Lessons from Capital Market History

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Some “Spurious” Beliefs on Capital Markets and Investment Strategies

- Business Cycles are Predictable
- Stock Market Cycles last for 4 Years
- Market Timing is a High Odds Strategy
- The Market is Efficient
- You Can’t Beat the Market
- Risk is Standard Deviation of Returns
- Stocks Outperform Bonds
- International Diversification is Dead
- The Small Cap Effect Has Disappeared
- Growth/Glamour Stocks are Better Bets than Unloved Stocks
Stock Market Cycle Lasts for 4 Years

Bull Markets Last Longer Than Bear Markets

TSE 300: A Historical Overview

<table>
<thead>
<tr>
<th>Period</th>
<th>Market Type</th>
<th># of Months</th>
<th>Period Cumulative Return (%)</th>
<th>Period Annualized Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul 60 - May 69</td>
<td>Bull</td>
<td>107</td>
<td>203.2</td>
<td>13.2</td>
</tr>
<tr>
<td>May 69 - Jun 70</td>
<td>Bear</td>
<td>13</td>
<td>-23.3</td>
<td>-21.8</td>
</tr>
<tr>
<td>Jun 70 - Oct 73</td>
<td>Bull</td>
<td>40</td>
<td>81.9</td>
<td>9.7</td>
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<tr>
<td>Oct 73 - Nov 74</td>
<td>Bear</td>
<td>13</td>
<td>-33.1</td>
<td>-31.0</td>
</tr>
<tr>
<td>Nov 74 - Apr 81</td>
<td>Bull</td>
<td>77</td>
<td>268.0</td>
<td>22.4</td>
</tr>
<tr>
<td>Apr 81 - Jun 82</td>
<td>Bear</td>
<td>14</td>
<td>-37.2</td>
<td>-32.6</td>
</tr>
<tr>
<td>Jun 82 - Aug 87</td>
<td>Bull</td>
<td>61</td>
<td>252.6</td>
<td>28.1</td>
</tr>
<tr>
<td>Jul 87 - Nov 87</td>
<td>Bear</td>
<td>4</td>
<td>-25.4</td>
<td>-25.4*</td>
</tr>
<tr>
<td>Nov 87 - Apr 88</td>
<td>Bull</td>
<td>125</td>
<td>247.3</td>
<td>12.7</td>
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<tr>
<td>Apr 88 - Sep 88</td>
<td>Bear</td>
<td>5</td>
<td>-26.2</td>
<td>-26.2*</td>
</tr>
<tr>
<td>Sep 88 - Dec 88</td>
<td>Bull</td>
<td>23</td>
<td>105.8</td>
<td>45.7</td>
</tr>
<tr>
<td>Dec 88 - Sep 91</td>
<td>Bear</td>
<td>25</td>
<td>-33.2</td>
<td>-23.8</td>
</tr>
<tr>
<td>Sep 91 - Dec 91</td>
<td>Bull</td>
<td>15</td>
<td>22.5</td>
<td>22.5</td>
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<tr>
<td>Average Duration of Bear Markets</td>
<td>12 Months</td>
<td>12 Months</td>
<td>1.0 Years</td>
<td></td>
</tr>
<tr>
<td>Average Duration of Bull Markets:</td>
<td>64 Months</td>
<td>64 Months</td>
<td>5.3 Years</td>
<td></td>
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</tbody>
</table>

NOTE: This chart assumes a Bear Market as a -20% change over any time period whereas the previous chart assumed a Bear Market as a -20% change over the entire period.

Market Timing Is A High Odds Strategy

Market Timing Track Record- North American Value Added Experience

(Three US and Three Canadian Studies)

Average Annual Value Added

Asset Mix Timing

Security Selection

Upside

- Median

-0.6

-0.1

-0.4

-0.9

-1.4

-2.1

2.3

1.2

0.1

-0.9

-1.0

Source: The Portable Pension Fiduciary, by John Ilkiw

Conclusion: Traditional Market Timing Does Not Work

Data Sources: William M Mercer Ltd & Bloomberg
The Market is Efficient


Stocks Outperform Bonds
You Can’t Beat the Market

Source: "Perspectives on Institutional Investment Management" by Harry S. Marmer, Rogers Publishing, 2002