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Some positive signs from the U.S. and China

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Market and portfolio performance review

Stock markets started the year on a positive note. Domestic stock markets, as represented by the S&P/TSX Composite Index, rallied with a 4.4% gain in January. Performance from bonds was less robust, with the DEX Universe Bond Index generating a 0.5% return.

Although 2011 ended with Europe's sovereign debt issue still largely unresolved, there are also a few positive developments in the investment markets. Firstly, stock market valuations are very attractive. We have mentioned many times that stocks are "on sale," with a roughly 20% discount on today's price-earnings multiples compared to historical norms. Secondly, it appears that the U.S. economy is on firmer footing than many may have expected. Recent employment data showed that non-farm payrolls grew by 243,000 in January, handily beating expectations of 140,000. Lastly, China's inflation seems to be under control, with the country's central bank starting to withdraw monetary tightening measures that were originally put in place to moderate growth.

Portfolio positioning

Recently, we fine-tuned our currency exposure in the equity mandates. We increased our U.S. dollar exposure by reducing our hedge ratio on the greenback and locked in some of our currency gains.

We continue to like government bonds' unique attribute – low correlation to the stock markets – and our allocation to them remains unchanged. In a distressed stock environment, correlation is actually negative. Government bonds are also a reliable way to provide an offset to equity risk. However, this "insurance" is currently somewhat overvalued, since the yield of these bonds barely covers inflation.

This explains why we have adjusted our Canadian fixed-income mandate to allow a small portion, a maximum of 10%, to be invested in high-yield corporate bonds. We estimate that this will generate an additional 40 to 50 basis points of interest income – to help pay for the "insurance" offered by our government bond allocation. As part of this change, there is a corresponding reduction in exposure to investment-grade corporate bonds.





Combined top 15 equity holdings as of January 31, 2012 of a representative balanced United Financial portfolio with alpha-style equity exposure:*

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

Combined top 15 equity holdings as of January 31, 2012 of a representative balanced United Financial portfolio with value-style equity exposure:*

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

*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>.

