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Issue 3

ETF & MUTUAL FUND UPDATE

In This Issue:

Market Radar		
Markets	**TSX Composite**	**S&P 500**
P/E	19.02	21.37
Yield (%)	3.02	2.38
YTD Performance (%)	1.45	5.68
Top Performers	**ETF**	**Mutual Fund**
1-Month	First Asset Core CDN Equity	Caldwell Growth Opp Trust
YTD	First Asset US & CDA Lifeco	Marquest Explorer
3-Year	BMO Low-Vol US Equity	AlphaNorth Resources
Market data as of March 8, 2017; top performers as of month-end.		
Note: We are no longer including leveraged ETFs in top performers list		

How Changes to Cap-Gains Rate May Impact You

By Ryan Modesto, CFA

There has been a lot of concern bubbling lately about potential changes to the CRA capital gains inclusion rate in Canada. The general thought here is that the government could increase this rate from current levels of 50% up to either the 65% range or even as high as 75% in the budget expected to be released March 22. While we believe any increase remains unlikely in the near-future given a lacklustre Canadian economy, it is helpful to know how this could impact ones portfolio and the markets in general.

As many may know, the capital gains inclusion rate covers the amount of gains that are taxed at ones level of income. So, if an individual has an asset/stock/fund that has appreciated by $1,000 and the rate is 50%, only $500 of that amount is taxed. If the rate were to increase to 75% from 50%, $750 is taxable. Put another way, the end investor goes from $500 'untaxed' to only $250. It is important to note that this would apply to taxable accounts only and in turn would not include accounts such as a TFSA and RRSP. There are a few ways a change like this can impact markets and an investment.

Required Returns

At the end of the day, an investor has a required return over a time period. Whether that return is an actual percentage like 7% or a goal such as a retirement cash flow of 'X' dollars a year, there is some required amount an investor needs or expects from their investments after taxes and fees and other costs are considered. Higher taxes essentially increase the amount needed before taxes so that an investor is left with the same amount after taxes. As an example, if 10% returns met an individuals needs at a 50% tax rate but the taxes are increased, one would need a higher return on the investment in order to end with the same after tax amount of money. All else equal, this means that either an investor needs to own higher risk securities (in order to get a higher return) or the valuations of the stocks (and in turn the prices) need to adjust downward. Lower prices mean higher potential returns for new money. So, in general, a higher tax rate on capital gains will mean less after tax dollars for investors and in turn a decline in stocks. Since the world does not operate in a vacuum, this would not happen 'across the board' on a single day, but would likely be a weight on markets.

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Relative Attractiveness

When one country is less tax friendly than another, capital tends to leave the tax unfriendly areas and flow into the more tax friendly jurisdiction. The reasoning behind this is clear, as all else equal in terms of returns on a similar investment, an investor is left with more money in after-tax terms in the area with a lower tax rate. This means that funds flow into the lower tax area which means that less money goes toward the economy, jobs and investment. Longer-term, if companies decide to locate in areas that are more tax friendly, this can impact the growth of the Canadian economy.

Unintended Consequences

There could be various unintended consequences with higher taxation. One of them, as hinted at earlier, could be that investors' are pushed into higher risk assets in order to get higher returns. We have been seeing this type of phenomenon in fixed income with low rates and a similar, albeit likely less extreme reaction could occur with higher tax rates. Another consequence could be that it actually discourages investment, which decreases dollars invested and also impacts retirement. In a world where individuals are left more and more to fend for themselves in retirement, taxing the gains that helps those retire is likely to only make these already difficult efforts all the more tough.

What is an investor to do?

If individuals always invested based on potential public policy changes, it would drive one to madness. Trying to predict policy and adjust a portfolio accordingly did not work for Brexit, did not work for the US elections, still has not worked for various US policy concerns and is unlikely work when speculating against potential tax changes. The real solution here is to do nothing. With that, there are still a few ways an investor can ensure they have mitigated potential impacts to tax changes. First, ensuring all tax-advantaged accounts are fully utilized will help to mitigate an impact. Second, ensuring the portfolio is geographically diversified can go a long way. If capital flows out of Canada into other areas, a portfolio will have exposure to those geographies that may perform better, helping to mitigate any impact of changing policies to Canadian markets. This offers a good opportunity to open up a portfolio and see where the exposures lay, as many Canadian investors are often overexposed to Canadian markets with upwards of 80% of a portfolio concentrated in Canadian equity.

As is, we would be surprised if capital gains taxes increase this year. While the Canadian economy is moving along, it is hard to consider it 'strong' and with the US moving in the opposite direction with regards to tax rates and economic growth, it is likely to create undue exacerbation in terms of relative attractiveness between two geographies so closely tied to one another. Reducing the 'take home' cash of an individual is also unlikely to be a policy that adds a whole lot of growth or confidence into the Canadian economy but planning for the worst and hoping for the best is not a bad way to structure a portfolio!

A Look at Maximum Diversification ETFs

By Michael Southern, CFA

In June 2016, Mackenzie Investments – traditionally a mutual fund manager – launched two, strategic beta exchange traded funds (ETFs): **Mackenzie Maximum Diversification Canada (MKC)** and **Mackenzie Maximum Diversification USA Index ETF (MUS)**.

For the purpose of this article, we will focus on the above two strategies. However, we note that Mackenzie has since launched four additional funds in the following geographies, employing similar tactics that we will be discussing shortly: All World Developed, All World Developed ex

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North America, Developed Europe, and Emerging Markets.

The primary objective of the ETFs are to increase diversification, reduce biases and enhance risk-adjusted returns. The ETFs follow an index developed by quantitative investment manager TOBAM, which stands for "Think Outside the Box Asset Management." The index is 'anti-benchmark' and is designed to reduce market biases in sectors, styles and market capitalization. Weighting caps will be applied at the stock level and, depending on the index, country and/or regional constraints may also be applied.

With this portfolio construction methodology, we think that these ETFs are a unique proposition, particularly for the traditional Canadian equity portfolio, which is typically dominated by the financial, energy and materials sectors. Let's take a look at how some of the allocations break out. We will compare allocations to ETFs that are often thought of as proxies for their respective geographies: iShares Core S&P/TSX Capped Composite Index ETF (XIC) and Vanguard S&P 500 Index ETF (VFV).

Table 1: Sector Comparison (Canada)

Sector	MKC	XIC	Diff.
Materials	12.7%	13.0%	-0.3%
Consumer Disc.	11.5%	4.0%	7.5%
Financial	23.9%	33.0%	-9.1%
REIT	2.8%	5.0%	-2.2%
Telecommunications	8.6%	6.0%	2.6%
Energy	8.9%	19.0%	-10.1%
Industrials	9.0%	9.0%	0.0%
Technology	6.6%	3.0%	3.6%
Consumer Staples	11.7%	4.0%	7.7%
Healthcare	2.6%	1.0%	1.6%
Utilities	1.5%	3.0%	-1.5%

Table 2: Sector Comparison (United States)

Sector	MUS	VFV	Diff.
Materials	3.6%	3.0%	0.6%
Consumer Disc.	19.0%	11.0%	8.0%
Financial	4.5%	16.0%	-11.5%
REIT	4.9%	2.0%	2.9%
Telecommunications	3.3%	4.0%	-0.7%
Energy	5.6%	7.0%	-1.4%
Industrials	4.6%	11.0%	-6.4%
Technology	16.6%	19.0%	-2.4%
Consumer Staples	14.3%	9.0%	5.3%
Healthcare	16.0%	14.0%	2.0%
Utilities	7.5%	3.0%	4.5%

One can quickly see that MKC and MUS make some large adjustments to sector allocations found in their traditional, broad market peers. In Canada, as expected, MKC has a significantly lower weight to the financials and energy sectors. The bulk of this discrepancy has been reallocated to the consumer discretionary, consumer staples and technology sector. We find this interesting as the latter two are often poorly represented in Canada due to lower diversity of names. That does not mean there are not great, quality Canadian names in these sectors. What it does mean is that we would expect MKC to deliver noticeably different returns than the traditional Canadian equity portfolio.

MUS also makes big departures from its traditional peer. Most obvious is the lower allocation to the financial and industrial sector, in favour of consumer discretionary, consumer staples and utilities. We find this allocation interesting for a few reasons. First, MUS provides strong exposure to sectors that might be considered 'weaker' in Canada, namely consumer staples and technology. It also provides exposure to sectors that are poorly represented in Canada (and in MKC) such as utilities. Finally, some of the lower sector allocations in MUS – financials, energy, industrials, telecommunications – are strongly represented in MKC, both in weighting and company quality. Needless to say, MKC and MUS not only provide a source of diversification away from their traditional market peers, but as a pair may represent a good compliment to each other, due to their sector balance as a whole.

The sector departures are certainly interesting but we can dig a level deeper and take a look at the underlying holdings, again, compared to XIC and VFV.

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Table 3: Top Positions (Canada)

Holding	MKC	Holding	XIC
Goldcorp	3.4%	Royal Bank of Canada	7.0%
Agnico Eagle Mines	3.3%	Toronto Dominion	6.3%
Rogers Communications	3.2%	Bank of Nova Scotia	4.7%
Franco Nevada	3.2%	Canadian National Railw.	3.5%
Shaw Communications	3.2%	Suncor Energy	3.4%
Transcanada	3.1%	Bank of Montreal	3.2%
Saputo	3.0%	Transcanada	2.6%
Intact Financial	3.0%	Enbridge	2.5%
CGI Group	2.9%	BCE	2.5%
Canadian Tire	2.9%	Manulife	23.0%
	31.2%		58.7%
Total Number of Holdings: 51		Total Number of Holdings: 251	

Table 4: Top Positions (United States)

Holding	MUS	Holding	VFV
Netflix	1.7%	Apple	3.3%
Apple	1.6%	Microsoft	2.5%
Amazon	1.6%	Exxon Mobile	1.8%
Newmont Mining	1.6%	Amazon	1.6%
Tyson Foods	1.5%	Johnson & Johnson	1.6%
Facebook	1.5%	Facebook	1.5%
Dollar General	1.4%	JP Morgan	1.5%
Humana	1.3%	Bershire Hathaway	1.5%
Intuitive Surgical	1.2%	General Electric	1.3%
Electronic Arts	1.2%	AT&T	1.3%
	14.6%		17.9%
Total Number of Holdings: 437		Total Number of Holdings: 509	

There are a number of interesting things to note here. First, the names themselves vs. their traditional peers show little in the way of overlap. XIC is of course dominated by the 'Big Banks' but none of these names find their way into the MKC Top 10. This is a true departure from the norm!

However, the most intriguing observation here is the weighting schemes. To us, MKC reminds us of an equal-weight strategy. The Top 10 names are all held close to a 3.0% weight. With 51 total positions and the Top 10 accounting for 31.2% of the allocation, this leaves 41 holdings that make up the remaining 68.8%. On average, this is a position weight of 1.7%. Across the total MKC portfolio, the average weight is just shy of 2.0%. Compare this to XIC where the average weight across the portfolio is 0.4%, the Top 10 comprise 58.7% of the portfolio (average weight of 5.9%) and the remaining 241 names show an average weight of 0.2%. Needless to say, MKC is a higher conviction approach with 51 total positions and each should be a significant contributor to overall performance.

In the case of XIC, a strong portion of performance will be dominated by a handful of positions and remaining names are held at a weight such that fundamental changes to the security likely have minimal impact on returns.

Moving onto MUS, the discrepancies noted in the Canadian comparison do not seem as strong in the US pairing. We first were drawn to the fact that MUS and VFV hold a similar number of total positions, where as MKC holds roughly 1/5 the number of its peer. While MUS does have slightly more diversification in its Top 10 by avoiding a higher weight to Apple, the weighting scheme of the Top 10 is similar to VFV. With almost 500 positions, there is of course good diversification here but you are certainly not getting the higher conviction approach as you do with MKC.

With these funds still less than a year old, there is not much to report on in the way of performance and risk-adjusted metrics. The latter is an unfortunate absence, as this is one of the key benefits purported by the fund manager/TOBAM index. However, we note that since July 2016, MKC is up 6.7% vs. XIC at 10.9%, and MUS is up 7.6% vs. 13.5%. We are not surprised by the underperformance here, as both funds are significantly underweight to the financial and energy sectors, which of course have had an excellent 2016, and financials are continuing their strong performance into 2017. These short-term observations do support the point that investors will receive differentiated performance away from traditional ETF benchmarks. However, the lack of performance data and analysis of how MKC and MUS hold up under different market environments is a risk that should not be overlooked.

Another risk worth noting are assets under management, or AUM levels.

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The funds have been gaining AUM steadily since their inception but both are still below our preferred $50 million AUM threshold. AUM for MKC and MUS is $22 million and $33 million, respectively. Trading volume is low on the ETFs and this can be a concern as it relates to the bid-ask spread on the funds. Limit orders may then be the best way to go if looking to start a larger position. As a risk management measure, it could be worth waiting until AUM levels get closer to the $40 - $50 million mark.

Management fees for the suite of 'Maximum Diversification' are 0.60%. At this price point, the MER is more than 50 basis points higher than those of passive index ETFs such as XIC. In order for these fees to pay off, the TOBAM indexes must live up to their strategic-beta goals of beating their market benchmarks with below-average market volatility.

Quaterly Update: ETF Recommended List

By Michael Southern, CFA

Equities have had a solid quarter and many of our recommended exchange traded funds (ETFs) are showing good returns. In fact, as it related to our equity picks, only the BMO S&P/TSX Equal Weight Oil & Gas (ZEO) is negative on the quarter. Of course, much of this rally has had to do with the Trump, pro-growth story. But investor enthusiasm is beginning to wane, and markets are now turning their attention to Trump's immigration policies and their potential to hurt the United States (US) economy. Investors are also directing more attention to the US Federal Reserve (FED). Investors are looking for signs of consensus among policy makers on the timing of the next interest rate increase, and market-implied probabilities show an 89% chance of a rate hike in March. Oil continues to hold its ground above $50 per barrel: West Texas Intermediate for April delivery was trading at $54. While the current production-cut deal is expected to remain in place until June 2017, we could see some higher volatility in oil prices if investors expect there will not be a renewal beyond this period.

Notable Performers

For us, the most notable performer from our ETF recommended list is the iShares S&P/TSX Global Gold Index ETF (XGD), up 12.0% over the last three months. In our opinion, gold is not behaving the way it should be in theory. The last three U.S. interest-rate increases that should, all other things being equal, be bad for metal have seen prices jump in the months that followed. According to Bloomberg, gold is up about 7% since the FED raised rates in December 2016. It jumped 13% in the two months following the last increase in December 2015 and 6% the previous time way back in June 2006. The reason is partially rational expectations. This time one of those things is Donald Trump's presidency. Uncertainties surrounding his administration have dominated markets since the election. Precious metals initially plunged as investors noted Trump's vow to supercharge the economy with infrastructure spending. Yet, with Trump's time in office so far focused on other matters, the trend was quickly halted and reversed, benefitting the yellow metal.

The financial sector continues to see solid gains under deregulation talks out of the US and the expectation for higher interest rates over 2017. Even with the BMO S&P/TSX Equal Weight Banks (ZEB) returning 13.2% over the last quarter, the ETF still trades at an attractive valuation. The forward P/E of 12.2x is certainly appealing vs. the broad market at 16.6x (as measured by the S&P/TSX 60 Total Return (XIU)). The energy sector has pulled back over the same period so this has muted gains in the

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bank/energy -heavy XIU ETF, up 4.1%.

We also wanted to highlight the BMO Covered Call Canadian Banks ETF (ZWB). We added this satellite ETF in 2016 for its covered call strategy. This was a means for investors to earn some extra income while they waited out a potential recovery in the financial sector. With the recovery well under way, we think investors are better off owning the basic version of this ETF, ZEB. We hold ZEB under the sector-focused ETFs. ZWB has slightly underperformed ZEB year-to-date, as would be expected from a covered call strategy. In an up-market, underlying positions are 'called-away' and the fund has to repurchase its allocations at increasingly higher prices vs. what the position was sold for.

For those with a thesis that banks will continue to show momentum, there is more upside to ZEB, in our opinion. If the trade or sector goes sideways, ZWB may outperform ZEB on a total return basis. Investors with a lower risk tolerance or higher need for income may still be best served by ZWB; however, for the general growth investor with a longer time horizon, we prefer ZEB at this time.

ETF Additions

With three rate hikes potentially on the table from the US FED in 2017, tilting the fixed income portfolio to lower duration strategies is worthwhile from a risk management perspective. With that, we have added two new bond strategies.

iShares 1 – 5 Year Laddered Government Bond (CLF): This is a high quality, low duration product, and should hold up relatively well vs. poorer credit qualities (and higher durations). CLF pursues the popular bond ladder strategy of dividing the portfolio equally across bond maturity segments (1 – 5 years). The methodology systematically reinvests the proceeds from bonds sold and rebalances into the longest maturity segment, seeking to capitalize on the traditional shape of the yield curve (upward sloping). This positions ladders favorably for a rising interest rate backdrop vs. bond ETFs whose benchmarks have more static duration characteristics.

iShares Interest Rate Hedged High Yield Bond ETF (HYGH): This product is nearly identical to the well-known iShares High Yield Bond ETF (XHY), but with one key difference: It also employs interest rate swaps to hedge rate risk. HYGH is basically XHY but with a near-zero duration. In light of the jump in bond yields since the U.S. election, interest rate hedged products could prove to be a hot trend. Unfortunately, most of these products have not been around long enough to see how they perform amid a rising rate environment. HYGH only launched in May 2014. However, the nearly 5.0% percent yield investors get with this product, and the rate hedge, make this a quite attractive option. This is a USD$ option.

Mackenzie Maximum Diversification Canada Index ETF (MKC): The sector-balanced allocation approach on this ETF could be a big added value for the traditional Canadian equity portfolio. See this issue's article for more details on these funds.

ETF Deletions

iShares U.S. High Yield Bond Index ETF (CAD-Hedged) (XHY): We continue to like this ETF but have removed it in favour of the (HYGH) addition. Investors that continue to require high yield exposure in CAD$ can still use XHY.

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Broad Market 'Core' ETF								
Name	**Ticker**	**Region**	**Strategy**	**3-month return (%)**	**1-year return (%)**	**P/E (NTM)**	**Yield**	**Comments**
iShares MSCI World	XWD	Global	Broad market	4.4	12.9	17.2	2.7	If you can only hold one ETF, this should be the one. XWD offers the broadest global equity diversification with good sector balance.
S&P/TSX 60 Total Return	XIU	Canada	Broad market	4.1	22.8	16.6	3.1	The largest ETF in Canada with almost $12 billion in AUM. Roughly a 40.0% allocation to the financial sector.
Claymore CDN Dividend & Income Achievers	CDZ	Canada	Dividend	5.8	21.7	15.7	4.6	For a Canadian strategy there is a good balance across sectors. Even split over small/mid/large-caps.
Mackenzie Maximum Diversification Canada ETF	MCK	Canada	Broad market	5.8	21.7	15.7	4.6	For a Canadian strategy there is a good balance across sectors. Even split over small/mid/large-caps.
Vanguard U.S. Total Market	VUN	United States	Broad market	4.6	18.4	19.0	2.1	A total market approach offers an advantage over traditional market-cap weighted indices in that there is better representation from small-caps.
Vanguard U.S. Dividend Appreciation	VGG	United States	Dividend	4.3	12.2	20.0	2.2	Sector tilts make a good pairing to balance out Canadian sector bias.
Vanguard FTSE Developed Europe All Cap	VE	International - Europe	Broad market	6.0	3.8	15.1	3.5	Good diversification from a sector and country perspective. The U.K. is a roughly 30% allocation.
Vanguard FTSE Emerging Markets All Cap	VEE	International - Emerging Markets	Broad market	7.1	20.8	12.8	3.4	There are many ways to play the region: EM, BRICS, single country exposure. VEE is the low cost leader in the EM category.
BMO MSCI EAFE (CAD-Hedged)	ZDM	International - EAFE	Broad market	6.9	16.4	15.5	3.5	Efficient method to gain exposure to both greater Europe and Asia (developed). A low cost leader in the EAFE category.
Specialty 'Satellite' ETF								
First Asset Morningstar Canada Momentum	WXM	Canada	Momentum	1.8	16.3	16.5	2.5	WXM screens for above average returns on equity, with an emphasis on upward earnings estimate revisions and price momentum indicators.
BMO Covered Call Canadian Banks	ZWB	Canada	Covered call	3.7	6.4	11.8	4.4	Covered call writing will give income investors extra yield over traditional dividend stocks at the cost of capital appreciation in an upward market.
PowerShares Buyback Achievers Portfolio	PKW.US	United States	Buybacks	4.4	23.2	14.5	1.8	Share buybacks are often an overlooked source of income. PKW makes a good compliment to the traditional dividend portfolio.
iShares Russell 2000 Growth	IWO.US	United States	Small/micro-cap	4.6	32.6	22.9	0.9	A useful compliment to funds such as VUN for investors looking to grow the portfolio. There is a 90.0% allocation to small/micro-cap equity.
iShares S&P/TSX Completion	XMD	Canada	Mid/small-cap	5.1	21.7	17.2	3.0	A useful compliment to funds such as XIU. Allows investors to access the small/mid-cap space not addressed by market-cap weighted products.
Sector ETF								
iShares S&P Global Consumer Discretionary (CAD-Hedged)	XCD	Global	Consumer Discretionary	4.8	15.6	16.4	2.1	With many globally recognized brands such as Starbucks and Addidas, we find it hard to limit exposure to the Canadian sector.
Vanguard Consumer Staples	VDC.US	United States	Consumer Staples	7.1	9.1	19.4	2.6	The sector is poorly served within Canada and domestic ETFs typically hold less than 10 stocks.
BMO S&P/TSX Equal Weight Oil & Gas	ZEO	Canada	Energy	-3.8	27.5	25.6	4.7	With higher sector volatility, the equal weight strategy is appealing to limit any single stock exposure.
BMO S&P/TSX Equal Weight Banks	ZEB	Canada	Financials	13.2	40.2	12.2	3.9	Exclusively the 'Big Six' banks. A higher conviction strategy than the U.S. counterpart with approx. 16.0% weight per equity position.
BMO Equal Weight REITs	ZRE	Canada	Financials - REIT	8.2	12.7	12.1	6.2	Like the equal weight aspect, as peers are top heavy in a few names, notably the Riocan REIT
iShares Global Healthcare (CAD-Hedged)	XHC	Global	Healthcare	7.5	7.7	18.0	2.2	The sector is strong in the U.S. and greater Europe. We like the high conviction with 26.0% allocated to the top five names.
BMO S&P/TSX Equal Weight Industrials	ZIN	Canada	Industrials	6.0	40.2	15.2	2.1	The sector is well-represented in Canada. Stocks are typically smaller in size vs. global peers. Average market-cap is $3 billion.
iShares S&P Global Industrials (CAD-Hedged)	XGI	Global	Industrials	6.4	21.8	17.6	2.3	Despite a strong Canadian sector, we always side with diversification. Average market-cap is $40 billion.
iShares S&P/TSX Global Gold	XGD	Global	Materials	12.0	23.3	25.6	1.0	Higher volatility is almost assured in the general commodity space. We like the idea of gold as an insurance/flight to safety hedge.
iShares NASDAQ 100 (CAD-Hedged)	XQQ	United States	Technology	9.5	26.2	21.6	1.2	Top five stocks account for 35.0% of the allocation and are some of the biggest technology brands globally: AAPL, FB, GOOG, MSFT, AMZN
Vanguard Telecommunication Services	VOX.US	United States	Telecoms	5.5	16.2	18.1	3.3	There are no sector ETFs in Canada or that trade in CAD$, which could be expected as the sector is dominated by a handful of names: T, BCE, RCI.B
BMO Equal Weight Utilities	ZUT	Canada	Utilities	9.2	17.5	15.5	4.6	Investors should recognize many 'Steady Eddy" names here. Like the equal weight aspect, as peers are top heavy in a few names.

Fixed Income ETF								
Name	**Ticker**	**Region**	**Strategy**	**3-month return (%)**	**1-year return (%)**	**Duration (years)**	**Yield to maturity**	**Comments**
iShares Canadian Universe Bond	XBB	Canada	Broad market	-1.3	-2.1	7.3	2.2	One of Canada's largest bond funds with exposure across the total fixed income market. Primarily invested in government bonds.
iShares 1-5 Year Laddered Government Bond	CLF	Canada	Government	-1.0	-3.1	2.7	1.1	Equal split between federal and provincial issuers; an average credit rating of 'AA'.
iShares 1-5 Year Laddered Corporate Bond	CBO	Canada	Corporate	-0.4	-0.6	2.8	1.8	The financial sector accounts for 60.0% of issuers; an average credit rating of 'A'.
iShares S&P/TSX Canadian Preferred Share	CPD	Canada	Preferred Share	9.3	23.7	N/A	4.7*	Good tool for some diversification for the income investor. Both perpetuals and reset prefs (reset to the 5 year Gov. of Canada bond).
iShares Interest Rate Hedged High Yield Bond ETF	HYGY	United States	High Yield	3.0	15.7	0.4	4.5	Suggest a maximum 10.0% fixed income portfolio weight. Sector allocation of 25.0% to communication companies, mostly small-cap.

*Trailing 12-month yield

Data as of February 23, 2017

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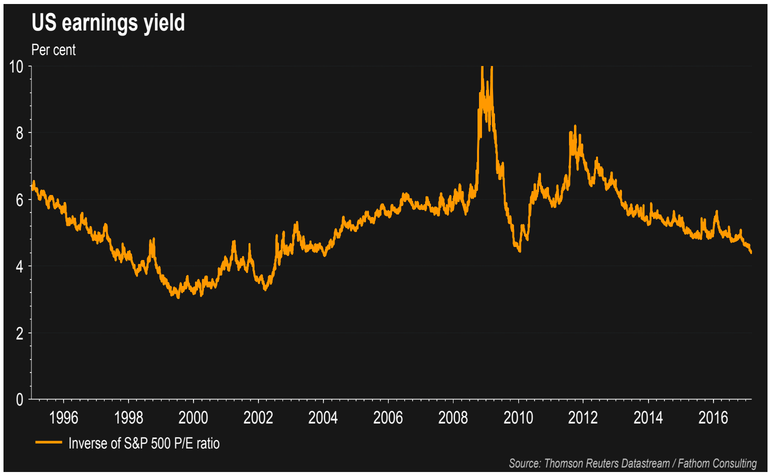
Charts of Interest

Are Markets Overvalued?



There has been a lot of talk about markets being overvalued as of late and there are a lot of ways one can tackle the question. Above, we look at the S&P earnings yield (Earnings/Price) as well as some variations of the P/E ratio. Every reader will likely take a different conclusion from these charts, but our view would simply be that yes, it is hard to call stocks cheap at this stage. However, if we compare valuations to the tech-bubble back in ~2000, it is still likely too early to call this market frothy or a bubble. Finally, the climb higher looks to be somewhat orderly, compared to what one would expect to see when investors are piling into a market ‘at any cost’. Food for thought.

5i Research: Question and Answer

Question: Which ETF would be your preference? Vanguard VSP or VFV?
Answer: Predicting which way currency trades will go is extremely difficult to do. Over the long-term, currency fluctuations will go in both directions and no one can predict which will win out. For these reasons we think investors are better off keeping a portion of their portfolio unhedged. We think the average growth investor with a long-term time horizon can have 20.0% - 30.0% of the portfolio allocated to currency sources of returns. We view currency exposure from two perspectives: direct and indirect. Direct currency exposures are positions held in a foreign currency; indirect currency exposure are positions held in CAD$ but unhedged. If a limited amount of your portfolio is exposed to these currency sources of returns, we think VSP is fine but we would check your current allocations first.

Question: What do you think of holding 5% of gold in my portfolio? If so, what would you recommend? Specific company or ETFs?
Answer: We think the asset class has a place in most portfolios, as gold can provide diversification benefits to a portfolio of stocks and bonds. We would be fine with a 5% weight. As you are starting an allocation, we prefer an ETF here. You need to make a decision as to whether you want to buy a gold bullion ETF, or an ETF that invests in say, gold producers/miners. With the former, you of course get direct exposure to the commodity itself and the latter gives you additional exposure to the performance and operations of the underlying company. Our preferred ETF is XGD. This ETF invests in shares of gold mining companies in the S&P/TSX Global Gold Index. The weight of any one company is limited to 25%. XGD does not currency hedge its non-Canadian holdings. It offers a low cost and has exposure to the global gold mining industry, not just Canada.