December 2014

Multiple tools to achieve investment goals in 2015

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As we turn the page on another rewarding year for our investors, we note that the S&P 500 Index is set to outpace the S&P/TSX Composite Index both in Canadian and U.S.-dollar terms for a fourth straight year. The U.S. economy has continued to show resilience led by a strengthening consumer base while corporations have continued to increase earnings, helping to lift stock prices. In Canada, energy companies have been hurt by plummeting oil prices. This was caused by weakening global demand and rising supply led by increasing U.S. energy production and reluctance by Saudi Arabia to curtail its own production to support prices. While oil producers are facing serious headwinds, the consumer sector is benefiting from lower energy costs. Our diversified positioning allows investors to benefit because of an underweight allocation to energy in our Canadian equity pools and exposure to the U.S. consumer sector through a large allocation to U.S. equities.

In bonds, passive investors who relied on a “set it and forget it” approach had an easy time this year. Government bond yields across the world declined to record levels in many countries due largely to economic stimulus policies. Bond values, in our opinion, went from being expensive to *very* expensive. In 2013, the opposite was true as yields spiked and the majority of bond managers in Canada incurred losses in their portfolios, according to Morningstar Canada. In each of our most conservative portfolios, we generated positive performance in both rising and declining yield environments due to our active management and use of multiple strategies. In 2013, we added value by reducing government bond exposure when valuations were stretched and increasing exposure after bonds re-priced to more attractive levels. This year, we accumulated U.S. dollars at an attractive rate to use as a hedge and sold them at higher levels during the equity market correction in October. During the correction, we also took advantage of bargains in the corporate credit market and took some profits in our government bond positions.

Looking into 2015, we expect overnight rates and cash yields in the U.S. and possibly in Canada to rise as our economies strengthen and labour markets start to tighten. The U.S. central bank will likely increase interest rates sooner than the Bank of Canada as weaker oil prices will temper Canada’s economic progress. Weaker growth overseas will discourage central banks in the U.S. and Canada from moving too quickly for fear of compromising global competitiveness due to strengthening currencies. In this context, we expect that government bonds will struggle to generate returns above inflation and may easily produce modest losses. We will continue to employ a flexible and diversified approach to managing income in order to benefit from volatility in the bond market.

Equities remain fairly valued today and the global economic backdrop generally remains supportive. We expect to earn high single-digit returns from the broad equity markets on an annualized basis over the next three to five years. We will work with our underlying managers to generate more alpha, or excess return compared to the benchmark, to complement the healthy benefits of beta, which measures volatility compared to the market. We continue to review our overall asset mixes regularly and will make adjustments if needed to ensure our portfolios are optimized for superior risk-adjusted performance. Most importantly, we remain committed to our proven strategy of buying low and selling high while using multiple tools to ensure our investors meet their objectives.

On behalf of our team, we would like to thank you for your support and trust. We wish you a safe and happy holiday season.

Combined top 15 equity holdings as of November 30, 2014 of a representative balanced United Financial portfolio with alpha-style equity exposure:*

1. Empire	6. Canadian Natural Resources	11. Industrial Alliance
2. Atco	7. Suncor Energy	12. Goldman Sachs
3. Toronto-Dominion Bank	8. Mitsubishi UFJ Financial	13. Canadian Tire
4. E-L Financial	9. AltaGas	14. Open Text
5. Manitoba Telecom Services	10. Power Financial	15. Schlumberger

Combined top 15 equity holdings as of November 30, 2014 of a representative balanced United Financial portfolio with value-style equity exposure:*

1. Toronto-Dominion Bank	6. Bank of Nova Scotia	11. Suncor Energy
2. Royal Bank of Canada	7. UnitedHealth Group	12. CIBC
3. Microsoft	8. Citigroup	13. Mitsubishi UFJ Financial
4. Apple	9. Manulife Financial	14. Roche
5. Boeing	10. American International	15. Applied Materials

*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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