Insights & Strategies

PRIVATE CLIENT SOLUTIONS

January 10, 2013

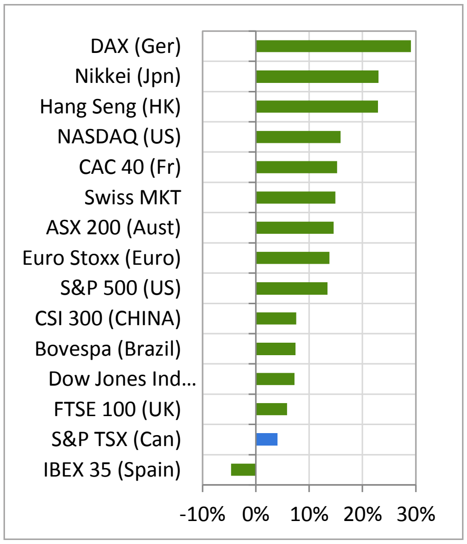
Quarterly Edition

Inside this Issue

Thirteen for 2013

Looking ahead in 2013, the global economic backdrop appears better than it has at any point over the past two years. Heading into 2012, the major fears were that the on-going sovereign debt / banking crisis in Europe would spiral out of control, that China would have a hard-landing, and that the US would see growth decline as that economy headed over the "fiscal cliff". While these issues impacted economies and markets over the course of the year, none of these scenarios played out quite as poorly as some had expected. With the European Central Bank's willingness to do whatever was required to stabilize the banking situation and Eurozone policy makers' efforts to back troubled economies, the European doomsday scenario failed to play out. China, supported by a combination of monetary policy easing and mild fiscal stimulus early in 2012, saw growth begin to reaccelerate in the latter part of the year. And the US managed to avoid the worst case scenario of fully sliding off the "fiscal cliff".

2012 Returns



Source: Bloomberg, Raymond James Ltd.

Despite the elevated levels of fear through much of 2012, equity market returns, as the accompanying chart reveals, were fairly good on the year. Only one (major) index, the IBEX 35 (Spain), posted a negative return as banking and sovereign debt issues continued to weigh on that market. The majority of other markets traded to the upside with many posting greater than 10% returns. European equities, with the exception of Spain, rallied with ECB support. The US equity markets were supported by an economic recovery that continued to gather momentum. Much of Asia began to trade higher as it became clear that the worst of China's slowdown was behind us. In Canada, it was very much a two-tiered market where dividend paying equities performed well but economically sensitive issues, like Materials and Energy, were dragged lower on global growth concerns.

For 2013, we remain positive on the outlook for equities. This optimistic positioning is based on three key themes: 1) the major macro risks will continue to diminish as we go forward into 2013; 2) the monetary environment will remain accommodative until the end of the year at least; and 3) tail-winds for the global economy will build. In an overall environment of declining risk together with low interest rates and a favourable environment for earnings growth later in 2013, we continue to favour equities over both cash and bonds.

Major Macro Risks Continue to Diminish

The biggest risk in the market over the past two years has been the prospect of a breakup of the Eurozone and an uncontrolled cascade of sovereign debt defaults. While it doesn't look like it on the surface, policymakers in the region have managed to significantly reduce the prospect of a Euro breakup and debt default. The ECB stands ready to cap bond yields with a bond buying program, while the Troika (IMF, ECB, and EU) continue to back some of the more troubled economies and at the same time enforce reforms. With ECB help, the region's banks are now much better capitalized and appear no longer to pose a significant risk. We expect that the ECB will not only continue to keep a lid on interest rates with a significant expansion of its balance sheet, but it will also remain committed to backing the region's banks. The EU, meanwhile, will continue to enforce fiscal reform throughout the region. As such, we expect fears of a Euro breakup will diminish as we move through 2013.

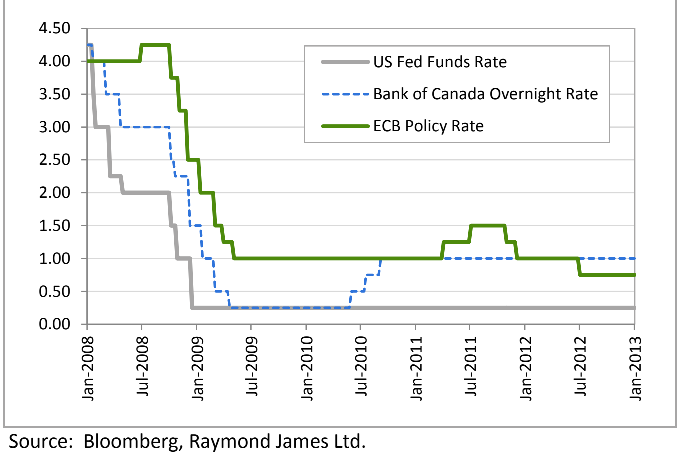
The other major fear causing investors to take a more cautious view was the prospect of a hard landing for China. While growth did slow for much of the year, it appeared to bottom in the third quarter with clear signs of a turn in key parts of the economy (housing recovery, increasing domestic demand, etc.). Given continued government policies to ensure that growth gets back on track, we don't expect any loss of momentum. Not only is a hard landing now off the table, so too is a soft landing.

Even though the US didn't fall off the "fiscal cliff" in 2012, there could still be trouble ahead for the US in 2013. The major parts of the "fiscal cliff" dealing with automatic spending cuts have yet to be resolved as they were simply kicked down the road for a couple of months. Towards the end of the first quarter, the US Congress will deal with the spending cuts and debate raising the debt ceiling. As the US needs comprehensive tax and spending reforms and time is short, we expect that another compromise will be reached allowing the current Congress more time to address the issues. While this may have an impact on both the economy and markets, it will not likely be as bad as if the full impact of the "fiscal cliff" had been realized.

Constructive Monetary Policy

One of the most important factors driving our positive view on equities is the extraordinary loose global monetary policy environment. Low interest rates will continue to be supported by government policy around the globe. The ECB is unlikely to change direction any time soon given the state of European economies and fragility of the banking system and most governments' finances. In fact we expect that the ECB will move to expand its balance sheet in an effort to keep rates low in countries like Spain and Italy for much of 2013 and beyond. In China, although growth seems to be resuming, authorities are likely to allow rates to fall further to ensure that the recovery does not stall. And in the US, despite talk of exiting Quantitative Easing by the end of this year, we expect that interest rates will remain low well into next year. The story is similar for both Japan and the UK where, due to poor growth prospects, policy makers are unlikely to allow rates to move higher any time soon. One of the few countries (of the major economies) that could see a rate increase in 2013 would be Canada and only towards the end of the year.

Low Interest Rate Environment Continues

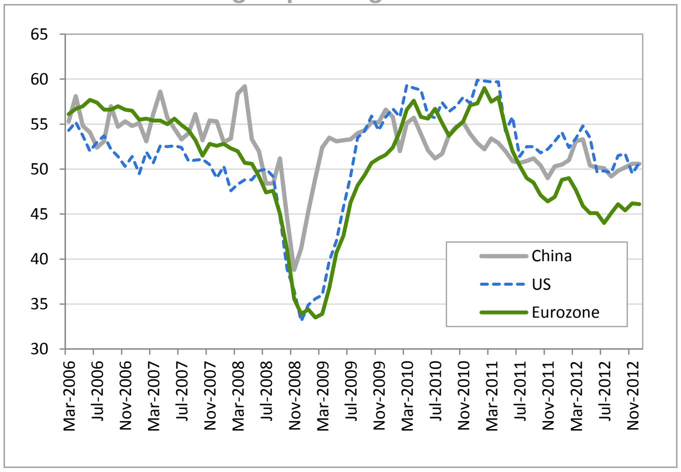


Source: Bloomberg, Raymond James Ltd.

Improving Tail-Winds

As we move forward in 2013, we expect that global macro momentum will continue to improve. Recent Chinese Manufacturing PMI data confirms a return to expansion after several months of contraction. This reinforces our view that the worst of the contraction in the Chinese economy is over. In addition to the improvement in the manufacturing data, we recently noted an uptick in Chinese money supply growth, increasing demand (and supply) of new loans, and acceleration in infrastructure projects. At the same time, other regional Asian PMI data is showing that the pace of contraction has bottomed out, with improvement in South Korea, Taiwan, and Australia. These trends are also reflected in North America as US PMI data is confirming a rebound in the global economy. In the US, growth should be aided by an improvement in consumption as the positive wealth effect from a rebounding housing market takes hold. Even troubled Europe is showing signs of stabilization with recent data showing a lack of deterioration, although the region remains in recession. This improvement in the global economy should filter down into earnings as the year proceeds. Although earnings growth is expected to remain muted in the early part of the year, it should expand in the third and further quarters.

PMI Manufacturing Improving



Source: Bloomberg, Raymond James Ltd.

As a way to play these developments we highlight a "baker's dozen" of investment themes and ideas for 2013.

[1] Favour Equities over Both Government Bonds and Cash

In the current environment of low nominal interest rates, government bonds and cash offer little value. Also, after considering both taxes and inflation, returns are negative and can only turn positive if the rate structure works significantly lower, which we feel is an unlikely scenario given our expectations for global growth. While we don't expect an immediate end to the great bull market in bonds of the past 30 years, we feel that we're in the process of transitioning from a bull to a bear market. Accordingly, we recommend that investors underweight government bonds.

Having said this, we are not prepared to abandon bonds completely for two reasons. Firstly, bonds offer important diversification benefits for investor portfolios (please see the Asset Allocation Section on page 9), and secondly, corporate bonds, in contrast, continue to offer value. Many corporations have good balance sheets, high cash levels, stable credit ratings, and decent margins. Profit margins should remain strong. Much of the improvement that we've seen in margins over the past several years has been a result of a combination of tough labour markets and low interest rates. Labour is not likely to gain bargaining leverage until unemployment rates decline much further and interest rates, as noted above, are not likely to increase materially for some time to come.

[2] Favour Emerging Markets over Developed Markets

Emerging markets typically outperform Developed Markets through periods of expanding global economic growth. Emerging markets tend to be more highly levered to a rebound in the manufacturing cycle and industrial activity. Conversely, emerging markets tend to underperform when global growth concerns peak. Over the course of the past two years emerging markets have underperformed as the Euro crisis and slowing global growth led investors to seek safety in bonds and developed-market large-cap equities. This trend began to change late last year as economic data (PMI, industrial production, etc.) began to show an improvement not only in the emerging economies of Asia but also in the US. We feel that the trend of relative emerging market outperformance has more to run as we are still in the early stages of a global manufacturing rebound. As a way to participate in this theme, we recommend the following two ETFs: the SPDR S&P China (GXC-US), which offers a diversified play on Chinese equities; and the iShares MSCI Emerging Markets Index (XEM-T), which includes exposure to 2,700 equities in 21 emerging markets.

[3] Favour Cyclical Growth over Defensives

We expect that growth investing will outperform in 2013. Low interest rates combined with an uptick in global growth should favour long duration real assets such as growth stocks. Growth tends to underperform in an environment of heightened recessionary fears (much like the past two years), or when the economy heats up and fears build that monetary authorities will put on the brakes. Neither of these scenarios seems likely for 2013 as we are only expecting a moderate acceleration in global growth for the year. In this environment, we favour the following sectors: Materials (especially agriculture and base metals), Technology, Consumer Discretionary, and Industrials.

Andy MacLean, CFA
Private Client Strategist

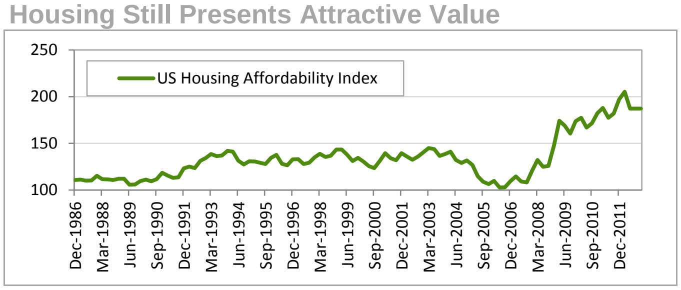
Equities

We suggest following many of the trends that worked so effectively last year (and in the case of dividends, a strategy that has been working well for many consecutive years). Finally, because no sector stays out of favour forever, we suggest the nuclear industry as our top turnaround idea.

[4] Canadian Equities With Strong US and China Revenue Exposure

2012 was an exceptionally good year for US stocks as the US economy slowly recovered, the housing market finally showed signs of life, and nine of the 10 major S&P 500 sectors recorded positive gains. With at least a partial resolution to the US budget crisis and still very favourable housing affordability (see chart below), the US market and housing sector could remain bright spots in 2013 as well. For Canadian investors, focussing on Canadian equities with strong US revenue exposure is recommended.

Housing Still Presents Attractive Value



Source: Bloomberg, Raymond James Ltd.

Adding a few stocks with exposure to the ongoing US housing recovery is a riskier but also recommended strategy. This is a momentum trade as the majority of the stocks highlighted below had strong gains last year. In the table below, we also overlay the China revenue exposure for each company to indicate the potential leverage to a recovery in that economy as well. China's December 2012 Purchasing Manager's Index was 50.6, matching the seven-month high set in November and further indicating that the region may be moving out of its recent economic slump. Consensus is calling for 8.1% Chinese GDP growth in 2013, a modest but meaningful improvement over 2012, which is likely to come in around the 7.5% mark.

Equity Ideas

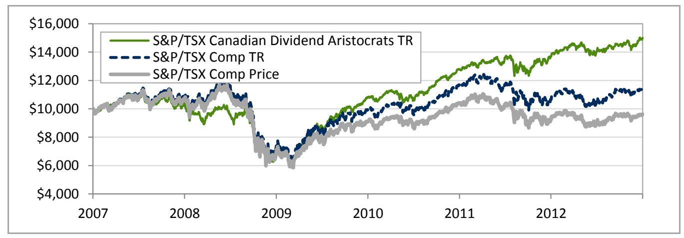
Company	Sym	US Rev % Last Qtr	Greater China Rev % Last Qtr	1-Year TR (%)
West Fraser Timber Co	WFT	48.4	15.8	76.1
Imax Corp	IMX	48.2	9.4	15.0
Intl Forest Products	IFP/A	47.6	9.5	81.0
CAE Inc	CAE	29.5	7.6	2.7

Source: Bloomberg. Priced January 9, 2013

[5] Dividend Stocks

The S&P/TSX Dividend Aristocrats Index (Canadian stocks that have increased dividends for at least five consecutive years) returned 9.5% last year on a total return basis, marking the fifth consecutive year that it has beaten the broader S&P/TSX Composite, and proving that dividend growth is still highly prized by investors. With bonds and other yield instruments still crawling along near record lows, investors have little incentive to dump dividend-paying stocks.

The Power of Dividends



Source: Bloomberg, Raymond James Ltd.

Canadian banks should continue to outperform driven by further dividend increases and strong profits. Even Bank of Montreal (BMO-T), which hadn't raised its dividend since 2007, raised it last year, and several banks raised multiple times (see table below). Some dividend paying sectors look fully valued (e.g., REITs and pipelines), but overall, yield should still have appeal this year. An area for more risk-tolerant investors to consider is the high-yielding junior oil & gas space. Normally, stable yield is not something investors associate with junior oil & gas companies, but switching from a growth to dividend business model was a trend for many juniors in 2012. Investors need to be certain that the asset base, hedging strategy and expected cash flow all support the dividend, but the reward can be yields in the 7% range. Given the range-bound forecast for oil prices this year (the consensus median 2013 estimate for Brent, for example, is US$110/bbl, almost exactly in line with the 2012 average), emphasizing high yield may be the best way to position oil & gas holdings in 2013.

Equity Ideas

Company	Sym	Div Yld (%)	# Div Incr. in 2012	1-Year TR (%)
Lower-Risk Yield				
Scotiabank	BNS	4.0	2	16.1
Royal Bank	RY	3.9	2	21.6
TD Bank	TD	3.7	2	11.0
Higher-Risk Yield				
Whitecap Resources	WCP	6.8*	N/A	3.0
Twin Butte Energy	TBE	7.3	1	14.1

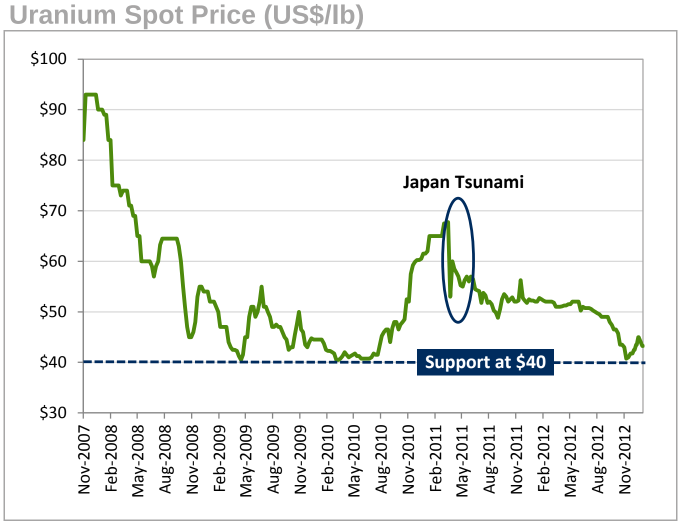
Source: Bloomberg. Priced January 9, 2013. * Indicated yield; first dividend expected February 2013.

[6] Nuclear Sector

If the ideas above represent the 'in favour' trade, then the uranium sector represents the 'out of favour' trade. However, the Japanese election results in late 2012 set the stage for a possible strong rally in uranium prices this year. The pro-nuclear Liberal Democrat party won the December 16th general election in a landslide. Currently only two of Japan's 50 functioning reactors are on line and these reactors previously provided a third of Japan's electricity needs. Many analysts question how long Japan can fill this gap without the use of nuclear power and the election results may accelerate the reactor start-ups. A variety of other factors also suggest higher uranium prices:

- **China recently announced that its suspension of new reactor approvals had been lifted.** The announcement marked the end of a sector freeze put in place in the wake of the 2011 Japanese tsunami.
- The **uranium price has declined significantly** over the past 20 months. However, it has often found a floor at the US$40/lb level (see chart below). Further, most uranium miners are unprofitable at current prices, suggesting US$40/lb is unsustainable.
- The **Brent and WTI oil price continue to trade well** above their long-term averages making nuclear power an attractive energy alternative for many countries.

Uranium Spot Price (US$/lb)



Source: Bloomberg, Raymond James Ltd.

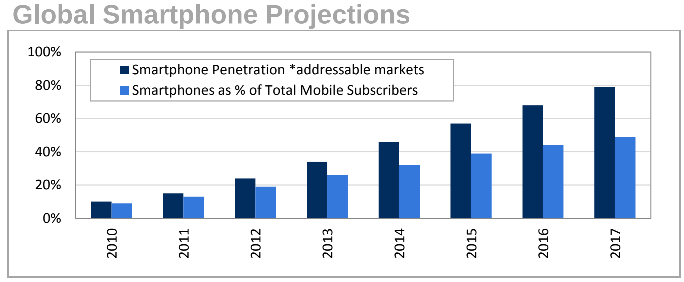
Equity Ideas: Cameco Corp (CCO-T), Uranium One Inc. (UUU-T).

Doug Rowat
VP Research & Strategy

[7] Long-term Evolution: LTE

The IT sector offers good opportunity for growth in 2013. In particular, look for wireless baseband semiconductor producers to perform well. The PC market trended down in 2012 and this will likely continue as consumers switch more and more to tablets and smartphones. Tablet growth alone has a projected unit volume CAGR of 29% (2012–17). Today's data consumer is demanding true mobility. Uninterrupted video streaming, enhanced gaming, cloud capabilities, and improved mobile commerce, are now demanded anywhere on-the-go and have been made available through LTE/4G and 3G baseband chip capabilities. 3G was rolled out nearly a decade ago and is coming to the end of its infrastructure investment cycle. LTE was rolled out in North America in late 2011/2012 and roll-outs and adoption of LTE/4G in emerging markets are expected to grow 255% from 0.8 bln connections in 2011 to 2.7 bln connections in 2016.

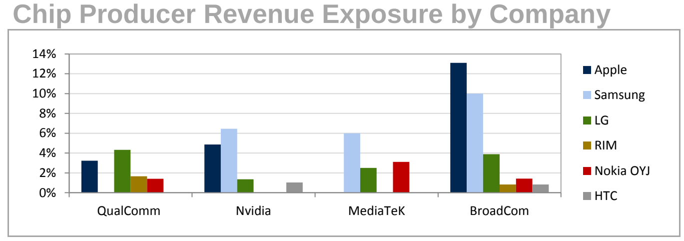
Global Smartphone Projections



Source: Gartner, Credit Suisse. *Addressable markets = markets with likely revenue opportunity

LTE is a key step towards true mobile data access. LTE/4G has average download speeds comparable to basic home broadband internet. Additionally, the semiconductor dollar content of a 4G device is at a 30-60% premium compared to that of a 3G device. Carriers have also been aggressively marketing their LTE networks because of the better monetization of the network. Look for companies with current LTE-related production or that are in the early stages of testing LTE to have the edge as LTE networks expand.

Chip Producer Revenue Exposure by Company



Source: Bloomberg, Raymond James Ltd.

Equity Ideas: QualComm (QCOM-US), BroadCom (BRCM-US)

Andrew Clee
Associate, Research & Strategy

Mutual Funds & ETFs: Invest in the US

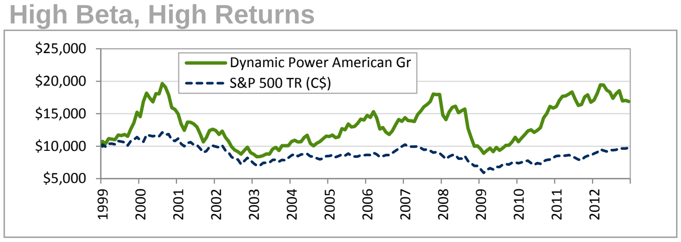
Despite the S&P 500 Index (CAD) outperforming the S&P/TSX Composite by over 600 basis points in 2012, Canadians continue to shun US equities in favour of domestic stocks. That said, US equities have a lot to offer. For one, valuations appear attractive on a historical basis. For instance, the S&P 500 Index's price-to-earnings and price-to-book ratios are trading at a 12.8% and 11.5% discount to their 10-year averages, respectively. Secondly, the US market provides ample exposure to sectors under-represented in Canada such as Healthcare, Consumer Staples, and Technology. Finally, a number of large-cap US stocks are multinational businesses that generate a significant portion of their sales and profits abroad. For instance, the top-10 US companies by market cap generate, on average, close to half of their revenues outside of the US. As such, an investment in US stocks is a nice way to express a positive view on global growth. Given investors' varying risk profiles, below we highlight an aggressive and relatively cautious way to play the US.

[8] Dynamic Power American Growth Fund

For those willing to accept higher volatility, Dynamic Power American Growth fits the bill nicely. Lead manager Noah Blackstein employs a super-charged growth strategy, focusing on a concentrated portfolio of US companies with superior growth prospects. In assessing individual securities, valuation considerations are secondary to a company's top line and bottom line growth characteristics. In addition, Blackstein trades aggressively with portfolio turnover averaging 308% over the fund's past three fiscal years.

Despite exhibiting higher volatility, this all-cap strategy has produced excellent long-term relative and absolute results. For example, a $10,000 investment at the fund's July 23rd 1998 inception would be worth almost $20,000 (ended December 31, 2012). In contrast, an investment in the S&P 500 TR CAD Index over the same period would be worth $11,100.

High Beta, High Returns



Source: Bloomberg, Raymond James Ltd.

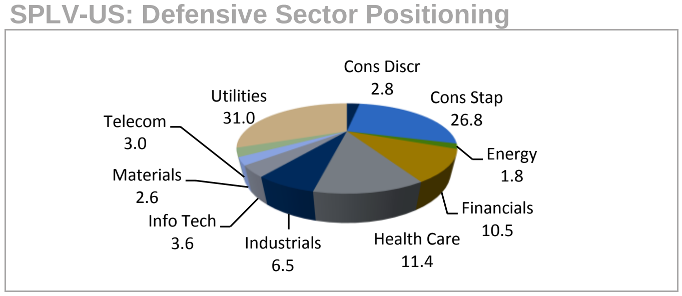
Nevertheless, the fund's strong long-term results include periods of extended underperformance, particularly during down markets. Investors should consider whether they can stomach a bumpy ride before climbing aboard. Dynamic Power American Growth is also available in a currency neutral version, which eliminates currency fluctuations from the equation.

[9] PowerShares S&P 500 Low Volatility ETF

Despite a handful of high volatility funds like Dynamic Power American Growth posting strong long-term returns, research has shown that low-volatility stocks in the US market have a higher propensity of outperforming on an absolute and risk-adjusted basis. Their ability to protect on the downside during bear markets is one of the reasons low-volatility strategies have produced strong performance over the long haul. To wit, the S&P 500 Index lost 37.0% in 2008 while the S&P 500 Low Volatility Index was only down by 23.1%. By providing superior downside protection, the Low Volatility Index's 10-year cumulative return of 134.4% fares much better than the S&P 500 Index's 103.8% return.

PowerShares S&P 500 Low Volatility ETF (SPLV-US) tracks the performance of the S&P 500 Low Volatility Index, which is comprised of 100 stocks within the S&P 500 Index that sport the lowest volatility over the past 252 trading days as measured by standard deviation. Constituents are weighted relative to the inverse of their corresponding volatility, with the least volatile stocks receiving the highest weights. The Index is rebalanced and reconstituted quarterly. Not surprisingly, SPLV's construction methodology leans towards defensive sectors with Utilities, Consumer Staples, and Healthcare representing 69.2% of the portfolio. Income-oriented investors will be pleased that SPLV sports a reasonable yield of 2.94%, which is 76 basis points higher than the S&P 500 Index.

SPLV-US: Defensive Sector Positioning



Source: Bloomberg, Raymond James Ltd.

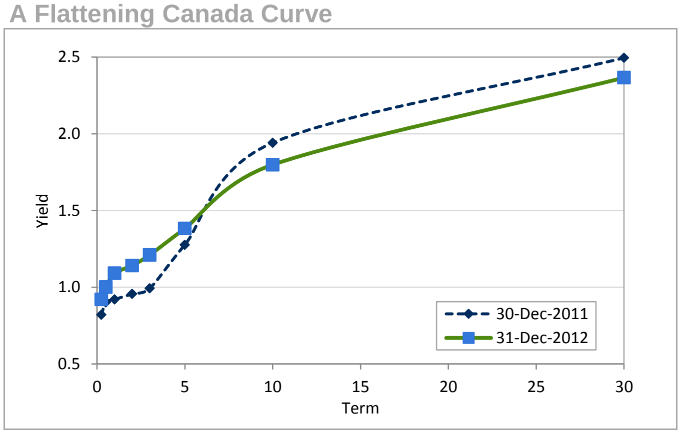
In January 2012, PowerShares launched a Canadian-listed ETF (ULV-T) by the same name. With a 0.35% expense ratio, ULV-T is 10 basis points more expensive than SPLV-US though ULV-T hedges its USD exposure.

Jordan Benincasa, LL.B, MBA
AVP, Mutual Fund & ETF Research

Fixed Income: A Repeat Performance?

In the Canadian fixed income market, we expect 2013 to play out quite similarly to last year, with yields hovering near historic lows and a rate hike that's just out of reach. The focus has shifted from the European sovereign debt crisis to the US's debt ceiling, highlighting that global economic concerns are still front and centre.

A Flattening Canada Curve



Source: Bloomberg, Raymond James Ltd.

Mixed Canadian economic data has added to the uncertainty, helping to increase investor demand for fixed income products. A year ago, the consensus was to see a hike at the end of 2012 or early 2013—a prediction that almost certainly will not materialize. Now, economists are calling for a rate hike towards the end of the year (the median forecast is for a quarter point hike in Q4), with many pointing out further to Q1 2014. Thus, we think that in the next 12 months, yields will remain low and sensitive to changes in both global and national issues. Given this outlook, we present 2 points that investors should keep in mind: 1. Bonds can provide essential portfolio diversification, and 2. Additional care is necessary when investing in high yield bonds.

[10] Remember Asset Allocation

We are in a prolonged, low interest rate environment. After hitting a low of 0.25% in April 2009, the overnight rate moved positively to 1.00% in September 2010, but has not progressed higher since. It is easy to see how this situation may discourage investors from purchasing government bonds (in most cases better yields), but avoiding governments entirely is not a sensible strategy. The more prudent approach is to maintain exposure to securities with low correlations to other assets, leading to a balanced and well-diversified portfolio. While we are recommending an underweight portfolio position in government bonds, government issues such as Canadas and crowns are essential for asset allocation because they have the lowest correlation to equities for bond issuer types. Also, in a worst-case scenario, government bonds maintain liquidity when bids on corporate issues often disappear (e.g., during the credit crisis). We would suggest keeping government maturities short at 1 to 2 years—the reason being that even though real returns (the return after accounting for inflation) are negative at current rates the shorter maturity is less sensitive to rising interest rates. Provincial bonds may also be appropriate and provide a modest yield pickup over federal government bonds.

[11] Pick Carefully in High Yield

Investors looking for higher yields often extend term, purchasing bonds with maturities that are longer than initially planned. However, the yield curve has flattened (see graph), as short-end rates moved higher and longer dated bonds saw their yields fall. This reduced the pickup in yield from extending the term, leading many investors to seek alternative ways to increase their return. Alternatively, investors are turning to bonds of lower credit quality to bump up returns, and many are investing in non-investment grade products (also referred to as high yield or junk bonds). Purchasers of high yield bonds should be more sophisticated investors and have a higher risk tolerance, though even experienced investors should choose junk bonds carefully. These products offer higher yields than comparatively termed investment grade bonds to compensate for their higher default risk.

High Yield Bonds

Issuer	Credit Rating	Coupon	Maturity	Current Yield
Vermilion	BBL	6.500%	10-Feb-16	4.14%
Sherritt	BBH	7.500%	24-Sep-19/20	6.74%
Baytex	BB-	6.625%	19-Jul-22	5.53%
Russel Metals	BB-	6.000%	19-Apr-22	5.40%

Source: Raymond James Ltd.
Yield is based on a settlement date of 7-Jan-13.
Credit Ratings by DBRS or S&P.

In terms of allocation, we would suggest holding a small position in high yield bonds as a way to enhance the overall yield of a portfolio consisting of government and investment grade corporate bonds. When interest rates rise, a benchmark bond's yield will rise as well, causing its price to decrease. However, rising interest rates usually signal positive economic growth and improving corporate balance sheets. In the case of high yield bonds, some of the negative price movement may be counterbalanced by a tightening of spreads of the corporate bond relative to government issues.

Charlotte Wong
Fixed Income

Foreign Exchange

Central bank policy action into 2013 is poised to present opportunities on the FX front from both a domestic and international perspective.

[12] Sell USDCAD

The Canadian dollar managed a good year in 2012, posting gains just shy of 3% against the USD and capping things off comfortably below the par mark. Helping keep the CAD supported over the last year has been a mix of internal and external factors, most of which should continue to act as positive catalysts for the currency this year. At the forefront of pro-CAD drivers is the Bank of Canada's relatively hawkish tone, especially when juxtaposed against that of the Federal Reserve. While expectations aren't for a hike from the BoC before year-end, it is the relative position of policy setting institutions that is important for currency markets. Rather than trying to pinpoint the exact time at which Governor Carney will move the needle on the rate front, it is certainly easier to focus on the fact that Canada is poised to raise well before the US, giving the CAD an edge from a yield perspective. Canada's mounting household debt issues have caught the Bank's eye and a resurgence in the global economy should help support a recovery at home, both of which will put pressure on the BoC to raise rates. Voting for CAD strength isn't without risk as an incredibly low volatility environment and unprecedented high liquidity levels can't remain in place for ever (the loonie tends to outperform in a low volatility setting). Furthermore, widening Brent-WTI spreads continue to act as a drag on the Canadian economy as the nation exports oil at low prices and imports at higher prices.

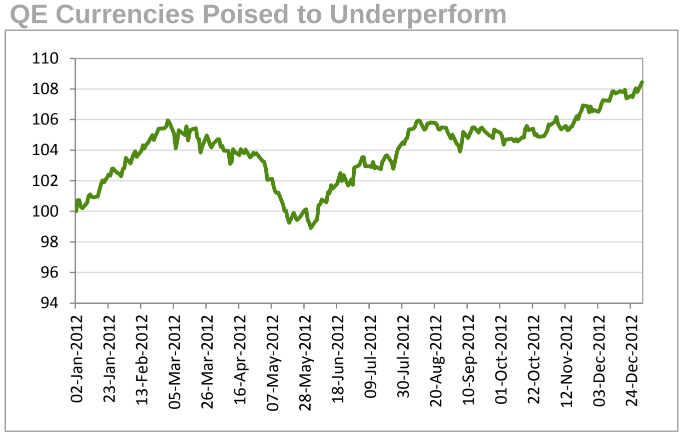
Long CAD Pays off in 2012

Source: Bloomberg, Raymond James Ltd.

[13] Buy Non-QE Countries

Central banks around the world have been quick to rush in and provide unprecedented amounts of stimulus to domestic economies in an attempt to avoid recessions and jumpstart spending. While the approach seems to have proven successful as global fundamental indicators are showing signs of a recovery, loose monetary policy is detrimental to the local currencies. Monetary authorities have employed a slew of activities, ranging from pure quantitative easing to yield curve manipulations to turning on the money supply printing presses, all of which act as a drag on currency markets. The direct effects of such polices lie in the simple rules of supply and demand. If a government elects to increase the money supply, then their currency will be in greater abundance and will decrease in value. A less direct, but equally painful currency impact is the effect that loose monetary policy has on the interest rate environment. The goal of central banks has been to keep rates at record lows to help spur borrowing and in turn spending, but it will also drive savers to seek higher yields elsewhere, which results in downward pressure on domestic currencies. While most countries are either set to reel in their current stimulus programs or at least not increase them, the overarching impact of such actions will be a continued drag on their currencies. With this in mind, we highlight a basket that shorts those countries with extreme monetary policies in place and goes long those that have managed to avoid such actions. The result is holding the AUD, NOK, CAD, SEK and NZD, while selling the USD, EUR GBP and JPY. The return from such a trade isn't likely to garner as much of a return as was possible last year, but should still provide a positive return as central banks are forced to stay the course.

QE Currencies Poised to Underperform



Source: Bloomberg, Raymond James Ltd.

Matt Stastny
Foreign Exchange

Asset Allocation Update

Within our overall asset allocation, our bias remains in favour of equities and away from cash. Given the very low interest rate environment, we see little advantage to holding cash as on an after-tax, after-inflation basis, real returns are negative. Consequently, given our policy ranges, we are carrying a minimum allocation towards cash. For bonds, we continue to favour corporate and emerging market bonds for the yield pickup relative to government bonds, but would keep maturities relatively short (1-7 years). With equities, we continue to favour the US as our top market followed by Canada and then International. Our heavy allocation to the US is due to the improving growth prospects in that market. Canada remains a focus, especially in defensive sectors, as high dividends offer an alternative to low yields found in sovereign debt markets. The allocation to International equities is primarily focused on growth opportunities in the emerging markets. Our Alternative Investments category captures strategies that offer low correlations with traditional investment approaches; we favour gold to fulfill this part of the strategy.

On balance, our overall asset allocation remains aggressive with minimal (relative to policy ranges) cash and bond weightings, and near-maximum allocations towards equities, especially as we move up the risk spectrum. Our rationale for this somewhat aggressive asset allocation recommendation is that we see more upside in equities given that equity valuations remain reasonable, dividend yields in many cases are higher than bond yields, and equities tend to be under-owned in portfolios. Moreover we feel that in the current environment of extraordinary monetary policy, investors should favour riskier assets over the traditional safe havens of government bonds and cash in their portfolios.

The Raymond James Ltd. Investment Policy Committee was established to provide oversight and guidance for the firm's Asset Allocation, Guided Portfolios, and Mutual Funds Focus List. The Committee is comprised of Andy MacLean, CFA (committee chair, strategy), Adrian Weiss (portfolio management), Harvey Libby (fixed income), Doug Rowat (equities), Jordan Benincasa (mutual funds/ETFs), and Joe Paladino (compliance). At our most recent Investment Policy Committee meeting, we made no changes to our asset allocation. Current asset allocation weightings are located on the back page of this report.

Andy MacLean, CFA
Private Client Strategist

Quarterly Chart Package

Long Term Market Returns

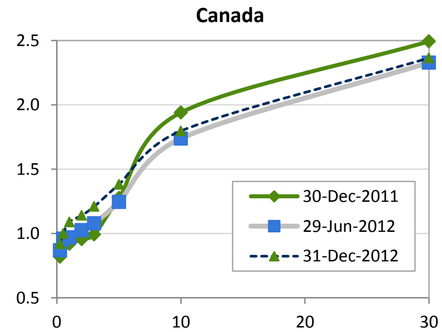
	Currency	Level	1 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	10 Yr
Canada											
S&P/TSX Comp	CAD	12,434	1.6%	0.9%	7.2%	4.0%	-3.8%	1.9%	8.5%	-2.1%	6.5%
S&P/TSX Comp TR	CAD	35,697	1.9%	1.7%	8.9%	7.2%	-1.1%	4.8%	11.7%	0.8%	9.2%
S&P/TSX 60 Comp	CAD	714	1.6%	1.5%	7.5%	4.8%	-3.6%	1.0%	7.1%	-2.5%	6.7%
S&P/TSX Small Cap	CAD	585	2.0%	-2.7%	4.7%	-4.9%	-11.9%	0.6%	12.3%	-3.7%	2.8%
United States											
S&P 500 Comp	USD	1,426	0.7%	-1.0%	4.7%	13.4%	6.5%	8.5%	12.1%	-0.6%	4.9%
S&P 500 Comp TR	USD	2,504	0.9%	-0.4%	6.0%	16.0%	8.8%	10.9%	14.6%	1.7%	7.1%
Dow Jones Ind Avg	USD	13,104	0.6%	-2.5%	1.7%	7.3%	6.4%	7.9%	10.5%	-0.2%	4.6%
NASDAQ Comp	USD	3,020	0.3%	-3.1%	2.9%	15.9%	6.7%	10.0%	17.6%	2.6%	8.5%
S&P 600 Small Cap	USD	477	3.1%	1.8%	7.0%	14.8%	7.1%	12.7%	15.4%	3.8%	9.3%
International											
DJ Euro Stoxx 50	EUR	2,636	2.4%	7.4%	16.4%	13.8%	-2.8%	-3.8%	1.9%	-9.7%	1.0%
FTSE 100 (UK)	GBP	5,898	0.5%	2.7%	5.9%	5.8%	0.0%	2.9%	7.4%	-1.8%	4.1%
CAC 40 (France)	EUR	3,641	2.4%	8.5%	13.9%	15.2%	-2.2%	-2.6%	3.1%	-8.3%	1.7%
DAX (Germany)	EUR	7,612	2.8%	5.5%	18.6%	29.1%	4.9%	8.5%	12.2%	-1.2%	10.2%
IBEX 35 (Spain)	EUR	8,168	2.9%	6.0%	15.0%	-4.7%	-9.0%	-11.9%	-2.9%	-11.7%	3.1%
CSI 300 (China)	CNY	2,523	17.9%	10.0%	2.5%	7.6%	-10.2%	-11.0%	8.5%	-13.9%	8.6%
HANG SENG (Hong Kong)	HKD	22,657	2.8%	8.7%	16.5%	22.9%	-0.8%	1.2%	12.0%	-4.0%	9.3%
NIKKEI 225 (Japan)	JPY	10,395	10.0%	17.2%	15.4%	22.9%	0.8%	-0.5%	4.1%	-7.4%	1.9%
TOPIX (Tokyo)	JPY	860	10.0%	16.6%	11.7%	18.0%	-2.2%	-1.8%	0.0%	-10.2%	0.2%
KOSPI (S. Korea)	KRW	1,997	3.3%	0.0%	7.7%	9.4%	-1.3%	5.9%	15.4%	1.0%	12.3%
S&P/ASX 200 (Australia)	AUD	4,649	3.2%	6.0%	13.5%	14.6%	-1.0%	-1.5%	5.7%	-6.0%	4.5%
BOVESPA (Brazil)	BRL	60,952	6.1%	3.0%	12.1%	7.4%	-6.2%	-3.9%	12.9%	-0.9%	18.4%
BOLSA (Mexico)	MXN	43,706	4.5%	6.9%	8.7%	17.9%	6.5%	10.8%	18.2%	8.2%	21.7%
Other											
MSCI World	USD	1,339	1.7%	2.1%	8.3%	13.2%	2.3%	4.6%	9.8%	-3.4%	5.4%
MSCI EAFE	USD	1,604	3.1%	6.2%	12.7%	13.6%	-1.7%	0.5%	6.7%	-6.6%	5.3%
MSCI Emerging Markets	USD	1,055	4.8%	5.2%	12.6%	15.1%	-4.3%	2.2%	16.8%	-3.3%	13.7%
MSCI Far East	USD	2,461	4.4%	5.4%	5.9%	9.1%	-4.7%	1.2%	3.4%	-5.4%	4.3%
MSCI Europe	USD	1,446	2.7%	6.6%	15.3%	15.2%	-0.4%	0.1%	7.1%	-7.4%	5.2%
C$ Indices											
S&P 500 Comp	CAD		0.5%	-0.2%	2.2%	10.2%	6.2%	6.4%	6.5%	-0.7%	0.2%
S&P 500 Comp TR	CAD		0.7%	0.5%	3.4%	12.7%	8.5%	8.7%	8.8%	1.5%	2.3%
Dow Jones Ind Avg	CAD		0.4%	-1.6%	-0.7%	4.2%	6.1%	5.8%	5.0%	-0.4%	-0.1%
MSCI World	CAD		1.5%	2.9%	5.7%	9.9%	2.0%	2.6%	4.3%	-3.5%	0.6%
MSCI EAFE	CAD		2.9%	7.1%	10.0%	10.3%	-1.9%	-1.5%	1.4%	-6.7%	0.6%
MSCI Emerging Markets	CAD		4.5%	6.1%	9.9%	11.9%	-4.6%	0.2%	10.9%	-3.4%	8.6%
MSCI Far East	CAD		4.2%	6.3%	3.3%	6.0%	-5.0%	-0.8%	-1.8%	-5.5%	-0.4%
MSCI Europe	CAD		2.5%	7.5%	12.5%	11.9%	-0.7%	-1.9%	1.7%	-7.5%	0.5%
Canadian Dollar	USD/CAD	$0.99	-0.2%	0.9%	-2.4%	-2.9%	-0.3%	-2.0%	-5.0%	-0.1%	-4.5%
Source: Bloomberg, Raymond James Ltd. All return numbers greater than one year are annualized.											

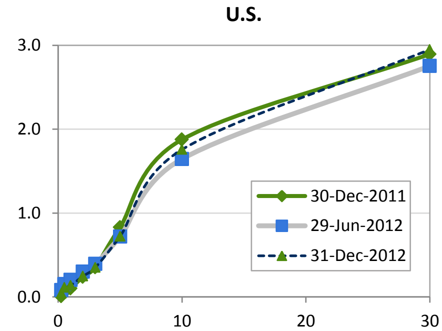
Source: Bloomberg, Raymond James Ltd. All return numbers greater than one year are annualized. Performance as at December 31, 2012.

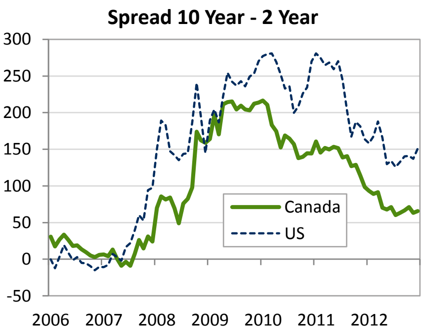
	Level	1 Mo	3 Mo	6 Mo	YTD	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	10 Yr
S&P/TSX GICS Sectors											
Consumer Discretionary	1,067	3.9%	4.9%	6.4%	18.7%	18.7%	-1.3%	5.9%	7.2%	-3.8%	2.9%
Consumer Staples	2,112	5.6%	8.7%	11.5%	20.4%	20.4%	12.3%	11.0%	9.7%	6.0%	5.1%
Energy	2,654	0.9%	-1.5%	6.0%	-3.6%	-3.6%	-8.1%	-2.4%	5.8%	-4.4%	8.3%
Financials	1,756	2.1%	5.2%	9.1%	12.8%	12.8%	2.6%	3.8%	11.5%	-1.1%	6.2%
Health Care	906	2.8%	3.4%	11.6%	24.1%	24.1%	36.3%	40.8%	37.6%	18.7%	3.2%
Industrials	1,490	3.4%	6.5%	8.6%	12.7%	12.7%	7.2%	9.5%	12.9%	3.5%	7.5%
Information Technology	106	1.2%	7.2%	9.3%	-3.2%	-3.2%	-32.2%	-26.0%	-12.5%	-23.2%	-2.3%
Materials	2,985	-0.2%	-7.0%	4.9%	-6.9%	-6.9%	-14.7%	-0.4%	7.2%	-0.8%	10.0%
Telecom Services	1,068	1.1%	3.1%	6.9%	6.4%	6.4%	12.5%	13.8%	10.3%	1.5%	6.9%
Utilities	1,930	3.1%	0.0%	0.9%	-0.8%	-0.8%	0.4%	4.3%	6.3%	-0.6%	5.9%
S&P 500 GICS Sectors											
Consumer Discretionary	376	0.2%	1.6%	8.7%	21.9%	21.9%	12.8%	17.0%	22.1%	7.7%	7.5%
Consumer Staples	361	-2.5%	-2.5%	0.5%	7.5%	7.5%	9.0%	9.6%	10.0%	3.8%	5.8%
Energy	533	0.5%	-3.3%	5.9%	2.3%	2.3%	2.6%	7.4%	8.4%	-2.4%	11.3%
Financials	221	4.6%	5.3%	12.1%	26.3%	26.3%	1.5%	4.5%	7.0%	-10.8%	-2.9%
Health Care	463	-0.4%	-0.5%	5.0%	15.2%	15.2%	12.7%	8.5%	10.6%	2.5%	4.1%
Industrials	329	2.3%	3.0%	6.0%	12.5%	12.5%	4.5%	10.6%	12.2%	-1.5%	5.5%
Information Technology	464	-0.1%	-6.2%	0.4%	13.1%	13.1%	7.1%	7.8%	18.9%	2.4%	7.7%
Materials	238	2.9%	2.0%	6.6%	12.2%	12.2%	-0.4%	5.9%	14.6%	-1.8%	6.8%
Telecom Services	146	-1.1%	-7.1%	-0.7%	12.5%	12.5%	6.5%	8.4%	6.9%	-2.8%	3.1%
Utilities	178	-0.2%	-3.9%	-5.4%	-2.9%	-2.9%	5.6%	4.0%	4.7%	-3.8%	6.2%
Commodities											
Energy											
Crude Oil - WTI (US$/bbl)	$91.82	3.3%	-0.4%	8.1%	-7.1%	-7.1%	0.2%	5.0%	19.8%	-0.9%	11.4%
Brent Crude (US$/bbl)	$111.11	-0.1%	-1.1%	13.6%	3.5%	3.5%	8.3%	12.6%	24.9%	3.4%	14.5%
Natural Gas (US$/MMBtu)	$3.35	-5.9%	0.9%	18.7%	12.1%	12.1%	-12.8%	-15.6%	-12.1%	-14.8%	-3.5%
Heating Oil (US$/gal)	$3.05	0.1%	-3.9%	12.9%	3.8%	3.8%	9.4%	12.9%	21.3%	2.9%	13.4%
Gasoline (US$/gal)	$2.81	1.8%	-15.9%	3.1%	4.7%	4.7%	7.1%	11.1%	29.2%	2.6%	NA
Coal (US$/ton)	$62.17	-0.7%	4.3%	6.2%	-10.3%	-10.3%	-11.7%	6.1%	1.0%	1.8%	7.1%
Metals											
Gold (US$/oz.)	$1,675	-2.3%	-5.5%	4.9%	7.1%	7.1%	8.6%	15.2%	17.4%	15.0%	17.0%
Silver (US$/oz.)	$30.35	-9.2%	-12.1%	10.4%	9.0%	9.0%	-0.9%	21.6%	27.8%	15.5%	20.3%
Aluminum AA (US$/lb.)	$0.94	-1.0%	-1.8%	8.5%	2.6%	2.6%	-8.4%	-2.4%	7.7%	-3.0%	4.4%
Copper (US$/lb.)	$3.54	-0.8%	-3.3%	3.2%	4.4%	4.4%	-9.1%	2.5%	26.8%	3.5%	17.7%
Nickel (US$/lb.)	$7.61	-3.3%	-7.7%	2.0%	-8.8%	-8.8%	-17.0%	-2.7%	9.9%	-8.3%	9.1%
Zinc (US$/lb.)	$0.93	1.7%	-0.8%	10.8%	12.7%	12.7%	-7.9%	-6.7%	14.6%	-2.6%	10.5%
Soft											
Wheat (US$/bushel)	$778.00	-7.9%	-13.8%	5.3%	19.2%	19.2%	-1.0%	12.8%	6.2%	-2.5%	9.1%
Corn (US$/bushel)	$698.25	-6.7%	-7.7%	3.8%	8.0%	8.0%	5.4%	19.0%	14.4%	8.9%	11.5%
Sugar (US$/lb.)	$19.51	0.9%	-0.4%	-10.5%	-16.3%	-16.3%	-22.1%	-10.2%	13.4%	12.5%	9.9%
Currencies											
Canadian Dollar (CAD/USD)	$1.01	0.2%	-0.8%	2.5%	3.0%	3.0%	0.3%	2.0%	5.3%	0.1%	4.7%
Canadian Dollar (USD/CAD)	$0.99	-0.2%	0.9%	-2.4%	-2.9%	-2.9%	-0.3%	-2.0%	-5.0%	-0.1%	-4.5%
Euro (EUR/USD)	$1.32	1.6%	2.6%	4.2%	1.8%	1.8%	-0.7%	-2.7%	-1.4%	-2.0%	2.3%
Yen (USD/YEN)	86.75	5.2%	11.3%	8.7%	12.8%	12.8%	3.4%	-2.3%	-1.1%	-4.9%	-3.1%
Pound Sterling (GBP/USD)	$1.63	1.5%	0.5%	3.5%	4.6%	4.6%	2.0%	0.2%	2.7%	-3.9%	0.1%
U.S. Dollar Index	79.77	-0.5%	-0.2%	-2.3%	-0.5%	-0.5%	0.5%	0.8%	-0.5%	0.8%	-2.4%

Source: Bloomberg, Raymond James Ltd. All return numbers greater than one year are annualized. Performance as at December 31, 2012.

Yield Curve

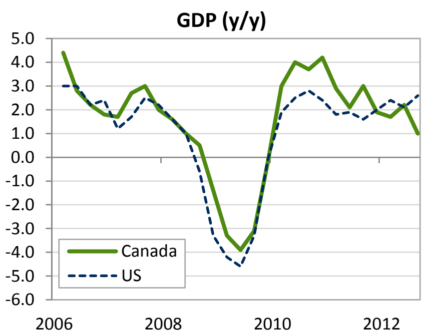


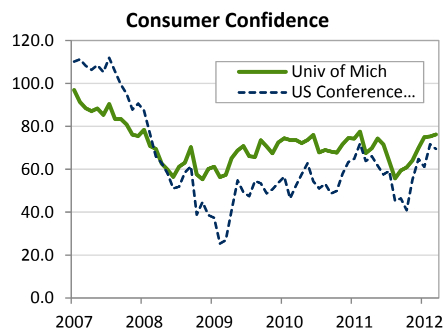


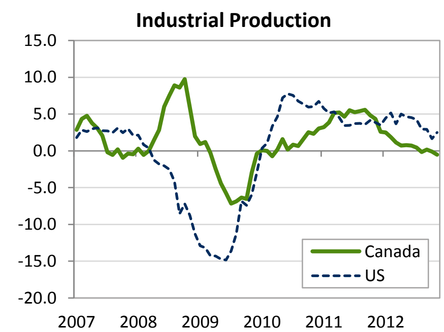


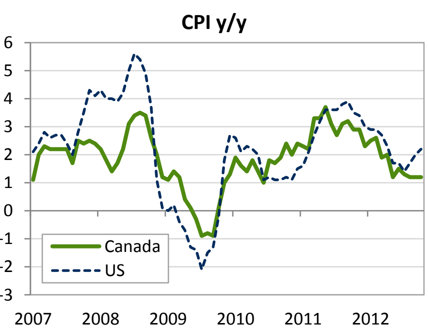
Source: Bloomberg, Raymond James Ltd. Performance as at December 31, 2012.

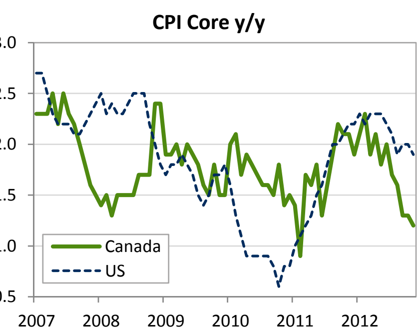
Economic Data

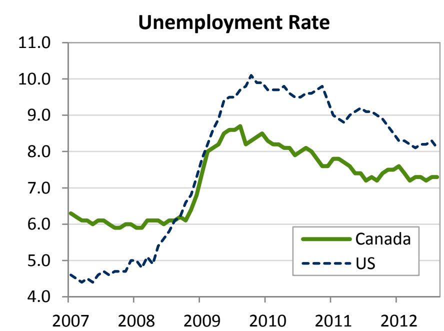


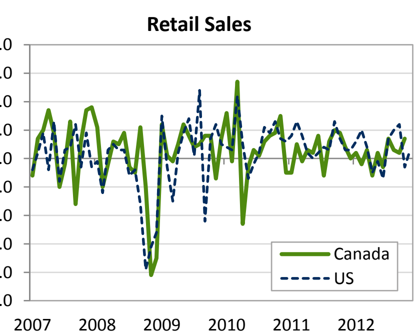


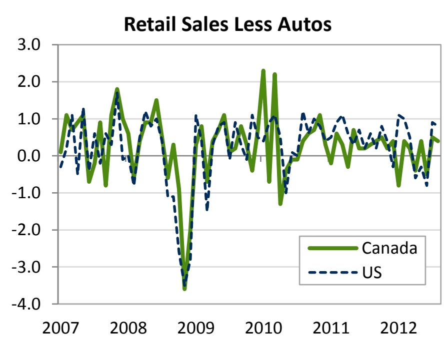


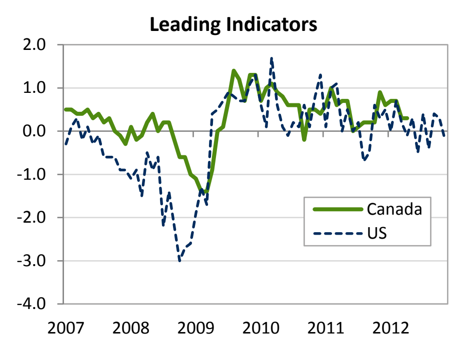








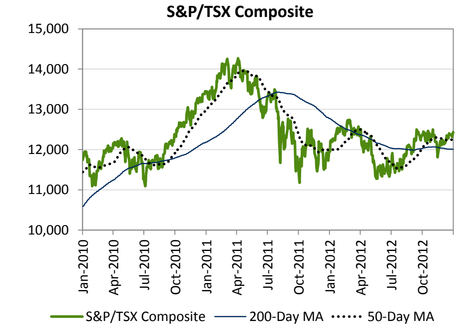


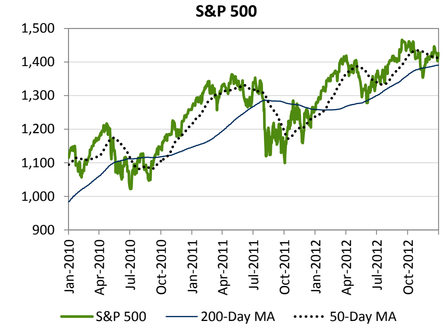


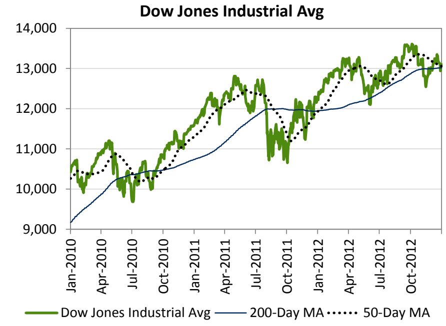
Source: Bloomberg, Raymond James Ltd. Performance as at December 31, 2012.

Charts of Interest

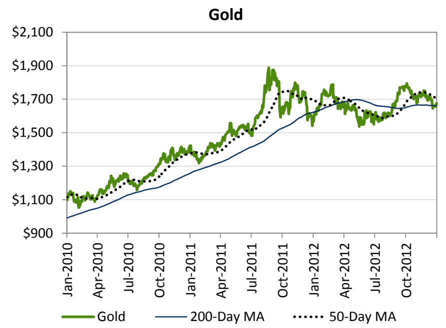
Markets

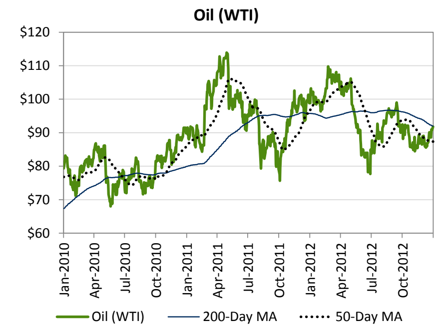


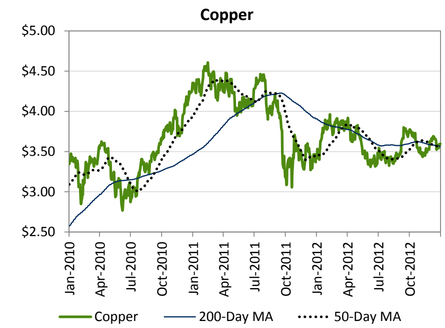




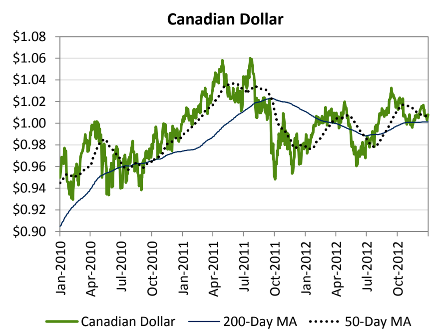
Commodities

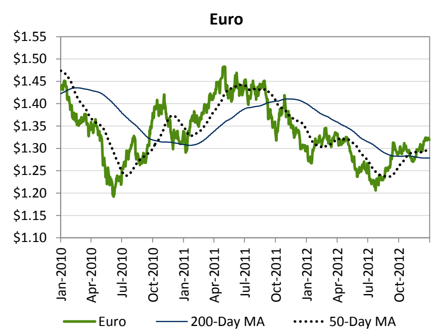


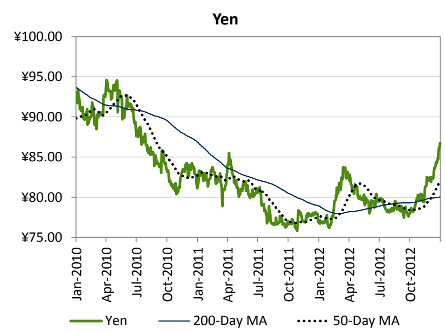




Currencies







Source: Bloomberg, Raymond James Ltd. Performance as of December 31, 2012.

Asset Class Weightings

Profile	Cash	Bond	Can. Equity	Intl. Equity	US Equity	Alternative
Income & Capital Preservation	40%	40%	20%	0%	0%	0%
Conservative	15%	65%	20%	0%	0%	0%
Moderate	5%	47%	15%	15%	15%	3%
Growth	0%	20%	20%	10%	40%	10%
Global Equity	0%	0%	20%	20%	45%	15%

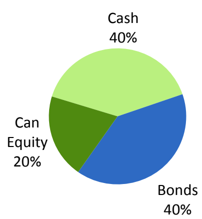
General Asset Class Ranges

	Cash	Bonds	Equities	Alternative
Income & Capital Preservation	40 – 75	15 – 40	0 – 20	0
Conservative	15 – 30	60 – 65	10 – 20	0
Moderate	5 – 10	45 – 65	25 – 45	0 – 5
Growth	0 – 5	15 – 40	50 – 70	10 – 15
Global Equity	0	0	80 – 85	15 – 20

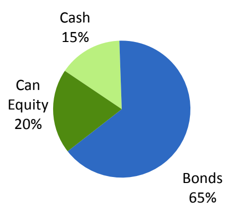
Profile Descriptions

	Description
Income & Capital Preservation	Virtually any loss is unacceptable. Investors' primary objective is to achieve a return that keeps pace with inflation. Fixed income and cash make up the largest portion of holdings.
Conservative	Losses can be tolerated, but erosion of regular income payments cannot. Stability of coupon or dividend is the primary concern as many investors will employ this income for cost-of-living expenses. Bonds tend to make up the largest proportion of holdings.
Moderate	Some higher risk positions tolerated but these are typically offset with blue-chip dividend paying equities or low-risk bonds.
Growth	Willingness to take speculative bond and equity positions though growth portfolios are typically biased towards equities. Strong earnings growth or high yields usually take preference over valuations. Some defensive constraints may be employed, but even these may be removed for highly risk-tolerant investors.
Global Equity	A willingness to ignore 'home-country bias' and allocate holdings internationally. International equities typically receive weightings equivalent to or greater than domestic securities. These investors recognize that Canada represents only ~3% of global equity markets and are willing to source investment opportunities outside our borders.

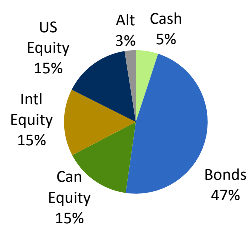
Income & Capital Preservation



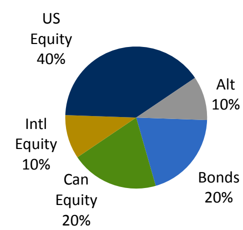
Conservative



Moderate



Growth



Global Equity