PRIVATE WEALTH MANAGEMENT

CIBC WOOD GUNDY
BLUE HERON ADVISORY GROUP

www.blueherongroup.ca I 250 361-2284
blueheronadvisorygroup@cibc.ca

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.

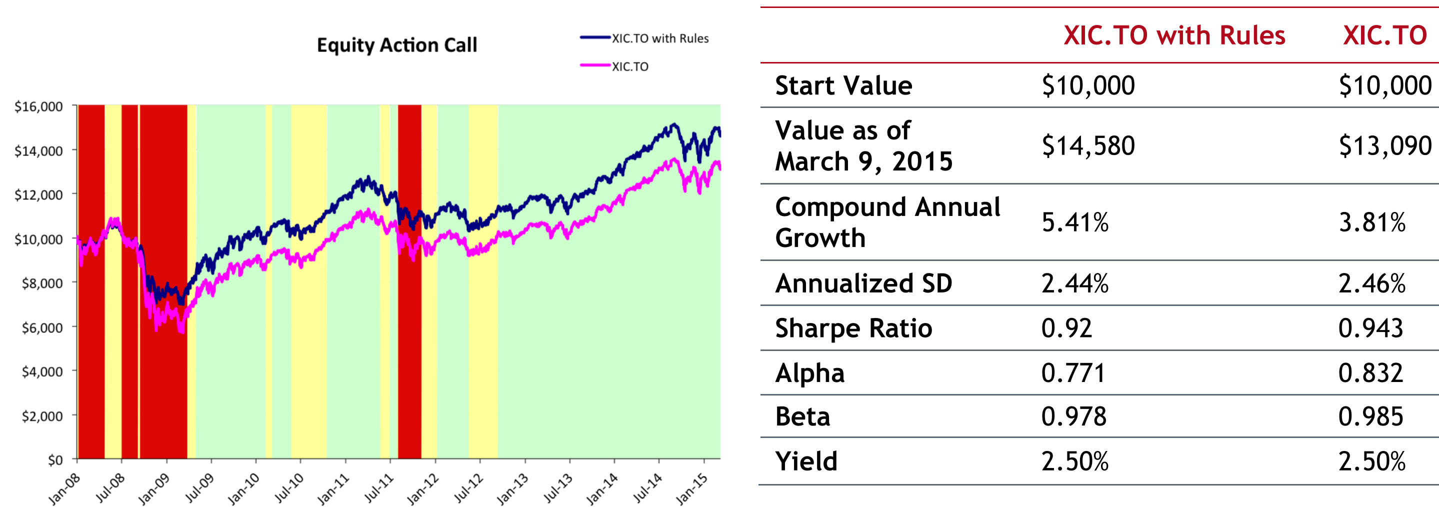
EQUITY ACTION CALL RESULT	
GREEN	100% full model weight equity exposure, reinvest dividends
YELLOW	90% model weight equity exposure, let dividends accumulate
RED	70% model weight equity exposure

Neil Chappell, BCom, CIM, FCSI
Vice-President, Portfolio Manager,
Investment Advisor
neil.chappell@cibc.ca
250 361-2258

Graham Isenegger, BA, CIM, FCSI
Portfolio Manager, Investment Advisor
graham.isenegger@cibc.ca
250 361-2252

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***.



	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%

Source: SIA Charts

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.

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

This information, including any opinion, is based on various sources believed to be reliable, but its accuracy cannot be guaranteed and is subject to change. CIBC and CIBC World Markets Inc., their affiliates, directors, officers and employees may buy, sell, or hold a position in securities of a company mentioned herein, its affiliates or subsidiaries, and may also perform financial advisory services, investment banking or other services for, or have lending or other credit relationships with the same. CIBC World Markets Inc. and its representatives will receive sales commissions and/or a spread between bid and ask prices if you purchase, sell or hold the securities referred to above. “CIBC Private Wealth Management” consists of services provided by CIBC and certain of its subsidiaries, through CIBC Private Banking; CIBC Private Investment Counsel, a division of CIBC Asset Management Inc. (“CAM”); CIBC Trust Corporation; and CIBC Wood Gundy, a division of CIBC World Markets Inc. (“WMI”). CIBC Private Banking provides solutions from CIBC Investor Services Inc. (“ISI”), CAM and credit products. CIBC World Markets Inc. and ISI are both Members of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada. CIBC Private Wealth Management services are available to qualified individuals. The CIBC logo and “CIBC Private Wealth Management” are registered trademarks of CIBC. If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor. Neil Chappell and Graham Isenegger are Investment Advisors with CIBC Wood Gundy. These calculations and projections are for demonstration purposes only. They are based on a number of assumptions and consequently actual results may differ, possibly to a material degree. Yields/rates are as of 03/09/2015 and are subject to availability and change without notification. Minimum investment amounts may apply. There are ongoing fees and expenses associated with owning units or shares of an investment fund. An investment fund must prepare disclosure documents that contain key information about the fund. You can find more detailed information about the fund in these documents. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. You will usually pay brokerage fees to your dealer if you purchase or sell units or shares of the investment fund on the Toronto Stock Exchange. If the units or shares are purchased or sold on the Toronto Stock Exchange, investors may pay more than the current net asset value when buying units or shares of the investment fund and may receive less than the current net asset value when selling them.