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Is cash a safe haven?

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Stock markets remained very volatile for most of this year as investors reacted to the tsunami and earthquake in Japan, political upheavals in the Middle East, and the sovereign debt crisis in Europe. The events in Japan and the Middle East had a short-term effect on investor confidence and are fading as concerns for the market. However, Europe's debt problem continues to be a focus of investor angst because it is a complex issue that political leaders have been slow to address.

As disciplined investors, there are two critical things that really matter to us: what we own, and how much we have paid. We invest in high-quality companies and avoid overpaying for them. This continues to guide our investment approach. Well-managed companies continue to earn profits, and we believe that by purchasing them at current prices, we can generate enhanced returns over the long term. While we are pleased that our portfolios have outperformed the indexes and most of our peers for the first 11 months of 2011, we are not satisfied by the negative returns generated this year.

Some of our clients have asked whether we should have reduced the stock weighting of our portfolios and increased the allocation to cash. This strategy would no doubt reduce volatility. However, in our opinion, cash is not necessarily the best safe haven investment and we have therefore not held significant cash levels in our portfolios.

Our investments in government bonds and foreign currencies generated better returns than the essentially zero-percent return offered by cash. Also, this helped to offset some of the unrealized losses that have been incurred from holding stocks and contributed to our portfolios' relative outperformance. It is important to remember that cash is not the only option when it comes to defensive positioning. We have a wide range of strategies that we employ to control risk, including our currency management program, which has added significant value this year by contributing to performance and reducing volatility.

At the beginning of this year, when stocks were moderately inexpensive compared to historical averages and other assets, we did not believe it would be prudent to sell these investments. Selling an investment that is cheap and hoping it will get cheaper or buying an investment that is expensive and hoping it will get even more expensive is not the value discipline that we follow.

We recognize that stocks do not always trade at their fair value, and are confident that when markets start to normalize, stock prices will rise to reflect company earnings and the unrealized losses of our portfolios will disappear. In the meantime, for both our stock and fixed-income investing, we will continue to focus on what we own and how much we have paid.

Have a safe and joyful holiday season.



Combined top 15 equity holdings as of November 30, 2011 of a representative balanced United Financial portfolio with alpha-style equity exposure:*

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

Combined top 15 equity holdings as of November 30, 2011 of a representative balanced United Financial portfolio with value-style equity exposure:*

1. Toronto-Dominion Bank	6. Suncor Energy	11. Mullen Group
2. Barrick Gold	7. Boeing	12. Praxair
3. Microsoft	8. ExxonMobil	13. Oracle Systems
4. Potash Corp. of Sask.	9. GlaxoSmithKline	14. Roche
5. Royal Bank of Canada	10. Simon Property Group	15. VISA

*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>.