P 500 (US$)				MSCI EAFE (US$)			
	1 Month	1 Year	5 Years	Weight	1 Month	1 Year	5 Years	Weight	1 Month	1 Year	5 Years	Weight
Consumer Discretionary	4.3	18.7	15.9	5.3	2.1	7.5	20.7	11.8	-1.3	-7.1	8.1	11.4
Consumer Staples	4.5	26.0	18.6	2.9	3.4	10.5	12.6	9.4	-1.4	-3.3	7.5	11.7
Energy	-10.9	-3.7	-1.7	24.3	-3.0	1.9	8.7	9.8	-8.3	-9.2	-2.0	5.8
Financial Services	-0.1	12.0	8.7	36.7	2.5	16.0	11.2	16.0	-0.7	-4.3	0.7	25.4
Health Care	4.7	24.0	24.7	2.9	5.3	27.5	19.0	14.6	-4.1	9.8	9.7	11.3
Industrials	-0.2	25.7	18.0	8.5	3.6	12.8	16.5	10.9	-2.8	-5.1	5.2	13.2
Information Technology	4.2	33.3	10.0	1.9	1.7	23.6	14.9	19.1	-4.1	1.7	2.9	4.7
Materials	-11.6	-12.2	-7.2	11.1	-2.6	10.3	11.5	3.4	-3.6	-9.7	-0.5	7.6
Telecommunication	3.6	5.5	10.3	4.5	-0.2	0.3	9.3	2.2	0.0	-3.0	3.0	5.0
Utilities	1.6	5.1	4.9	1.8	7.9	17.4	9.9	2.9	-2.4	2.2	-3.9	4.0
Growth Index	-1.0	19.5	6.1		2.5	17.4	15.3		-0.9	-2.6	5.0	
Value Index	-2.0	6.8	6.7		1.4	12.2	13.2		-2.1	-3.8	1.9	

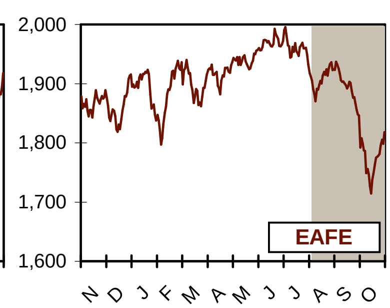
Index Charts

12 Months ending October 2014

Grey shaded areas indicate periods of stock index decline.







PROVISUS™ WEALTH MANAGEMENT

www.provisus.ca

258 Adelaide Street East
Suite 402
Toronto, ON M5A 1N1
(416) 933-1111