

The Bull Market in Canadian Banks is over.
Omega Metrics® Risk Cycle Analysis correctly predicted the timing of the correction in 2007.
The current correction outstanding is at least 24%.

Current Analysis: SP/TSX Canadian Banks Index

The Banks Index has risen dramatically from its 2009 low—up by a factor of more than 3 at its peak in September 2014. Since Q3 of 2012 the Index has had an outstanding correction from Unstable Expansion and is expected to decline by at least 24%. Daily Expected Shortfall has increased from 2.6% to 4.7% in the past year. On 10 June 2015 our Downturn Indicator signalled the beginning of the correction. The Correction Alert level is Very High.

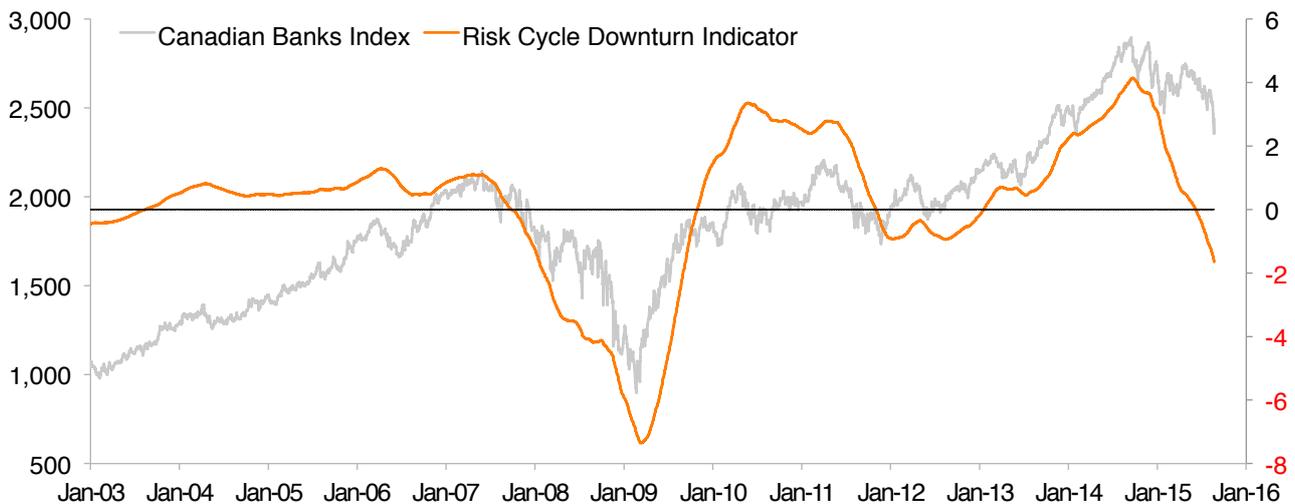


Figure 1. SP/TSX Canadian Banks Index and Risk Cycle Downturn Indicator, 2003-2015.

Risk Cycle

Omega Metrics technology reveals predictable Risk Cycles in equity indices and sector indices. These cycles are characterised by alternating periods of falling and rising measured risk. The Risk Cycle is a leading indicator of booms and busts. Its predictive power is illustrated by the excess returns which are achieved by increasing exposure in low risk periods and decreasing it as measured risk rises.

Daily risk levels for the SP/TSX Commercial Banks Index have increased 80% in the past 12 months.

Market Modes

Persistent asymmetries in the distribution of gains and losses—which we call Unstable Market Modes—provide predictions of market corrections.

This has already happened once in the past decade. In 2007 the Canadian Banks Index had more than doubled since the 2003 recovery began and was in Unstable Expansion. A correction of at least 38% was predicted.

Downturn Indicator

The Risk Cycle Downturn Indicator marks the transition from boom to bust phases.

In September 2007 the indicator signalled the end of the bull market for the Canadian Banks Index. The Index subsequently dropped by 56% to its February 2009 low.

On 10 June 2015 the Downturn Indicator called the end to the current bull market.

Model Notes

The Downturn Indicator is our generic indicator for equity indices. It has not been tuned to the Banks Index and, as Figure 1 shows, it is possible for the Downturn Indicator to reverse itself as it did in 2011. In almost 3 decades however it has not done so from the level it has currently reached. In November 2011 we would have issued a reduced alert because no correction level had been predicted.

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