

A QUARTERLY REPORT FROM CANACCORD WEALTH MANAGEMENT



## TIME TO PLAY OFFENSE?

Cyclical stocks are the place to be, says Canaccord Genuity's Martin Roberge.

**M**any investors have positioned their portfolios defensively – a natural reaction to global market volatility and economic uncertainty. However, at Canaccord, we believe it's time to play offense.

There are three primary reasons we recommend more exposure to cyclical stocks: recovery, rates and resurgence.

### RECOVERY

Equity markets began their recovery with a rebound at the end of 2011 and into early 2012 as a direct response to declining global financial stress.

**All in all, the three Rs – recovery, rates and resurgence – suggest that the rest of 2012 will be profitable for investors in cyclical sectors.**

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# TIME TO PLAY OFFENSE?

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In the U.S., labour costs, inflation, corporate borrowing/lending and job creation are all accelerating, suggesting that U.S. economic growth is becoming more self-sufficient. In Europe, expectations have shifted towards a mild recession in the first half of 2012, and our sense is that the business cycle there is past its worst point.

In China, economic data has been better than expected, and the People's Bank of China reduced banks' reserve requirement ratio (RRR) for a second time in February in response to easing inflation. Lending rates in China are likely to come down too. Combined, these developments have increased investors' appetite for equities – and, in an environment of improving leading economic indicators, cyclical sectors tend to outperform defensive sectors.

Reinforcing this trend, the equity risk premium – the reward for taking on the risk of equity investing – was significantly higher in January 2012 than it was in January 2011, and 10-year Treasury bonds are significantly more overvalued this year than last year. That's added incentive to invest in equities.

## RATES

Real interest rates are those that investors can expect after discounting inflation. Recently, we have experienced an extended period of negative real interest rates, which means that inflation is greater than interest rates. Now the U.S. Federal Reserve has adopted a non-conventional inflation target of 2%, a move that almost guarantees inflation expectations will build over the coming years, especially as the Fed continues to maintain ample liquidity into financial markets.

In this environment, inflation-sensitive assets should do well. That includes cyclical sectors such as gold, energy and many industrial commodities.

## RESURGENCE

Finally, defensive stocks have had a long run of outperformance since 2009 and it is time for cyclical stocks to take the lead. Relative outperformance in the past year has been dramatic, with defensive sectors returning 19.5% compared to late cyclicals at -0.1%, and early cyclicals at -15.5%.

*Martin Roberge is Canaccord Genuity's Portfolio Strategist and Quantitative Analyst.*

As a result, early cyclicals now appear inexpensive compared to pricey defensive stocks. Pension funds will likely lead the way in exploiting this situation with a return to cyclicals – but individual investors have an opportunity to participate in the cyclical resurgence too.

All in all, the three Rs – recovery, rates and resurgence – suggest that the rest of 2012 will be profitable for investors in cyclical sectors. [WF](#)

## *Position your portfolio for growth*

*Depending on your objectives and risk tolerance, this may be an opportunity to go on the offensive and take advantage of an environment that looks set to favour cyclical sectors.*

*Contact us to discuss your portfolio's positioning and to request a copy of Martin Roberge's latest monthly strategy report.*

## FRESH THINKING FROM CANACCORD

Sector Rotations Strategy for 2012 means embracing cyclical sectors

Martin Roberge, Portfolio Strategist and Quantitative Analyst at Canaccord, suggests that investors take advantage of market dips to build positions in cyclical equity sectors. Specifically, the strategy is to overweight energy, basic material and technology sectors.

- **Energy.** While geopolitical risk will likely support oil prices, total demand for Chinese and U.S. crude oil also appears to be recovering. Moreover, seasonality for energy stocks and crude oil is typically very favourable in March and April. Investors should consider CR, NVS, PRE, ATH, PD, and WRG.

- **Basic materials.** The Fed's low-rate strategy should benefit both inflation and hard assets. While assets such as gold, copper and crude oil jumped in February, stocks continue to lag. Investors should consider AR, ATN, BTO, IMN, MAG, SVL, THO, YRI.

- **Technology.** To gain exposure to new product innovations in the tech universe, Roberge suggests investors stay upstream in the supply chain, which means semiconductors and communication equipment companies. Whoever wins the consumer product battle will have a need for chips, routers and antennas. Investors should consider IYW-US.

# A “COMPLETE” ETF SOLUTION

There’s no question exchange-traded funds (ETFs) are an efficient way to capture market returns. Specifically, they offer built-in diversification, trading flexibility and tax efficiency.

What sets the Complete Canaccord ETF Portfolios apart is that they add pension-style asset management from Rogerscasey to the mix. That has resulted in five portfolios that have all outperformed their benchmarks in 2011 and since their inception in November 2009. Here are the results to December 31, 2011:

Mandate	2011 Return	Benchmark	Difference	Since Inception	Benchmark	Difference
Capital Preservation	4.78%	4.12%	0.66%	5.80%	4.77%	1.03%
Conservative	4.85%	2.21%	2.64%	6.42%	4.77%	1.65%
Balanced	3.68%	0.56%	3.12%	6.23%	3.84%	2.39%
Growth	2.27%	-1.34%	3.61%	5.89%	3.38%	2.51%
Capital Appreciation	1.28%	-3.24%	4.52%	6.27%	2.92%	3.35%

Inception Date is November 29, 2009

Benchmarks

Capital Preservation – 30% DEX91, 45% DEXUB, 10% EAFE, 5% SP500, 10% TSXCC

Conservative – 25% DEX91, 35% DEXUB, 15% EAFE, 10% SP500, 15% TSXCC

Balanced – 20% DEX91, 30% DEXUB, 20% EAFE, 10% SP500, 20% TSXCC

Growth – 15% DEX91, 20% DEXUB, 25% EAFE, 15% SP500, 25% TSXCC

Capital Appreciation – 10% DEX91, 10% DEXUB, 30% EAFE, 20% SP500, 30% TSXCC

## An ETF portfolio for everyone

Choose from five Complete Canaccord ETF Portfolios:

- CC Capital Appreciation Portfolio – designed to achieve an aggressive rate of return over the long term.
- CC Growth Portfolio – designed to achieve long-term capital growth from predominantly equity-based investments.
- CC Balanced Portfolio – designed to achieve a balance between long-term growth, long-term capital preservation and income.
- CC Conservative Portfolio – designed to achieve a total return from fixed-income investments (60%) and capital appreciation from equity investments (40%).
- CC Capital Preservation Portfolio – designed to generate current income and preserve capital.

*Pension-style asset management makes the difference in the Complete Canaccord ETF Portfolios.*

Like Canaccord, Rogerscasey places a strong emphasis on proprietary research, giving investors a clear advantage. The team keeps tabs on more than 900 ETFs, examining characteristics such as size, liquidity, management expense ratio, yield, tracking error, construction methodology, style, duration, turnover, risk, overall quality and sponsor. Every ETF that makes it into a Complete Canaccord ETF Portfolio is subjected to intensive quantitative analysis and qualitative judgment, including on-site meetings with managers and providers.

When constructing portfolios, Rogerscasey uses a dynamic asset allocation methodology to determine optimal weights for asset classes, equity styles, fixed-income duration and credit. The objective is to minimize risk and maximize returns while carefully managing turnover and taxes to reduce costs. The team believes that asset allocation is the most important factor in portfolio return, so they focus a great deal of attention on getting the mix right.

The result is a group of five portfolios that bring risk management and security selection strategies usually reserved for large institutional investors to retail investors – an approach that has proven its value in those consistent benchmark-beating returns. [WF](#)

## *New lower minimum – \$25,000*

*Interested in taking advantage of all the benefits of the Complete Canaccord ETF Portfolios? They now have a new lower minimum investment of just \$25,000. Talk to us about whether they’re right for you.*

## YOU’RE INVITED!

Join Martin Roberge, Canaccord Genuity’s Portfolio Strategist and Quantitative Analyst, at the Attraction of dividends and managing in manic markets seminar.

You’ll hear insights into some of today’s most important questions for investors:

- Will risky assets ever be divorced from European fundamentals?
- What is the peak in profit margins for U.S. equities?
- Will stocks follow the path of the Japanese experience?
- Is the gold bull market dead?
- What sector strategy should investors adopt through manic markets?
- Has the “yield trade” gone bubbly?
- What are our top contrarian investment themes for 2012?

Contact us for more information and to reserve your space at one of the following events:

Toronto, ON – March 21 (evening)

London, ON – March 22 (noon)

Halifax, NS – April 11 (evening)

Vancouver, BC – April 18 (evening)

Kelowna, BC – April 19 (evening)




# LOOK BEYOND YOUR INVESTMENTS THIS SPRING



*Our team and Complete Canaccord Advisor Services provides strategic analysis of your entire financial, retirement & estate plan.*

**T**his is an excellent time of year to take a fresh look at your financial, retirement & estate plan from a strategic perspective. Is your investment portfolio optimized to build, sustain, and transfer your wealth according to your expectations? Are you paying more taxes than necessary? Are strategies in place to help you maximize after-tax income during retirement? Do you have adequate insurance protection?

Our team can arrange for expert analysis of your personal and/or corporate situation through Complete Canaccord Advisor Services. Working closely together, we can provide you with scenarios that demonstrate in concrete terms the impact of implementing various products and strategies. We can also connect you to specialists, including lawyers and tax accountants, who can help you take advantage of the opportunities we identify for you.

The end result is a comprehensive plan in which each component complements the other, enabling you to achieve your goals more efficiently and with less risk. 

*Ready to spring clean your financial plan?  
For a comprehensive review of your situation, talk to our team  
and see how we can help guide you to the right financial path.*

## *In your mailbox*

The deadline for filing your 2011 personal income tax return is right around the corner on April 30, 2012. Watch for the following tax forms related to your investments coming to you in the next few weeks:

Summary of Security Transactions – **February 29**

RRSP Contribution Receipts – mailed in eight waves between **mid-January and April 2**

T5 (CRA) and Relevé 3 (Revenu Quebec) Statement of Investment Income – **February 29**

T3 (CRA) and Relevé 16 (Revenu Quebec) Statement of Trust Income Allocations and Designations – **March 30**

T4RSP, T4RIF (CRA) and Relevé 2 (Revenu Quebec) Statement of RRSP Income and Statement of Income from a RRIF – **February 29**

T4A (CRA) and Relevé 1 (Revenu Quebec) Statement of Pension, Retirement, Annuity and Other Income – **February 29**

T5013/T5013A (CRA) and Relevé 15 (Revenu Quebec) Statement of Partnership Income – **March 30**



### Canaccord Wealth Management

Canaccord Wealth Management is Canada's leading independent investment dealer, with offices across the country. Our private client services division provides individual clients and companies with wealth management strategies, investment opportunities, and financial planning solutions. Through Canaccord's full suite of financial products and services, our clients benefit from the development of a complete wealth management strategy tailored for their specific financial objectives.

Canaccord Wealth Management and Independent Wealth Management are divisions of Canaccord Genuity Corp., a member of the, Investment Industry Regulatory Organization of Canada, Canadian Investor Protection Fund, Toronto Stock Exchange, TSX Venture Exchange and the Bourse de Montreal.

To learn more, please visit [www.canaccord.com](http://www.canaccord.com).

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