

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

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All equity portfolios are up for October, with the Wise Capital Global strategy up an estimated 6.7% (while the global index is only up marginally). The All Cap Canadian strategy is ahead of the market and up an estimated 1.6% for the month. Small Cap equity is up. We expect our strategies to perform well going forward for the following reasons:

1. History is on our side. The headlines usually do not matter. Normally after a fall of this magnitude, the market will rise bounce back in the following (current) quarter. Bespoke Research tracks US economic indicators, very positive since August. For example, sales at the Big 3 are up a massive 9-27% in September. TD Research notes that the slowdown in global industrial is similar to the 1974-75 and 1981-82 recessions, and then picked up.
2. Fundamentals count over the long haul. 90% of our USD stock picks beat their latest earnings expectations, to be reflected in our expectation of a 50% plus return over the next 1.5 years. We are buying solidly profitable companies very cheaply. If you operate a good profitable business with great prospects and somebody offered you less than its worth, you would not sell it. Similarly, with few exceptions, we only sell a holding when the market overpays.
3. This market is not 2008. The commodities are making higher lows. Volatility (VIX) is at its same level of earlier in the year.
4. The market has already discounted a full recession. Faced with uncertainty, equity markets will often discount the worst case scenario. Yet most of the time this does not happen. Even if a recession occurs, the market has already accounted for it and will go up with a better balance of good news described above.
5. Insiders are buying their own stock and companies are buying back their own shares. For example, Warren Buffet. These extremely wealthy entrepreneurs are demonstrating the same long term formula of success documented for over 120 years.
6. No investor studied over 20 years or more has ever successfully timed the market. Studies show that people who attempt to time the market have lost 5% of their investments on average every single year (Dalbar 2010 study), or the majority of their lifetime potential returns had they not done so. Most people who changed their professional qualified managers did worse with their new manager, i.e. they changed when the previous manager's style was coming back into vogue. The best recipe for returns, the smart money, is based on patience and fortitude.

Wise Capital Investment Team

