

MONTHLY INSIGHT

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Distribution of Performance Returns	
S&P/TSX	0.18%
Consumer Discretionary	0.13%
Consumer Staples	0.25%
Financials	0.16%
Industrials	0.18%
REIT	0.21%
Telecommunication Services	0.25%
Utilities	0.26%
Energy	0.31%
Health Care	0.50%
Information Technology	0.32%
Materials	0.51%

This table shows the standard deviation of the risk data for the TSX and each subsector. The last four sectors have an above average distribution of returns which means they are more likely to add or lose value relative to the market.

WHICH RISK LEADS TO RETURNS?

One of the fundamental investment principles is that higher risk will deliver higher returns and conversely lower risks produces lower returns. Clearly this tradeoff is not guaranteed but history has proven this adage to be true. Any investment involves some level of risk. The real skill is juggling the desire to be exposed to the lowest possible risk and achieve the highest possible return. Do not forget that if greater risk means higher potential returns, it can just as easily lead to greater losses as well.

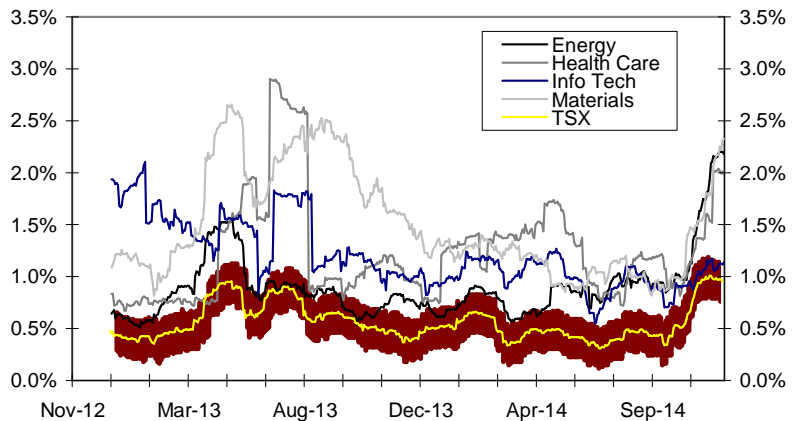
Investing comes down to balancing risk and return. Obviously some investments are more risky than others and it takes knowledge to avoid unnecessary risk. Determining when to accept risks while remaining comfortable with your investments requires knowing exactly what is in your portfolio and how it can affect your results. The most commonly used risk gauge is standard deviation. It measures the degree of dispersion around an average result. This one number indicates what happened over the measurement period and normally 67% of the time (one standard deviation) the item being measured falls within plus or minus the standard deviation around the average result. However, one number does not show what occurred along the way. By using rolling standard deviations investors can observe risk over various time frames.

Many investors consider an active sector rotation strategy just as important as selecting individual securities for generating excess return. By targeting specific sectors that appear to offer exceptional potential, investors are looking to achieve above average returns and outperform the index. By examining the daily rolling standard deviation of all the sectors in the S&P/TSX over the past two years investors can observe which sectors are the most risky and therefore

have the potential to generate the highest returns. Interestingly, as the above chart illustrates, there are really only four sectors (the others have been removed from the chart for clarity) in Canada that have statistically significant levels of risk that fall outside of the standard deviation of the S&P/TSX itself (as shown by the thick maroon band surrounding the S&P/TSX volatility): Energy, Health Care, Information Technology and Materials. All of the other sectors as shown in the table on the left have risk levels that are very similar to the market, which means they cannot usually add excess returns.

Just because these four sectors are the most risky does not necessarily mean that increasing higher exposure to them will always led to higher returns. Remember, standard deviation can be positive or negative, so investing in these sectors could lead to big gains or big pains. In fact, underweighting or overweighting these four sectors will likely determine if you achieve higher or lower relative returns versus the market, all else being equal. The bottom line is that the bets investors place on these four sectors will ultimately determine if their overall results deliver outperformance.

The risk level investors are prepared to accept varies from person to person. Although risk can never be completely removed, it can certainly be managed. Since an investor's risk tolerance is their willingness to absorb fluctuations in value of their assets, the question they must always ask themselves is how quickly they want their wealth to grow while being able to sleep comfortably at night.



This chart shows the rolling standard deviation (risk) of the S&P/TSX in yellow and the maroon band is one standard deviation from that line. The four sectors that fall outside of the band; Energy, Health Care, Information Technology and Materials are more likely to add or lose value.

MARKET DATA

30 NOVEMBER 2014

Index Total Returns (%) (C\$)

	1 Month	1 Year	5 Years
S&P TSX	1.1	13.3	8.2
S&P TSX High Dividend	-0.1	10.2	13.6
S&P TSX Small Cap	-0.1	0.6	4.4
S&P TSX Preferred Shares	0.7	5.5	5.1
S&P 500	3.5	26.5	18.6
Russell 2000 (US Small Cap)	0.8	11.3	18.1
MSCI EAFE	2.2	8.8	9.6
MSCI World	2.9	18.6	14.3
MSCI Europe	3.3	5.8	6.2
MSCI Asia	0.0	6.4	6.1
MSCI Emerging Markets	-0.3	7.2	3.8

Currencies: (%) (C\$)	US\$	EURO	GBP	YEN
	-0.8	-7.9	-1.5	-1.5
	0.5	-1.1	-2.2	-2.2
	-1.1	3.5	0.5	0.5
	-4.6	-7.4	-4.9	-4.9

Bond Total Returns (%) - DEX Indices

	1 Month	1 Year	5 Years	Yield
Universe	1.5	7.7	5.0	2.23
Short Bonds	0.5	2.8	2.8	1.49
Mid Bonds	1.5	7.7	5.8	2.28
Long Bonds	3.1	15.4	8.3	3.21
Federal Bonds	1.2	5.8	3.8	1.56
Provincial Bonds	2.3	10.8	6.2	2.60
Corporate Bonds	1.2	7.0	5.7	2.68
Real Return Bonds	1.7	12.1	6.3	0.50
91 Day T-Bills	0.1	0.9	0.9	0.90

Barclays Aggregate Bond (US\$)	0.7	5.3	4.1
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Commodities: (%) (US\$)	Index	Oil	Gold	Wheat
	-10.9	-21.0	-3.6	-3.6
	-17.9	-38.1	-3.0	-3.0
	0.3	-5.0	-0.1	-0.1
	2.5	-14.8	4.4	4.4

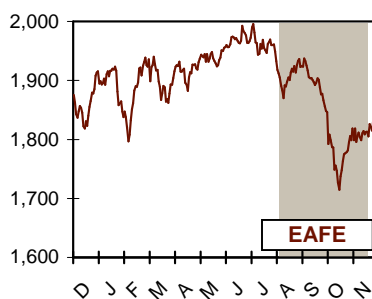
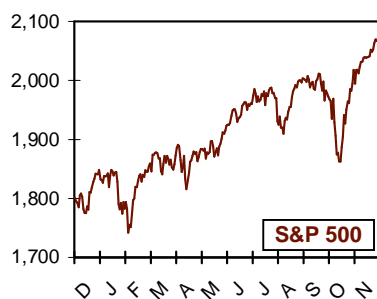
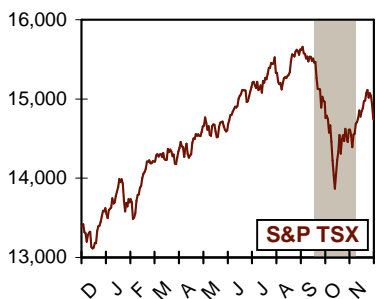
Sector Returns (%)

	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	6.4	26.7	16.6	5.4	4.1	8.4	20.1	11.7	7.1	-2.0	9.6	12.1
Consumer Staples	6.2	36.2	18.5	3.0	4.1	13.1	12.6	9.8	3.4	0.5	7.8	11.2
Energy	-11.7	-14.0	-4.2	23.7	-2.8	-1.6	7.5	9.0	-9.1	-15.9	-4.0	6.1
Financial Services	4.0	13.7	8.7	36.4	2.1	13.0	10.7	16.3	0.2	-4.2	0.8	26.1
Health Care	1.6	23.9	24.6	3.0	2.6	25.1	17.6	14.9	4.0	11.2	9.9	11.2
Industrials	-0.6	18.9	16.6	8.9	3.7	12.8	15.4	10.4	1.5	-4.9	5.1	12.4
Information Technology	5.6	35.9	11.4	1.9	4.6	25.3	14.8	19.2	5.8	2.9	4.6	4.8
Materials	3.7	-3.4	-8.9	11.2	3.7	13.0	9.9	3.4	0.7	-9.0	-2.0	7.0
Telecommunication	6.1	9.9	11.1	4.5	0.2	2.7	8.0	2.4	4.0	0.7	3.2	5.1
Utilities	4.6	13.2	4.8	1.8	-0.3	19.7	8.9	2.9	2.2	5.5	-4.2	4.0
Growth Index	2.5	22.6	5.5		2.9	17.3	14.7		2.0	-1.4	5.0	
Value Index	1.2	8.0	6.1		2.5	11.9	12.4		0.3	-3.9	1.6	

Index Charts

12 Months ending November 2014

Grey shaded areas indicate periods of stock index decline.



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