

Market Timing

More on the TSX (TSE 60)

This morning on CBC Morning, the commentator reminded us of the classic error in making investment decisions. She noted that the TSX had increased the past 3 weeks, and concluded, "I guess I had better jump back in."

This reminded us of the portfolio manager (there were several) who pulled out of equities in late 1997 because of concerns over unreasonable valuations, only to succumb to the pressure of unhappy unit holders who thought they were missing out. He decided to jump back into the equity markets in late 1999, just in time for the two-year decline that followed. The manager had an investment discipline well established, but he let peer pressure over-rule his discipline, and his unit holders ended up paying long term pain for their obsession with not "missing out" on short term spikes toward market tops.

We just completed an update on our equity performance numbers to the end of December 2005, and we were encouraged to see that notwithstanding our being out of the TSX for the past several months, our longer term results continue to be significantly better than passively holding the TSX (XIU) over the past 6, 5 and 4 years (see chart). Our discipline has rendered higher returns with less standard deviation or volatility than the benchmark TSX:

Compound annual performance % ended Dec 31, 2005 Canadian Equity.

	<u>TSX(XIU)</u>	<u>Venable Park</u>
6yr	4.92	13.3
Volatility	15.39	11.22
5yr	4.81	9.76
Volatility	16.79	8.09
4yr	9.85	10.13
Volatility	14.85	8.99
3yr	19.53	13.57
Volatility	4.86	7.91
2yr	17.53	8.37
Volatility	3.59	2.15

Every good management approach has periods where it seems like it is out of style. Good managers worth their salt are the ones who can withstand the pressure of temporarily looking wrong, not cave to peer pressure, master their emotions, keeping a clear head to continue applying their discipline.

It turns out that especially when investing, patience is the greatest virtue.



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On the equity side, we continue to hold Pharmaceutical, Gold, NASDAQ and the BTH.UN an income trust basket yielding 8%. For some smaller accounts we are not able to access all sectors. Our last buy on Gold was in the Fall of 2004, so we must wait for a pull-back before we are able to add Gold to newer accounts.

Annual Reviews and Tax Reporting

We are just in the process of completing tax reports for non-registered accounts, please let us know if you do not receive yours by mid-February.

We are also completing annual reviews. If you have not seen us in person for a while, and would like a meeting, please call us to book a date. We look forward to seeing you.

RRSP Deadline is WED MARCH 1

Just in case, you were still planning to make an RSP contribution for use with your 2005 taxes, we remind you that the deadline is now only 1 month away.

ROB TV: MONEY TALK JAN 19

Thank you for the feed-back from Danielle's ROB interview on Jan 19. The show was exceptionally well received by viewers across the country. Apparently people find our message and approach quite unique and refreshing. We also know that in some ways our message is a hard one. We do not attract people who are looking for the biggest return promises. We are a good fit for people who are worried most about protecting their capital and making it grow safely over time. Advice without the sales pitch is a line that seems to resonate with people, and we are proud to be one of the honest voices in the wilderness.

For anyone who missed the show on Jan 19. There is a link on our home page to watch a replay at

your convenience. Many of you have already told us the interview gives a good recap of our approach and the reasons for it; something we can all stand to review from time to time.

Danielle can also be seen every Wednesday on the show *Daytime*, Rogers, Channel 10, at 11 am, 2 pm, 5 pm, 8 pm and 11 pm, discussing different aspects of investor behaviour.

Translating Two Confirmation Tools (TMAC), Cory Venable, 2005 Journal of Technical Analysis 63, 45-48.

Cory's paper which highlights an aspect of our approach, was published this month in The Journal of Technical Analysis. Again, for anyone who missed the email copy sent to clients, you can view a copy at your convenience at the Articles tab on our web site at www.venablepark.com.

The article before Cory's in the same issue of the Journal is called "*The (Mis)behavior of Markets and the 3-in-1 Trader Model*", by Hank Pruden, PHD, Professor of Finance. This article is very interesting as he outlines the 3 tenants he sees as crucial to risk management in capital markets: a behavioural model or theory; quantitative Technical Analysis tools; and steel nerves to employ discipline and mental state control. These are the three elements that our own approach specifically combines.

Mr Pruden also references the work of Benoit B. Mandelbrot, an award winning mathematician and father of fractal geometry. He notes that Mandelbrot concludes,

"Modern Financial theory is founded upon a few shaky myths that lead us to underestimate the real risk of

financial markets...Orthodox financial theory is riddled with false assumptions and wrong results:

The behavior of markets, what the real data show in numerous markets over many different time frames, is that Market "Timing" matters greatly. Big gains and losses concentrate into small packages of time.

Mandelbrot (p.233) *The (Mis)behaviour of markets: A fractal view of Risk, Ruin, and Reward* (ISBN 1 86 197 76 54).

We are now into month 39 of this economic expansion that started off the market low of September 2002.

We know that there have been 22 expansion cycles since 1926 and that the average duration has been 31 months. So we are now officially 8 months over the average. Following these expansion phases there has always followed a time of slower economic growth or a contraction. The stock market is a leading indicator of these cycles, and since 1926, the market has had 22 "down market" phases that have lasted on average 10 months, with losses averaging (-26%) and ranging from (-80%) to (-10%). In terms of the current TSX levels, the least severe 10% correction would mean a loss of 1,180 points, a 10% correction only happened once in history in 1948-49. An average loss of (-26%) would mean a loss of over 3000 points on the TSX, taking it back to the 8700 range. In the last downturn we all lived through 2000-2002, the TSX lost 50%, which would mean a return to 6000 from current levels.

This is why we remain cautious at current levels. Buying opportunities lie ahead for those who have the foresight.

Remember, its Buy Low, Sell High....