

MONTHLY INSIGHT

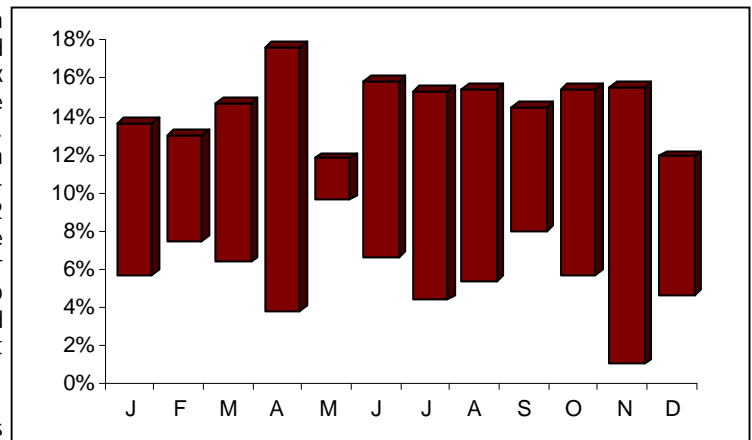
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CALENDAR EFFECTS

The history of the Canadian stock market is riddled with seasonal patterns or phenomenon such as the January effect, the September effect, the December effect, the "sell in May and go away" theory, the Santa Claus rally and even the elusive Halloween effect. Certainly these patterns have been known for some time and they continue to persist despite so-called efficient markets which should have swept them away. Each of these trends have rational explanations as to why they occur so investors might ask themselves; which are the best months to invest?

Investors are always looking for a performance edge and history confirms that some months have pronounced following upside or downside returns. The term "Calendar Effect" was coined for those periods which seem to be a good time to exit or enter the market. To confirm these effects, we looked at each individual month of the year as a starting point and separated out the following 12 month returns based upon whether each starting month had positive or negative performance.

Based upon 46 years of S&P/TSX index data from 1968 to 2014, this bar chart shows the magnitude of the subsequent market performance. For example, in those years when January had a positive return, the index returned about 14% over the 12 months to the next January. When January was down on the month, the index only returned about 6% for the full 12 month period. These average annual rolling returns offer interesting information as to how the market performed based upon the different monthly starting points.



This chart shows the range of annual returns following each month for positively performing months at the top and negatively performing months at the bottom. For example, of the 46 years that the TSX had a positive return in January, the index returned about 14% over the 12 months to the next January. When January was down on the month, the index only returned about 6% for the full 12 month period.

What is initially quite striking is that the 12 month rolling returns for each month had positive annual returns (including dividends), whether the starting month had positive starting performance (indicated by the top of each column in the individual month) or negative starting returns (indicated by the bottom of each column). The riskiest months were April and November as they had the widest range of subsequent average annual historical returns. On the other hand, May was the best month for investing from a risk adjusted point of view because the range of subsequent annual returns had the least variance, with returns between 11.6% and 9.4% for the one year period. This analysis also shows that when a 12 month period starts on a positive note, the average annual return was higher, at 14.4% versus 5.5% when the starting month's return was negative.

The data in the table to the left shows the number of positive or negative returns by month. Overall 59% of all months since 1968 generated positive results. December was by far the best month with positive results 83% of the time, while June and September were the only months with mostly negative results.

Whatever the explanation for seasonal patterns, investors should be aware of these market trends. Of course one must always keep in mind that past performance does not guarantee that these trends will continue but one thing is clear. Markets thrive on uncertainty and no individual month is assured of producing positive returns.

	Number of Months:	
	Positive	Negative
January	31	15
February	28	18
March	26	20
April	25	21
May	28	18
June	22	24
July	28	18
August	26	20
September	20	25
October	24	22
November	31	15
December	38	8

This table shows, for each month on the S&P/TSX since 1968, the number of positively and negatively performing months. For example December was the best month with positive results in 38 of the 46 years or 83% of the time.

MARKET DATA

31 DECEMBER 2014

Index Total Returns (%) (C\$)

	1 Month	1 Year	5 Years
S&P TSX	-0.4	10.6	7.5
S&P TSX High Dividend	-3.0	5.2	11.8
S&P TSX Small Cap	-0.3	-2.3	3.0
S&P TSX Preferred Shares	-0.3	6.8	4.6
S&P 500	1.5	24.8	18.7
Russell 2000 (US Small Cap)	4.5	13.8	17.5
MSCI EAFE	-1.6	5.1	9.1
MSCI World	0.2	15.9	14.1
MSCI Europe	-2.5	0.6	5.6
MSCI Asia	0.2	5.8	5.7
MSCI Emerging Markets	-3.0	5.2	2.6

Currencies:	US\$	EURO	GBP	YEN
(%) (C\$)	-1.8	-1.2	1.0	0.8
	-9.4	-3.7	2.9	-3.9
	-2.1	-1.4	1.3	-3.1

Bond Total Returns (%) - DEX Indices

	1 Month	1 Year	5 Years	Yield
Universe	0.6	8.8	5.4	2.23
Short Bonds	0.1	3.1	3.0	1.55
Mid Bonds	0.5	9.2	6.3	2.26
Long Bonds	1.2	17.5	9.0	3.15
Federal Bonds	0.5	6.9	4.2	1.56
Provincial Bonds	0.9	12.2	6.8	2.57
Corporate Bonds	0.3	7.6	6.0	2.71
Real Return Bonds	-0.8	13.2	5.9	0.57
91 Day T-Bills	0.1	0.9	0.9	0.92

Barclays Aggregate Bond (US\$)	0.1	6.0	4.4
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Commodities:	Index	Oil	Gold	Wheat
(%) (US\$)	-13.6	-19.5	0.7	0.7
	-33.1	-45.9	-1.5	-9.7
	-6.5	-7.6	1.6	5.0

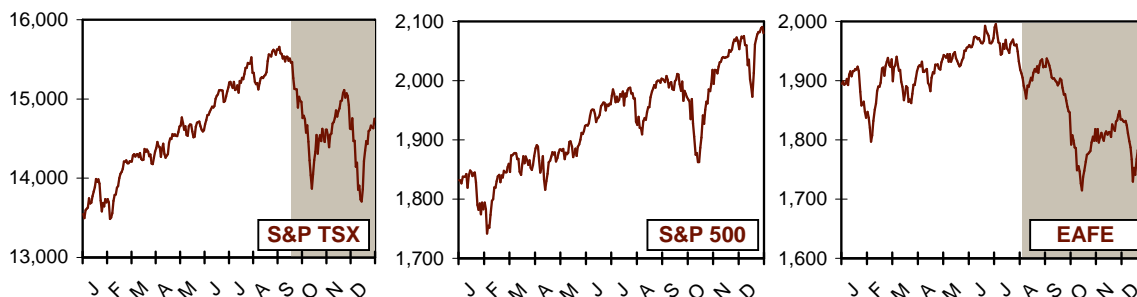
Sector Returns (%)

	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	2.2	26.4	15.9	5.6	1.9	8.0	19.5	12.1	-2.7	-6.5	8.3	12.1
Consumer Staples	7.6	46.1	19.5	2.9	-0.2	12.9	12.7	10.7	-3.7	-4.9	6.5	10.8
Energy	-4.0	-18.9	-5.8	25.9	-5.9	-10.0	6.4	7.7	-3.8	-21.9	-5.2	5.3
Financial Services	-3.5	8.6	7.5	35.4	3.2	14.9	11.8	16.1	-3.0	-8.4	0.4	26.2
Health Care	-0.6	18.2	23.8	3.1	-0.9	23.3	16.9	14.6	-5.3	3.6	8.3	11.7
Industrials	-0.4	17.3	14.9	8.7	-1.2	7.5	14.9	10.5	-2.3	-9.6	4.2	12.8
Information Technology	5.2	35.9	10.3	2.1	-1.4	18.2	13.3	19.7	-2.1	-2.3	3.3	5.0
Materials	0.7	-4.5	-8.1	10.4	-3.3	4.7	8.8	3.4	-2.5	-12.9	-3.4	7.1
Telecommunication	-2.2	8.4	10.0	4.5	-5.4	-1.9	5.9	2.4	-4.7	-7.4	2.5	5.2
Utilities	-2.1	11.3	2.8	1.5	4.3	24.3	8.7	2.8	-4.2	0.4	-5.1	3.8
Growth Index	3.1	24.2	5.8		0.1	14.4	14.3		-3.5	-6.3	3.9	
Value Index	-2.2	4.1	5.0		0.9	10.8	12.3		-3.5	-8.4	0.7	

Index Charts

12 Months ending December 2014

Grey shaded areas indicate periods of stock index decline.



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