

MONTHLY INSIGHT

"...the U.S. just experienced its fourth inversion in January which suggests that 2015 could be a great year for stocks."

| Equity Market Returns One Year After Yield Inversion and Yield Levels | |
|---|-------|
| U.S. Market | |
| June 1962 | 33.4% |
| November 2008 | 35.7% |
| August 2011 | 25.4% |
| 10 Yr Treasury Bond Yield | 1.93% |
| S&P 500 Dividend Yield | 1.95% |
| Canadian Market | |
| November 2008 | 23.5% |
| September 2011 | 6.0% |
| 10 Yr Canada Bond Yield | 1.33% |
| S&P / TSX Dividend Yield | 3.26% |
| Average Return | 24.8% |

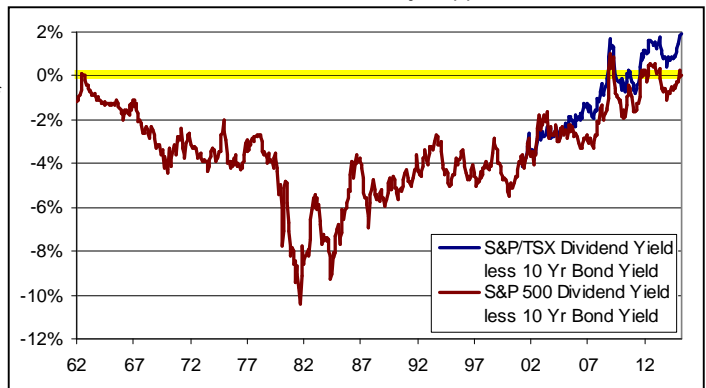
The table shows the Canadian and U.S. equity markets returns in local currency terms one year after a dividend and bond yield inversion occurred. The shaded area shows the current 10 year Government bond and equity market yields.

STRIKING BUY SIGNAL

Whenever stock dividend yields have risen above long term government bond yields very good things have happened to stock prices. Usually most Canadian and U.S. stocks have dividend yields that are well below bond yields. However, with today's low interest rates, the relatively high dividend yield on many large cap companies represents a rare buying opportunity. When this phenomenon had occurred in the past, equity markets delivered excellent results over the following year. Of course past performance does not ensure future performance, but the prior results are enticing.

This is a rare opportunity in Canada. In the 47 years between 1960 and 2007 dividend yields were never more than 70% of 10 year Government of Canada bond rates. Since 1955 dividend yields have been, on average, less than half that of the 10 year bond rates. In the U.S. it took the Great Recession of 2008 to snap the 46 year streak of having 10 year U.S. Treasury yields above the S&P 500 dividend yield.

This chart illustrates how rare it is in the U.S. to see the S&P 500's dividend yield above the benchmark 10 year Treasury bond yield. In Canada the S&P/TSX Index dividend yield has been above the 10 year Canada bond yield since September 2011. This is remarkable as it has only happened once before in the past 60 years; that was in 2008 at the height of the financial crisis. In fact, current dividend yields are now at their second highest level of the past twenty years. The data to the left shows how the Canadian and U.S. stock markets did one year after each such dividend and bond yield inversion occurred. Interestingly, the U.S. just experienced its fourth inversion in January which suggests that 2015 could be a great year for stocks.



This chart shows the difference in U.S. yields going back to 1962. It is calculated by subtracting the yield on the benchmark 10 year U.S. Treasury bond from the S&P 500's dividend yield. The blue line shows the Canadian yield difference and confirms a similar trend as S&P/TSX Index dividend yields have been greater than the 10 year Canada bond yields since September 2011. In the U.S. it took the Great Recession of 2008 to snap the 46 year streak of having 10 year bond yields above the stock yield.

Dividends have rarely been more attractive relative to interest rates. Bond yields have been dropping due to factors such as the sharp decline in crude oil prices, a stronger upswing in the U.S. dollar, and growth concerns in Europe and China. The current low interest rate environment means that dividend yields are attractive, while strong corporate cash levels offer companies room to increase dividends even more. Corporate balance sheets remain plump while dividend payout ratios are near historic lows, suggesting further dividend gains are likely.

On the other hand, interest rates are being propelled lower by a host of economic reasons and increasingly by a shift in demographics to an aging population of savers which supports a borrower's market. Increased demand for interest generating instruments is pushing interest rates even lower. As people get older, safety of capital becomes even more important but this quest for protection can be detrimental to their standard of living. Just because investors' money is safe does not mean it is going to support a comfortable lifestyle as safe capital will be eroded by inflation and withdrawals.

Of course bond and dividend yields cannot be compared on an apples-to-apples basis as government bonds are considered to be risk free, while dividend payouts can diminish if the underlying company's financial prospects deteriorate. This can be meaningfully offset by the sizeable tax advantage dividends enjoy over interest income. All in all, dividend paying stocks are very attractive and will likely remain so for the foreseeable future.

MARKET DATA

31 MARCH 2015

Index Total Returns (%) (C\$)

| | 1 Month | 1 Year | 5 Years |
|-----------------------------|---------|--------|---------|
| S&P TSX | -1.9 | 6.9 | 7.4 |
| S&P TSX High Dividend | -2.8 | 0.2 | 10.4 |
| S&P TSX Small Cap | -3.8 | -9.8 | 1.9 |
| S&P TSX Preferred Shares | -0.5 | -1.0 | 3.7 |
| S&P 500 | -0.2 | 30.0 | 20.6 |
| Russell 2000 (US Small Cap) | 3.0 | 23.4 | 19.4 |
| MSCI EAFE | 0.0 | 14.6 | 12.6 |
| MSCI World | -0.1 | 22.9 | 16.7 |
| MSCI Europe | -1.6 | 6.8 | 9.2 |
| MSCI Asia | 1.6 | 22.0 | 7.9 |
| MSCI Emerging Markets | -0.2 | 12.9 | 4.9 |

| Currencies: | US\$ | 1 Month | 1 Year | 5 Years |
|-------------|------|---------|--------|---------|
| (%) (C\$) | EURO | -1.4 | -14.7 | -4.5 |
| | GBP | -2.6 | -10.6 | -0.2 |
| | YEN | -2.3 | 2.2 | 4.1 |
| | | 1.0 | -1.5 | -0.5 |

Bond Total Returns (%) - DEX Indices

| | 1 Month | 1 Year | 5 Years | Yield |
|-------------------|---------|--------|---------|-------|
| Universe | -0.3 | 10.3 | 6.0 | 1.74 |
| Short Bonds | 0.0 | 3.9 | 3.3 | 1.01 |
| Mid Bonds | -0.3 | 10.3 | 6.8 | 1.70 |
| Long Bonds | -0.7 | 19.7 | 10.0 | 2.71 |
| Federal Bonds | -0.3 | 8.2 | 4.7 | 1.06 |
| Provincial Bonds | -0.4 | 14.6 | 7.7 | 2.07 |
| Corporate Bonds | -0.1 | 8.2 | 6.3 | 2.24 |
| Real Return Bonds | -2.3 | 14.5 | 7.2 | -0.02 |
| 91 Day T-Bills | 0.0 | 0.8 | 0.9 | 0.54 |

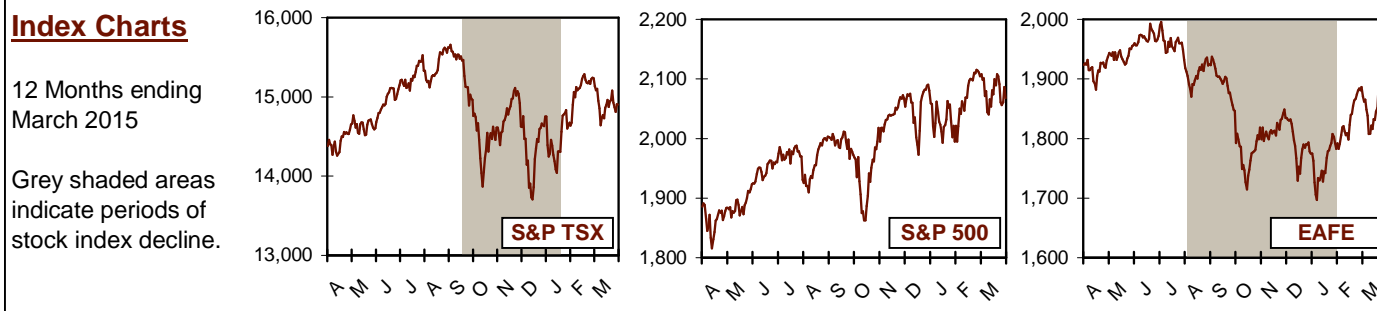
| | | | |
|--------------------------------|-----|-----|-----|
| Barclays Aggregate Bond (US\$) | 0.5 | 5.7 | 4.4 |
|--------------------------------|-----|-----|-----|

| Commodities: | Index | 1 Month | 1 Year | 5 Years |
|--------------|-------|---------|--------|---------|
| (%) (US\$) | Oil | -6.8 | -40.3 | -8.0 |
| | Gold | -4.5 | -53.2 | -10.5 |
| | Wheat | -2.4 | -7.8 | 1.2 |
| | | 5.1 | -25.5 | 4.8 |

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 | -1.1 | 28.7 | 16.0 | 6.4 | -0.2 | 17.0 | 18.3 | 12.3 | -1.4 | 2.3 | 9.3 | 12.4 |
| Consumer Staples | -0.9 | 40.7 | 20.2 | 3.6 | -1.6 | 14.4 | 11.9 | 9.8 | -2.8 | -0.2 | 7.1 | 11.3 |
| Energy | -1.9 | -26.7 | -5.5 | 21.6 | -1.1 | -12.5 | 5.8 | 8.1 | -6.6 | -26.7 | -5.4 | 5.5 |
| Financial Services | -1.6 | 4.0 | 5.4 | 34.6 | -0.1 | 8.7 | 8.8 | 15.9 | 0.1 | -3.9 | 1.7 | 25.4 |
| Health Care | 7.2 | 43.1 | 28.4 | 4.3 | 2.2 | 26.0 | 18.0 | 15.0 | 1.7 | 8.5 | 10.8 | 11.4 |
| Industrials | -1.0 | 15.0 | 13.6 | 8.4 | -1.7 | 7.5 | 12.1 | 10.3 | -1.1 | -5.0 | 4.3 | 12.6 |
| Information Technology | -3.5 | 36.9 | 10.6 | 2.7 | -2.5 | 17.3 | 13.2 | 20.1 | 1.1 | 3.8 | 2.3 | 4.9 |
| Materials | -10.3 | -10.1 | -7.6 | 11.7 | -4.1 | 3.7 | 8.6 | 3.0 | -5.7 | -11.6 | -3.3 | 7.9 |
| Telecommunication | -3.8 | 1.7 | 8.4 | 4.7 | -2.9 | 0.0 | 7.4 | 2.2 | -4.4 | -3.1 | 3.9 | 5.1 |
| Utilities | -1.6 | 6.1 | 2.9 | 2.0 | -1.3 | 7.2 | 8.4 | 3.3 | -4.0 | -10.7 | -5.3 | 3.5 |
| Growth Index | -0.4 | 27.9 | 8.3 | | -0.8 | 15.3 | 14.0 | | -1.5 | -1.0 | 4.7 | |
| Value Index | -3.5 | -1.8 | 3.1 | | -0.9 | 7.3 | 10.5 | | -2.4 | -6.0 | 1.5 | |

Index Charts



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