

## Advantage Seabank: Active Management Protects Your Capital and Adds Value

Looking at the end of the quarter numbers, North American equity markets delivered solid performance with both the TSX and the S&P 500 up 5.4% in Canadian dollars. Coupled with the decline in the US dollar, Canadians did particularly well with MSCI Global index rising 2.71% in Canadian dollars.

However, looking only at the end of quarter hides a lot of market turmoil and risk. The Japanese earthquake, Tsunami and nuclear tragedy, the uprisings in the Middle East and the continuing saga of European sovereign debt problems (this time involving Portugal) together produced a sudden, sharp drop in equity markets in February and March. A close examination of these events and Seabank's response shows how our active investment management both protects your capital and adds value.

### Middle East Violence

In February, when violence broke out in Libya, the oil markets spiked higher and US markets dropped with the S&P 500 plunging nearly 4% in two trading days. Although buoyed by higher oil prices the Canadian market did not escape the turmoil, dropping a little over 2% during the same time. Markets then rallied into early March with the US S&P500 closing at 1330.97 on March 3 before again dropping quickly to a low of 1249.05 on March 16 (about 7% below the February 18 close.) Again, buoyed by Oil prices, the TSX hit a new intra-day high for the year on March 7 before turning and dropping dramatically to close nearly 237 points below the day's high.

Timeline	Market action
Friday, February 18	TSX closes at 14,123. S&P 500 closes at 1343. Violence breaks out in Libya during the weekend.
Wednesday, February 23	US S&P 500 hits 1299.55, down more than 3% from Friday's close.
Thursday, March 3	US market rally from the February drop peaks at S&P 500 1332.
Monday, March 7	After opening higher and making a new high for the year, the TSX closes sharply lower. Seabank begins selling vulnerable investments to raise cash.
Tuesday, March 15	TSX hits interim bottom at 13,273 before closing rallying more than 300 points to close the day at 13546.
Wednesday, March 16	In the US the S&P 500 hits interim bottom at 1249, down 7% from the February 18 close.
Wednesday, March 23	Seabank begins to re-invest cash into the market recovery
Thursday, March 31	TSX finishes the month and the quarter at 14,116. S&P 500 closes out at 1325.
Bottom Line for March	TSX: -0.14% S&P 500 : -0.16% Seabank Model Portfolio: +2.6%

## **Market Drop**

At Seabank, it was our judgement that an important market correction was shaping up and on March 7th we began selling investments we thought were vulnerable, more than doubling our cash position. The Markets bottomed (at least on an interim basis) on March 15, down about 4.2% from the beginning of the month. In the second half of the month, investor optimism returned and the markets rallied with the TSX closing the month at 14116.10, down a mere 0.14%.

## **Recovery**

At Seabank, we began buying back into the recovering markets on March 23, making additional purchases on March 25 and 29<sup>th</sup>. Importantly, we did not simply buy back what we had sold, but bought new positions in different sectors of the market.

The result? By the end of the month, our model portfolio was up 2.67% for the month, the TSX was down 0.14% and the Morningstar Canadian Equity Balanced index was down 0.4%.

## **Bottom line**

Had the correction continued and been much deeper, we were positioned to protect capital. However, when the markets change, we change and so when it became apparent that the markets were recovering, we bought back in. The bottom line is we had a good month in March protecting capital and making money for our clients.