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## What to expect in the new year?

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Happy New Year! We wish you and your family a healthy and joyful 2012.

### Market and portfolio performance review

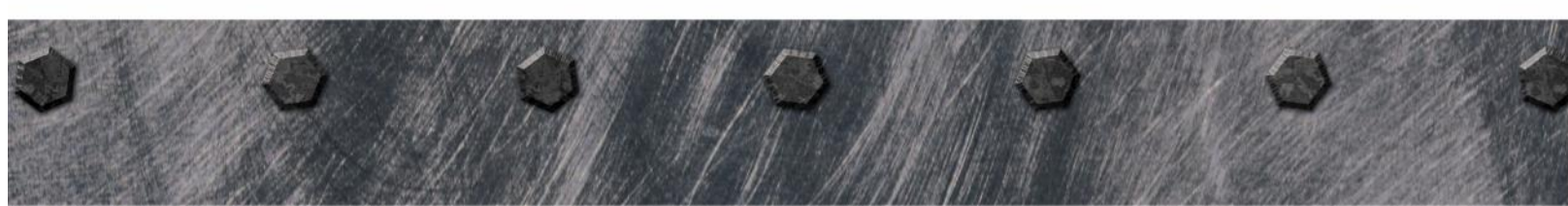
Capital markets started 2011 on a high note with many people believing the global economy had regained its footing. Oil, the Canadian dollar, resource stocks, and basically everything else tied to an anticipated uptick in growth rallied during the first quarter. Then there was an unexpected earthquake and tsunami in Japan which affected supply chains and slowed global manufacturing activity, the debate on the debt ceiling that led to Standard & Poor's downgrade of U.S. sovereign debt, and more recently, increased concerns over government debt in Europe.

While corporate profits have been relatively stable, valuations of the markets (how much investors are willing to pay for a dollar of future earnings) have declined sharply and that has led to lower share prices. As an investor, we are excited when the markets are "on sale" because it does not occur very often and represents an opportunity to get more value for each dollar invested.

Our home stock market, as represented by the S&P/TSX Composite Index, lost 8.7% in 2011. All of our model portfolios that are benchmarked to this index significantly outperformed due to our prudent portfolio positioning which included an overweight allocation to U.S. equity and global bonds, underweight position in Canadian equity and global real estate. We also added value through currency management strategies that included significant exposure to the U.S. dollar since the beginning of 2011 and industry sector allocations such as an underweight position in the resource sectors. We could have done better if we held more government bonds in our portfolios. However, that would mean owning relatively expensive investments with the expectation that they would become even more expensive. Investors rarely achieve and retain gains by following such a strategy.

### Positioning for 2012

It is hard to predict what will happen in 2012. History has told us that those who attempt to forecast the future usually fail. Our best judgment is that uncertainties in Europe will persist for longer than most people had anticipated. As for China, we believe it is very difficult to predict how successful its policies will be in engineering an economic "soft landing." High local government debt and deflating real estate prices are of concern to us. We will continue to monitor these developments. However, we are confident that these issues will eventually be resolved, though it is not clear exactly when. Most companies are



continuing to generate stable earnings, and this is supportive of stock prices over the long term. People like you and me and others around the world will continue to buy goods and services. This means buying groceries, filling up the tank of the family car, maintaining our home at a comfortable temperature, watching TV, talking to our friends on the phone and surfing the Web. All of these services are provided by companies that are represented in our portfolios: Empire Company (which owns the Sobeys grocery store chain), Monsanto and Potash Corporation of Saskatchewan (agricultural commodities), AltaGas (natural gas), Suncor Energy and ExxonMobil (oil and gasoline), BCE, Telus and Microsoft.

Owning these high-quality companies does not always lead to positive returns as their valuations fluctuate and at any point in time they could be overvalued. Today, because of uncertainties at the economic and political level, valuations of these companies are very attractive because investors have become reluctant to invest. We are confident that owning these companies will position the portfolios for solid long-term gains. Currently, we favour U.S. stocks. They are generally cheaper than Canadian stocks, and many U.S.-based companies are multinational corporations with earnings that are diversified across many markets, including the faster-growing emerging markets. Also, recent manufacturing data has shown improved activity in the U.S.

On the fixed-income front, we prefer corporate bonds that offer higher yields relative to government bonds. We also have exposure to the bonds of emerging market governments, which have lower debt burdens compared to governments in the developed markets.

We continue to follow interest rate policies closely as this has significant implications to valuations affecting both fixed-income assets and stocks. Our currency strategy remains active. We have reduced exposure to the Japanese yen by hedging 50% of our exposure. The U.S. dollar has reversed course and weakened recently relative to the Canadian dollar. We used this as an opportunity to lock in some of our currency gains and to reposition our portfolios with more exposure to the U.S. dollar.

On a separate note, we are pleased to report that a mutual fund version of our portfolios, Portfolio Series, was named Best Fund of Funds at the recent 2011 Morningstar Canadian Investment Awards. We thank the industry for the recognition, and are humbled by our clients' continued support and trust.

*Combined top 15 equity holdings as of December 31, 2011 of a representative balanced\* United Financial portfolio with alpha-style equity exposure:*

1. AltaGas	6. CCL Industries	11. Monsanto
2. Empire Company	7. Microsoft	12. Telus
3. Canadian Utilities	8. Astral Media	13. Jean Coutu Group
4. Laurentian Bank of Canada	9. Bell Aliant	14. BCE
5. Power Financial	10. E-L Financial	15. Boeing



*Combined top 15 equity holdings as of December 31, 2011 of a representative balanced\* United Financial portfolio with value-style equity exposure:*

1. Toronto-Dominion Bank	6. Boeing	11. Praxair
2. Royal Bank of Canada	7. Barrick Gold	12. Mullen Group
3. Microsoft	8. ExxonMobil	13. Visa
4. Potash Corp. of Sask.	9. GlaxoSmithKline	14. Canadian Natural Resources
5. Suncor Energy	10. Roche	15. Diageo

\*Approximately 37% fixed-income, 7% enhanced income, 49% equities and 7% global real estate.

To see the top 15 holdings of the individual United Pools or of the United equity Alpha mandates, please visit the United Financial web page by right clicking on this link and selecting “open web link in browser”: <http://www.assante.com/wp/optima/financials.jsp#united15>.

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