

MONTHLY INSIGHT

“...something occurred on June 11, 2014 that triggered significant harm to the Canadian stock market... On that date, members of OPEC announced that they would not cut their oil production in the face of surging supply.”

Out-performed prior to June 11th	S&P TSX Performance	Under-performed prior to June 11th
6 months prior to June 11, 2014	21.7%	6.7%
3 months prior to June 11, 2014	12.0%	-9.4%
3 months after June 11, 2014	1.3%	4.7%
6 months after June 11, 2014	-10.8%	-3.1%

This table shows two groups of S&P TSX stocks based upon their performance prior to June 11, 2014, as well as the index itself in the middle. In the 3 months prior, the outperformers bettered underperformers by 21.4% (the difference between 12.0% and -9.4%). In the six months after period, they lost a relative 7.7% (the difference between -10.8% and -3.1%).

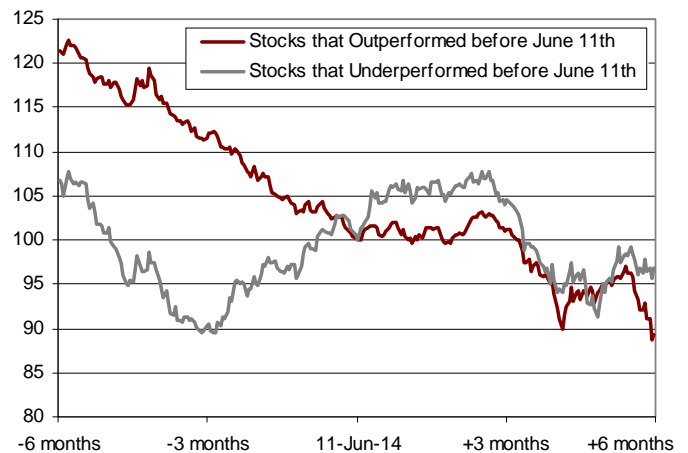
TURNING POINTS

Usually it is not the most intelligent investors that prevail but the ones that are the most responsive to change. All investors would like to know the future but they never can. Even with good forecasts it is probable that an unlikely event will occur and render the predictions obsolete. In hindsight most events are surprisingly logical, predictable and bound to happen. However there are rare events that are difficult to predict and can have a damaging impact on financial markets. These events represent major inflection or turning points that can lead to significant periods of dislocation and upheaval.

Black swans are freaks of nature that were once thought not to exist. Like their namesake, some events are so unpredictable that they come out of nowhere to alter the world: the assassination of Arch Duke Ferdinand which started World War I; the rise to power of Adolf Hitler; the bombing of Pearl Harbor; the collapse of the Soviet Union; the stock market crash of 1987; or September 11, 2001. While nothing in an investor's collective experience could have predicted any of these events, the results were unimaginable and rendered market timing as nothing more than a wild goose chase.

While not on the same order of magnitude as any of the aforementioned events, something occurred on June 11, 2014 that triggered significant harm to the Canadian stock market and will have long lasting repercussions. On that date, members of OPEC announced that they would not cut their oil production in the face of surging supply. The ensuing 50% drop in oil prices created havoc for Canada, a country dependent upon oil for 10% of its GDP and about a quarter of its exports; as well as the Energy sector being a major destination for capital investment.

In the chart to the right and the data to the left, stocks in the S&P TSX Stock Index are divided into two groups based upon the stock's performance prior to June 11, 2014. In one group are those stocks with positive performance (excluding the impact of dividends) for the three prior months. They had significant momentum and generated excellent returns. However after June 11th things turned dramatically. The previous underperforming stocks in the second group became the outperformers and the previous winning stocks in the first group started to underperform and then dramatically underperformed.



This chart clearly shows the crossing point of June 11, 2014 after which those S&P TSX stocks that had been underperforming, were now showing relative outperformance.

This sharp divergence was not attributed simply to oil stocks but permeated across all stock sectors because the energy sector plays a much larger role in the stock market than in the economy. Energy stocks account for about 9% of profits, while financial stocks (which have become increasingly tied to the expanding resource sectors) account for about 25% of profits in Canada. This duopoly sits at the apex of Canada's profit pyramid, accounting for 57% of total net income of the 1,000 listed companies (as some of the 1,000 companies reported losses) and dominates the S&P TSX. This is something the vast majority of analysts and talking heads seem to miss but is obvious in retrospect.

Investors have to be realistic about what they know. Predicting markets might be possible, but in reality it is as much a matter of luck as intuition or skill. The one predictable factor is that black swan type events will occur, so investors need to understand these types of uncertainties.

MARKET DATA

30 JUNE 2015

Index Total Returns (%) (C\$)

	1 Month	1 Year	5 Years
S&P TSX	-2.8	-1.2	8.3
S&P TSX High Dividend	-2.6	-8.7	10.4
S&P TSX Small Cap	-3.5	-16.4	3.2
S&P TSX Preferred Shares	-3.1	-7.4	2.6
S&P 500	-1.9	26.4	22.0
Russell 2000 (US Small Cap)	0.6	23.7	20.3
MSCI EAFE	-2.8	13.3	14.7
MSCI World	-2.3	20.1	18.4
MSCI Europe	-2.1	7.4	11.8
MSCI Asia	-2.4	19.7	9.2
MSCI Emerging Markets	-3.2	9.2	5.6

Currencies:	US\$	EURO	GBP	YEN
(%) (C\$)	0.0	1.7	3.1	1.4
	-17.2	-4.7	7.8	-3.1
	-3.3	1.3	4.3	-3.3

Bond Total Returns (%) - DEX Indices

	1 Month	1 Year	5 Years	Yield
Universe	-0.6	6.3	5.1	1.96
Short Bonds	0.3	3.4	3.0	1.09
Mid Bonds	-0.2	6.7	5.9	2.04
Long Bonds	-1.9	10.1	7.9	3.13
Federal Bonds	-0.2	5.3	3.8	1.22
Provincial Bonds	-1.0	8.5	6.4	2.33
Corporate Bonds	-0.5	5.0	5.5	2.46
Real Return Bonds	-0.8	5.6	5.7	0.33
91 Day T-Bills	0.0	0.8	0.9	0.58

Barclays Aggregate Bond (US\$)	-1.1	1.9	3.3
--------------------------------	------	-----	-----

Commodities:	Index	Oil	Gold	Wheat
(%) (US\$)	-0.1	-1.4	-1.6	9.9
	-36.8	-43.6	-11.4	-25.6
	-4.3	-4.4	-1.2	7.0

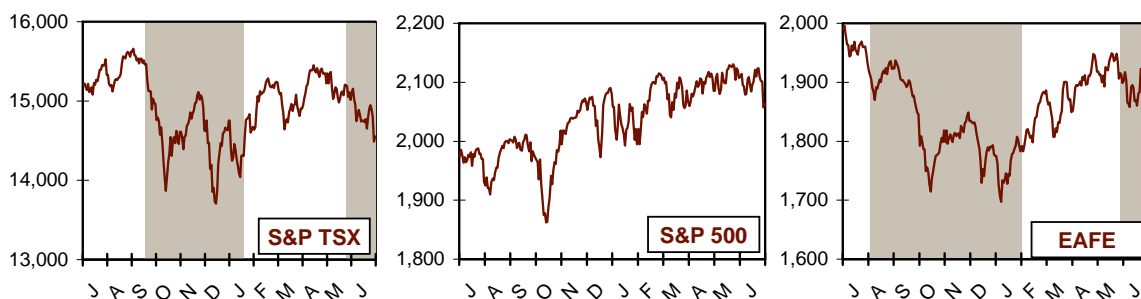
Sector Returns (%)

	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	-0.2	25.2	16.0	6.3	0.5	14.7	21.5	12.3	-3.1	0.2	11.7	13.2
Consumer Staples	0.6	36.3	22.4	2.4	-2.2	6.5	13.2	9.2	-2.8	-6.2	8.8	11.0
Energy	-6.6	-38.4	-5.4	21.6	-3.6	-24.3	8.1	7.9	-4.6	-32.9	-0.1	5.6
Financial Services	-1.6	-1.1	7.9	36.1	-0.5	7.3	12.1	15.8	-2.1	-4.3	5.8	25.7
Health Care	0.5	50.7	27.8	6.0	-0.4	22.2	21.4	15.9	-2.6	0.6	12.7	11.7
Industrials	-3.7	-2.1	13.7	8.3	-2.7	0.2	14.4	10.5	-3.4	-6.4	6.8	12.6
Information Technology	-6.1	21.8	12.2	2.3	-4.4	9.4	16.0	20.1	-4.4	3.2	5.5	4.9
Materials	-5.3	-17.5	-8.3	10.5	-4.2	-3.2	12.0	2.6	-4.5	-14.4	0.5	7.5
Telecommunication	0.7	7.8	9.4	4.5	-2.3	-3.0	8.5	2.5	-0.2	-1.6	7.4	4.5
Utilities	-6.2	-3.3	2.5	2.0	-6.3	-6.4	8.0	3.2	-5.3	-14.8	-2.2	3.3
Growth Index	-2.6	15.8	8.2		-2.1	8.3	16.6		-2.7	-3.2	7.7	
Value Index	-2.7	-8.5	4.7		-2.1	2.0	13.2		-3.3	-9.9	5.1	

Index Charts

12 Months ending June 2015

Grey shaded areas indicate periods of stock index decline.



This report may contain forward looking statements. Forward looking statements are not guarantees of future performance as actual events and results could differ materially from those expressed or implied. The information in this publication does not constitute investment advice by Provisus Wealth Management Limited and is provided for informational purposes only and therefore is not an offer to buy or sell securities. Past performance may not be indicative of future results.

While every effort has been made to ensure the correctness of the numbers and data presented, Provisus Wealth Management does not warrant the accuracy of the data in this publication. This publication is for informational purposes only.



www.provisus.ca

Follow Us On



258 Adelaide St. E., Suite 402
Toronto ON M5A 1N1

Phone: 416-933-1111
Toll Free: 1-877-PROVISUS (877-768-4787)
Fax: 416-933-2222
E-mail: salesandservice@provisus.ca