

# MONTHLY INSIGHT

## BOTTOM FISHING

*“...from a very simple perspective, the bottom of the S&P/TSX index’s current slump could occur anytime from November 2015 to November 2016, with the most likely bottom occurring in May 2016 based upon the April 2015 peak.”*

History has a way of repeating itself and it might be about to deliver a welcome relief from the Canadian stock market turmoil in the form of a turning point in what has been a one-sided slide since mid-April of 2015. Investors who are fearful should keep in mind what legendary long term investor Warren Buffet has long maintained; investors should, “be greedy when others are fearful and be fearful when others are greedy.”

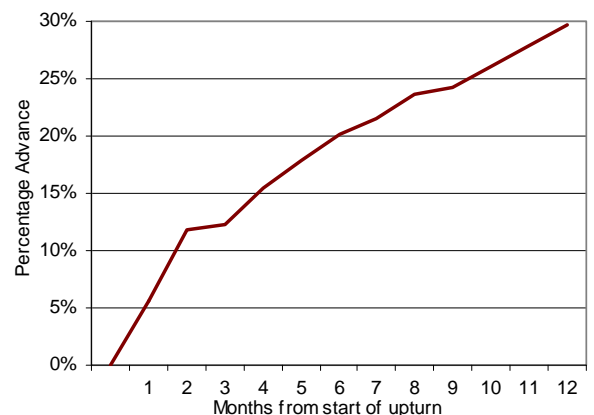
Investors’ most discussed concern is whether or not we are past the worst or can we expect further downturns? It is impossible to predict the stock market bottom from the current malaise. Eventually confidence in the market will be restored and investors will step forward to take advantage of the lows but markets will continue to be volatile. The cause of the recovery cannot be predicted and may not be particularly evident until after the fact – but it will occur.

Bear markets normally occur in three stages. The first is during a positive run when a few prudent investors recognize that despite the overwhelming bullishness, things will not always be rosy. The second is when most investors recognize the economy is deteriorating, and the third occurs when the consensus is that things can only get worse. On the other side, a bull market also goes through three stages. Initially only a few forward looking investors begin to believe things will get better. In the second phase the majority of investors come to realize that improvement is underway and the final stage is when most everyone is sure markets will get better. Bull markets begin when investors become increasingly forward looking.

Recent Bear Markets		
	Number of Months	% Decline
Apr 69–May 70	14	-28%
Sep 73–Nov 74	15	-36%
Oct 8–May 82	20	-43%
Nov 83–Jun 84	8	-16%
Jun 87–Apr 88	11	-19%
Jul 89–Sep 90	15	-23%
Dec 93–Dec 94	13	-12%
Mar 98–Jul 98	5	-28%
Jul 00–Aug 02	26	-45%
May 08–Feb 09	9	-43%
<b>Average</b>	<b>14</b>	<b>-29%</b>

*This table shows the time frame, duration and level of decline for the 10 largest Canadian stock market corrections since 1968.*

Determining the inflection point is every investor’s secret desire. History does provide a range of dates of when rebounds have occurred in the past and the table to the left shows the time frame, duration and level of decline for the previous 10 largest Canadian stock market corrections since 1968. The average length of these bear markets is 14 months, with a standard deviation of 6 months. So from a very simple perspective, the bottom of the S&P/TSX index’s current slump could occur anytime from November 2015 to November 2016, with the most likely bottom occurring in May 2016 based upon the April 2015 peak.



*This chart shows that, on average, the S&P/TSX index returned 29.6% in the 12 months following the index bottom for the 10 rallies since 1968. The recoveries have been as little as 12.9% and as high as 79.0%.*

Whatever the actual date of the current selloff’s bottom, it will occur and when it does a rally will ensue. Just as there have been 10 bear markets, they have been followed by 10 bull markets. By using month end data for these 10 rallies in the S&P/TSX index from 1968, the above chart shows that on average the S&P/TSX index returned 29.6% in the 12 months following the market bottom. The recoveries have been as little as 12.9% and as high as 79.0%.

Even though there is uncertainty about what lies ahead for the economy and the stock market it is hard not to feel that the worst is close to being over. However caution must be taken and not swept away on a tide of optimism. History has also shown that rallies emerging from the depths of bear markets are often followed by a period of uncertainty. Stock markets tend to temporarily decline after the initial rebound, as the market digests what it gained. Investors should use the time before any meaningful rally to think about the kind of returns they want and the kind of risk they can tolerate.

# MARKET DATA

## 31 JANUARY 2016

### Index Total Returns (%) (C\$)

	1 Month	1 Year	5 Years
S&P TSX	-1.2	-9.9	1.9
S&P TSX High Dividend	1.4	-14.5	3.1
S&P TSX Small Cap	-4.1	-17.3	-6.4
S&P TSX Preferred Shares	-10.4	-20.1	-2.6
S&P 500	-4.0	9.4	19.3
Russell 2000 (US Small Cap)	-7.9	-2.1	14.1
MSCI EAFE	-6.2	1.6	10.1
MSCI World	-5.0	5.3	14.6
MSCI Europe	-5.6	-2.1	6.7
MSCI Asia	-6.8	-2.2	3.6
MSCI Emerging Markets	-5.5	-14.1	-0.3

Currencies:	US\$	1 Month	1 Year	5 Years
(%) (C\$)	EURO	0.8	5.2	2.1
	GBP	-2.4	4.1	4.6
	YEN	-0.1	5.8	-1.1

### Bond Total Returns (%) - DEX Indices

	1 Month	1 Year	5 Years	Yield
Universe	0.4	-0.7	5.0	1.96
Short Bonds	0.2	0.9	2.8	1.16
Mid Bonds	0.6	0.7	5.9	1.93
Long Bonds	0.5	-3.6	7.8	3.11
Federal Bonds	0.9	0.6	4.1	1.04
Provincial Bonds	0.1	-1.9	6.1	2.32
Corporate Bonds	0.0	-0.8	5.1	2.74
Real Return Bonds	-0.3	-6.0	4.9	0.47
91 Day T-Bills	0.0	0.5	0.8	0.46

Barclays Aggregate Bond (US\$)	1.4	-0.2	3.5
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Commodities:	Index	1 Month	1 Year	5 Years
(%) (US\$)	Oil	-9.3	-30.3	-18.3
	Gold	5.3	-12.7	-3.5
	Wheat	0.7	-16.4	-9.9

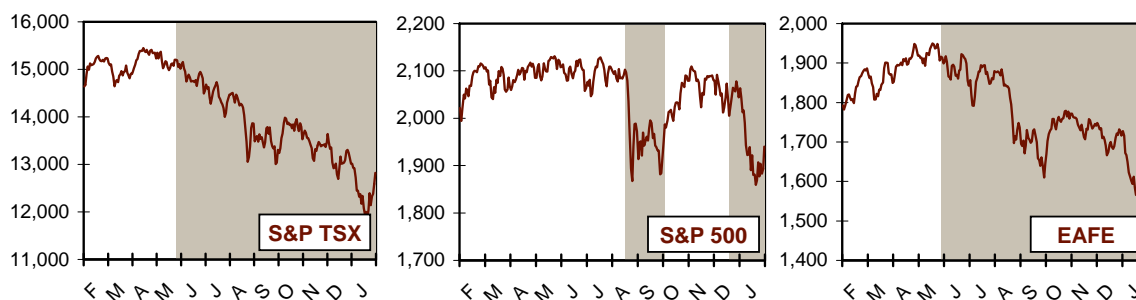
### Sector Returns (%)

	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	-6.5	-9.7	8.7	6.3	-5.2	5.0	14.9	12.3	-7.5	-9.6	2.8	13.2
Consumer Staples	2.1	9.0	20.4	2.4	0.4	3.6	11.8	9.2	-0.8	1.0	6.2	11.0
Energy	-2.0	-26.5	-14.1	21.6	-3.1	-21.5	-4.4	7.9	-3.0	-22.1	-10.9	5.6
Financial Services	-1.6	0.1	4.7	36.1	-9.0	-7.1	5.8	15.8	-11.7	-14.6	-3.3	25.7
Health Care	-14.4	-5.3	14.3	6.0	-7.7	-5.4	16.0	15.9	-7.0	-4.6	8.3	11.7
Industrials	-3.6	-15.4	6.9	8.3	-5.8	-8.3	6.8	10.5	-6.3	-8.3	-1.3	12.6
Information Technology	-4.3	3.8	10.0	2.3	-4.9	1.7	10.2	20.1	-8.4	-4.2	-0.7	4.9
Materials	-2.0	-34.4	-17.3	10.5	-10.6	-18.6	0.4	2.6	-10.9	-27.7	-11.6	7.5
Telecommunication	2.3	2.4	7.5	4.5	5.5	5.4	5.0	2.5	-3.8	-5.6	0.8	4.5
Utilities	5.6	-8.4	-0.3	2.0	4.9	-8.2	7.5	3.2	-2.9	-10.1	-6.4	3.3
Growth Index	-2.3	-12.3	1.0		-5.1	-1.1	10.6		-6.4	-5.6	1.0	
Value Index	-0.1	-10.3	-0.6		-5.0	-7.3	6.4		-8.2	-15.8	-3.6	

### Index Charts

12 Months ending January 2016

Grey shaded areas indicate periods of stock index decline.



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