Provisus Wealth Management

FEBRUARY 2015

MONTHLY INSIGHT

THE GIC DILEMMA

"...investors are likely to see lower GIC rates in 2015."

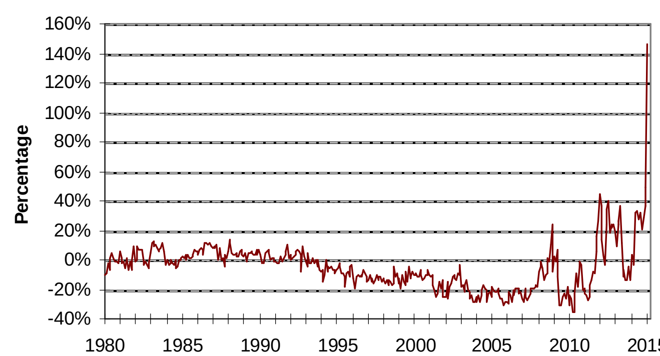
When the Bank of Canada cut interest rates by 0.25% it was trying to stimulate borrowing and the economy. With current rates at or near record lows, it is extremely difficult to earn safe and meaningful fixed income returns. Many investors are risk averse and afraid to invest in longer dated bonds because of the belief that an interest rate increase is just around the corner, so it becomes nearly impossible to earn a yield significantly above money market rates. So what can investors do to increase income and be prepared for an increase in interest rates, while ensuring their portfolio is able to invest at higher yields?

Of course there are always Guaranteed Investment Certificates (GICs) which still account for a large percentage of fixed income product sales in Canada. The Canadian GIC market is valued at approximately $600 billion and 67% of the market is held by the banks while credit unions are estimated to control 25% and trust companies 8%. Individuals hold 57% of outstanding GICs and businesses 43%. Many investors feel that GICs offer some advantages over bonds: a predictable and guaranteed income stream; their value will never decline; and with no fees every penny earned is theirs to keep. The trade-off for these benefits is that the return is not high and is limited to the promised rate.

5 Year Bank GICs	
Current Yield	1.5%
35 Year Average	6.5%
Standard Deviation	4.0%
35 Year Minimum	1.5%
35 Year Maximum	17.5%
5 Year Canada Bonds	
Current Yield	0.6%
35 Year Average	6.7%
Standard Deviation	3.8%
35 Year Minimum	0.6%
35 Year Maximum	18.8%
5 Year GIC Yields Relative to 5 Year Canada Bond Yields	
Average	-5%
Standard Deviation	16%
Minimum	-36%
Maximum	147%

This table compares 5 year chartered bank GICs and 5 year Government of Canada bonds as to current yield and, since 1980, the average yield, yield standard deviation, as well as the lowest and highest yields over the period.

Bonds on the other hand have very different characteristics and risks which offer advantages if managed appropriately. Interest rate changes will affect the value of bonds. As rates fall the value of bonds increase and as rates rise their value falls, however if held to maturity bonds will repay their full principal amount. Another difference is liquidity. Some GICs can be redeemed prior to maturity but generally with a penalty. Bonds can be bought or sold at any time with the price determined by the bond's characteristics and current market conditions.



This chart shows the ratio of 5 year GIC rates relative to 5 year Government of Canada bond rates since 1980. That ratio stayed within a tight band until recently and has now soared to unprecedented levels. For the ratio to revert back to normal, average 5 year GIC rates would have to decline by 0.9% to match the current 5 year bond yield.

For most of the past 35 years the interest rates on 5 year bank GICs and 5 year Government of Canada bonds have stayed in a relatively tight band. However over the last few years that ratio has shifted. As the accompanying chart and data to the left show, the ratio of 5 year GIC rates relative to 5 year Government of Canada bond rates has soared to unprecedented levels. For the ratio to revert back to normal either GIC rates must decline by 0.9% to match the current 5 year bond yield or bond yields must spike, delivering a massive blow to bonds. Given the current economic climate and the Bank of Canada's efforts to stimulate the economy, interest rates are not likely to be going up anytime some. Therefore investors are likely to see lower GIC rates in 2015.

This will be strong medicine for those investors who depend upon GICs and face sacrificing income or taking on risk. In short, investors who need high portfolio income must consider diversifying into riskier alternatives such as mortgages, high yield corporate bonds, REITs or dividend from stocks. This re-evaluation is already occurring as bonds appreciated by 4.6% in January and REITs gained 8.9%.

Interest rates are low today and nobody knows where they will be tomorrow. Investors will have to evaluate their goals in light of this new reality and understand the effects of exposure to riskier assets which have higher expected returns. Regardless of their income needs, these investors will need robust portfolios that continue to meet their current and future income objectives within well defined risk parameters.

PROVISUS™ WEALTH MANAGEMENT

MARKET DATA

31 JANUARY 2015

Index Total Returns (%) (C$)

	1 Month	1 Year	5 Years
S&P TSX	0.5	10.3	8.8
S&P TSX High Dividend	1.4	7.8	12.2
S&P TSX Small Cap	0.5	-3.5	3.7
S&P TSX Preferred Shares	-4.6	1.0	3.7
S&P 500	6.9	30.9	20.8
Russell 2000 (US Small Cap)	6.6	18.3	19.6
MSCI EAFE	10.4	14.4	12.0
MSCI World	8.1	23.2	16.5
MSCI Europe	9.8	8.9	8.6
MSCI Asia	11.8	16.5	7.7
MSCI Emerging Markets	10.4	17.6	5.5

Currencies: (%) (C$)		1 Month	1 Year	5 Years
	US$	-9.9	-14.1	-3.7
	EURO	2.7	-4.4	-0.5
	GBP	6.2	4.1	2.4
	YEN	10.5	-0.9	-1.6

Bond Total Returns (%) - DEX Indices

	1 Month	1 Year	5 Years	Yield
Universe	4.6	10.9	6.0	1.64
Short Bonds	2.0	4.1	3.2	0.91
Mid Bonds	4.7	11.0	6.7	1.56
Long Bonds	8.2	21.0	10.2	2.61
Federal Bonds	4.0	8.8	4.7	0.95
Provincial Bonds	6.3	15.3	7.6	1.96
Corporate Bonds	3.6	8.8	6.3	2.16
Real Return Bonds	9.0	17.5	7.5	0.00
91 Day T-Bills	0.0	0.9	0.9	0.59
Barclays Aggregate Bond (US$)	2.1	6.6	4.6	

Commodities: (%) (US$)		1 Month	1 Year	5 Years
	Index	-7.5	-37.0	-6.5
	Oil	-9.4	-50.5	-8.1
	Gold	8.1	3.1	3.4
	Wheat	-12.0	-16.0	2.8

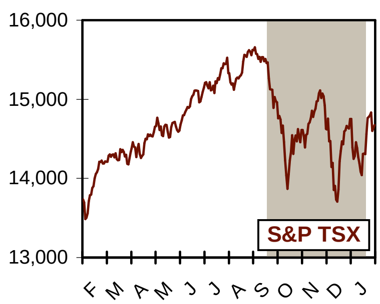
Sector Returns (%)

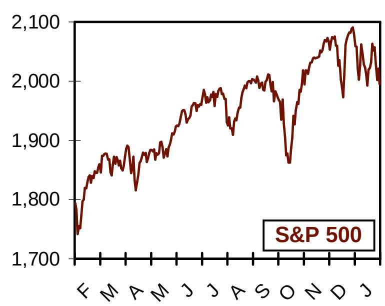
	S&P TSX (C$)				S&P 500 (US$)				MSCI EAFE (US$)			
	1 Month	1 Year	5 Years	Weight	1 Month	1 Year	5 Years	Weight	1 Month	1 Year	5 Years	Weight
Consumer Discretionary	0.0	26.9	16.0	5.9	-2.1	12.5	19.7	12.6	2.1	0.4	9.3	12.9
Consumer Staples	3.0	48.1	20.9	3.7	0.6	19.9	13.2	11.1	4.3	5.1	7.8	10.7
Energy	-2.3	-20.1	-5.0	21.7	-5.6	-9.3	6.2	7.8	-3.0	-19.0	-4.6	5.8
Financial Services	-8.3	4.0	6.8	34.8	-6.9	11.1	10.5	15.5	-2.6	-5.9	1.3	25.6
Health Care	10.7	17.6	27.3	3.6	2.7	25.6	17.5	14.6	3.1	7.2	9.6	10.9
Industrials	-2.6	15.2	15.4	7.7	-2.1	10.3	14.7	10.4	0.6	-5.2	4.7	13.2
Information Technology	4.6	31.5	11.7	3.1	-2.5	18.3	14.7	19.1	-1.4	1.0	2.5	4.9
Materials	15.4	1.1	-3.8	12.0	-1.5	8.1	10.5	3.6	-0.3	-9.4	-1.7	7.5
Telecommunication	2.1	9.8	11.0	5.0	-1.7	0.6	7.6	2.4	2.3	1.0	4.3	5.0
Utilities	6.3	14.2	4.8	2.6	4.7	26.5	10.9	3.0	-0.8	2.7	-4.3	3.6
Growth Index	6.7	28.4	8.7		-1.6	16.0	15.1		1.2	-0.7	5.1	
Value Index	-3.1	1.8	5.3		-4.4	10.5	11.8		-0.4	-5.3	1.6	

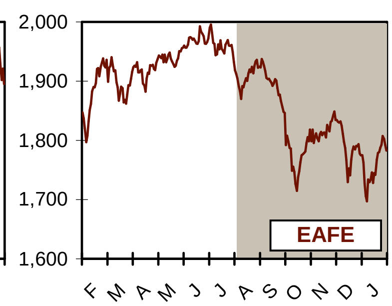
Index Charts

12 Months ending January 2015

Grey shaded areas indicate periods of stock index decline.







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