

Wise Capital Management Inc.

Discretionary managers providing excess returns

Suite 1305–2200 Yonge Street, Toronto, ON M4S 2C6

Tel: (416) 483-1900

Fax: (416) 483-1930

info@wisecapitalmanagement.com

JULY 2011 BULLETIN: GLOBAL FORECAST

The Wise Capital Global Equity strategy invests in any undervalued stock, market or commodity across the globe. The US market is just under one half of the global market. However, the world market returns are closely correlated in recent years to the S&P 500. We see an exceptional turn upward, seeing that:

- 1) The S&P 500 is trading at 12.1x operating earnings vs. the historical average of 15.5x. This implies a **28% undervaluation** to the market.



We expect the revaluation should begin within a couple of months, with most of it in this year due to the following drivers:

- entry and re-entry in the market from high historical cash/bond holders;
- improved economic news; and
- Seasonal factors.



- 2) The above is enhanced by earnings increases for the balance of 2011 and 2012. Consensus expectations are for **earnings to grow by 20%** (annualized 13%). To confirm profitability trends, Return on Equity (ROE, a measure of profitability) is now 15%, which is above its 40 year ROE of 14%, and should increase further with increased economic activity. Therefore the return for 18 months projects to be $1.28 \times 1.20 =$ or 53%.
- 3) Wise Capital global equity returns have compounded since 2001 at 9.14% vs. the MSCI World benchmark at 3.98%. The Global strategy is positioned to capture more of the market upside. This outperformance could net us 58% in the next 18 months.
- 4) The Canadian dollar is 1.046 USD and Purchasing Power Parity implies it should be 0.85, so in a few years, Canadian investors should benefit an additional 19%. No currency can be accurately forecasted in the short term, and the Canadian dollar will bounce around on a downward trend over four years.

SAM AND CHAVDAR

