CIBC Wood Gundy | Blue Heron Advisory Group

Equity Action Call

What is Equity Action Call?

We use a tool in managing our portfolios called the Equity Action Call. This tool guides decisions about when we should be fully invested in the markets and when we should be safely on the sidelines. The tool is derived from a Relative Strength methodology and enables us to objectively track supply and demand characteristics of any market or investment. This is a powerful indicator as it provides us with money flows on a large scale. This tool eliminates the need to predict or forecast what might happen in the future, by instead simply aligning ourselves with what is currently happening in the markets. Therefore, this portfolio management process allows us to be patient and stay in strong trends but also gives us the ability to respond to situations where equity exposure may not be as favorable. Supply and demand will always determine the direction of the markets: the key is to align yourself with the market's direction and try not to fight against it.

Why We Use it & What is the Result

Many investors are very focused on short-term performance and the latest crisis. Over the past nine years, there have been 16 declines of greater than 5% on the TSX. Of those 16 declines only two were significant and led to bear markets in 2008 and 2011. During each 'market correction' it was not uncommon for investors to become scared and lose their patience with their investments, their advisor and their systems. The Equity Action Call tool successfully differentiated between the 14 corrections and the two bear markets as times to limit equity exposure.

It requires an objective, unbiased, unemotional and disciplined investment process to know when to lighten equity exposure and raise cash, or when to ride out the short-term volatility and stick to the game plan. If the markets are entering a decline that is more serious than a correction, we will expect to see the supply/demand relationship of equities versus alternative asset classes shift significantly, and as a result, our macro indicator will move into either the neutral 'Yellow Zone' or the unfavored 'Red Zone.'

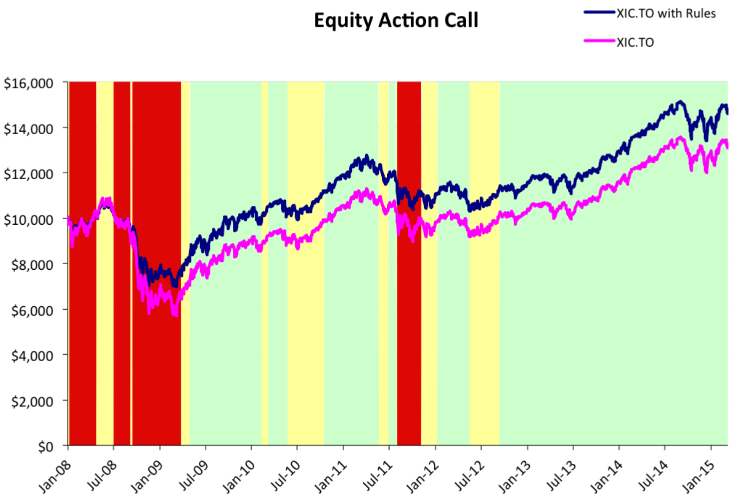
We decided that we should be responsive to what is happening in the market and as a result, created rules that would limit the equity exposure in our models accordingly.

Equity Action Call Result

GREEN	100% full model weight equity exposure, reinvest dividends
YELLOW	90% model weight equity exposure, let dividends accumulate
RED	70% model weight equity exposure

By having less exposure when the Equity Action Call is in either the 'Yellow' or 'Red Zone,' potential losses are minimized as there is less equity exposure. In bull markets, gains will be amplified as capital has been preserved in the preceding cautionary period.

By the same thinking, we can also demonstrate measurably lower risk and higher returns when applying these rules to our portfolios. Below you will see that by applying the methodology to a market tracking ETF we see lower standard deviation and alpha, as well as an increase in performance and equivalent yield – all as a result of simply being watchful of what is happening in the markets and reacting ***objectively***.



Source: SIA Charts

	XIC.TO with Rules	XIC.TO
Start Value	$10,000	$10,000
Value as of March 9, 2015	$14,580	$13,090
Compound Annual Growth	5.41%	3.81%
Annualized SD	2.44%	2.46%
Sharpe Ratio	0.92	0.943
Alpha	0.771	0.832
Beta	0.978	0.985
Yield	2.50%	2.50%

As you can see, during the two bear markets of 2008 and 2011, this indicator not only successfully protected investors' portfolios, but also managed to stay invested through every market correction over the past six years. It was not shaken out of one correction during this time period, thereby enabling investors to stick to their game plan and remain in the markets as they reversed course and began a new uptrend.

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SIA Charts, https://www.siacharts.com/, accessed March 9, 2015.