CANADIAN ETF Watch

VOL 2 ISSUE 6 NOVEMBER 2011

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The Next Dimension of ETFs

- Volatility Mitigation Strategies in an Uncertain Market
- Covered Call Writing ETFs: the Perception and the Reality
- Workers of the World Untied: Has Capitalism Come Undone?
- Exchange Traded Forum 2011 Montreal Review

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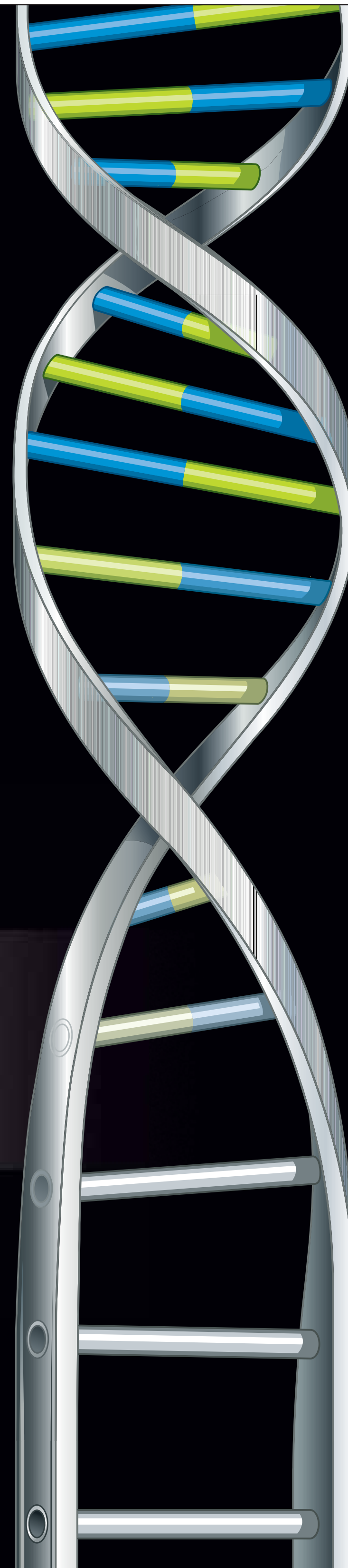

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On behalf of myself and the entire **Radius Financial Education (Radius)** team, I would like to thank all our sponsors and attendees for their support at our most recent **Exchange Traded Forum (ETF)** in Montreal and throughout the entire year.

In addition to this **Canadian ETF Watch (CETFW)** publication I encourage all of you to visit the Canadian ETF Watch website at **canadianetfwatch.com** for up-to-date information, news and data on the Canadian marketplace.

The recently released first **Quarterly ETF Asset Flow Report** by the **Canadian ETF Association (CETFA)** shows some interesting trends. The industry is growing strongly with total net sales across all ETF providers of $2.77 billion. The number of ETFs is also exploding: 18 new ones were introduced during the last quarter alone bringing the total up to 213. So far this year, the most popular ETF categories have been Canadian fixed income, Speciality and Sector Equity. Surprisingly, despite the volatility in the stock markets, Canadian equity remained popular and ranked #4 in net sales.

- In October 2011, iShares was the largest Canadian provider with 68% of AUM market share followed by Claymore Investments with 16% and BetaPro Management with 8%
- iShares has lost market share this year to BMO Asset Management, Claymore Investments and PowerShares
- Collectively, the top three providers account for 91% of ETP AUM

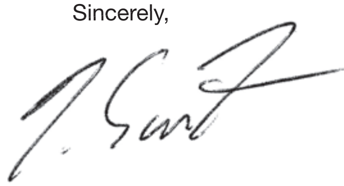
After a record-setting October gave investors hope that 2011 would finish on a strong note, the first couple weeks of November have effectively taken any wind out of those sails. The culprit–surprise, surprise–has been the cash-strapped PIIGS economies of Europe, with Italy now grabbing the spotlight as a serious credit risk and a grave threat not only to Europe but to global financial markets.

And just like that, it appears as if we are heading to a dismal end to a generally dismal year for many investors. The asset classes that had powered big recoveries in 2009 and 2010, such as commodities and emerging markets, have largely fallen flat this year. Most major benchmarks are in the red year-to-date, and it's probably a safe bet to say that many investors may have lost money this year.

At Radius our goal is to provide our visitors with informative content that is developed and written for your specific ETF needs. We are hard at work putting together the agenda for **ETF 2012** and welcome your thoughts and suggestions. Please feel free to email them to **info@radiusfinancialeducation.com**. Although the dates are not confirmed yet for ETF 2012, we anticipate Toronto to take place in May, Montreal in October, followed by Calgary & Vancouver in June. Up-to-date information on the progress of the forums can be found at **exchangetradedforum.com**. We look forward to seeing you there!

As this will be our final issue for 2011, I would like to extend a thank you to all our readers and authors for their continued support. We wish you all the best for the coming holiday season and a happy new year. Hope you enjoy **Canadian ETF Watch, Volume 2, Issue 6.**

Sincerely,



Tony Sanfelice, President
Radius Financial Education

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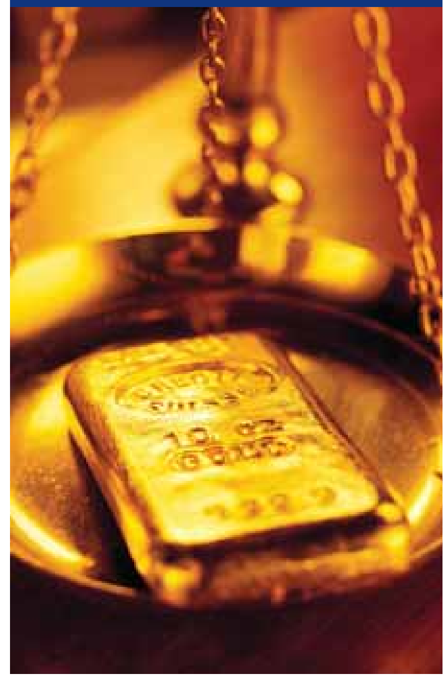

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Types of ETFs

*There are a variety of **Exchange Traded Funds (ETFs)** that provide investors an opportunity to develop a diversified investment portfolio. ETF sponsors are constantly adding to the types of ETFs available, providing investors with more choice. Many ETFs track the performance of an underlying index or benchmark. The underlying index or benchmark may be broad, or sector-specific, or be linked to commodities or currencies. ETFs have evolved, however, to include those that do not passively track an underlying index or benchmark.*

ETFs can be grouped into different categories, which may include:

Index ETFs

ETFs that use an index tracking approach generally follow a pre-selected index, called a benchmark, and the return on the ETF will closely correlate with that of the underlying index. Index ETFs follow a variety of indices, including the broad market (both Canadian and international), sectors such as infrastructure or health care, and commodities (including natural gas, oil and gold), as well as indices that offer exposure to dividends or fixed income. The weightings used in the underlying index could be based on market capitalization of the constituents or on fundamental factors such as financial criteria. Index ETFs may also follow indices that adhere to a certain investment style, such as value or growth.

Inverse and Leveraged ETFs

Inverse ETFs are designed to seek daily investment results that correspond to the inverse daily performance of their underlying index or benchmark. To meet their investment objectives, inverse ETFs use a variety of derivatives such as futures contracts and index swaps to reproduce a daily result that is the opposite of the underlying index or benchmark; so, when the index or benchmark goes down in value on a given day, the inverse ETF will correspondingly go up in value for that given day. Conversely, when the index or benchmark goes up in value, the inverse ETF will correspondingly go down in value. Investing in these ETFs is similar to holding short positions, or using a combination of advanced investment strategies to profit from declining prices.

Leveraged ETFs are designed to seek daily investment results to provide a multiple of the daily performance return of an underlying index or benchmark (for example, 200% the return). They are not intended to provide that same multiple of the return over the mid or long term. Investors should be aware that, while leveraged ETFs typically achieve their stated objective of a multiple of the daily performance of an underlying index on a daily basis, their returns can vary considerably from that stated objective if held for a period longer than one day. Note that some leveraged ETFs are also inverse, in that they track the opposite of the return of an underlying benchmark.

To meet their investment objectives, leveraged ETFs use a variety of derivatives such as futures contracts and index swaps to provide a multiple of the market exposure of the stocks in the fund. Leveraging increases the risk of the investment in such an ETF, in that losses will be magnified by that same multiple.

Inverse and leveraged ETFs are generally intended for use in daily or short-term trading strategies, and are not intended for investors who are looking to hold positions in a security beyond the short-term. Over time, a leveraged fund can drift from its benchmark due to the effects of compounding, especially during periods of market volatility. Therefore, the return on these ETFs for periods longer than a single day will not correlate with the return of the underlying benchmark. Accordingly, significantly more risk is involved in these types of ETFs than in index ETFs.

It is important that investors clearly understand the nature and risks of any ETF prior to investing.

Commodity ETFs

Commodity ETFs provide exposure to commodities such as energy (e.g., natural gas or oil), precious metals (e.g., gold, silver or platinum), or livestock and grains, either by (i) holding the physical commodity directly, (ii) tracking the performance of the spot market price through physical forward contracts, or (iii) investing in or tracking the performance of commodity futures contracts. ETFs that hold the physical commodity provide exposure to the spot price of the commodity without the trouble of storing the commodity. ETFs that hold futures provide exposure to futures without the trouble of rolling them over. Most commodity indices are futures price indices, reflecting a change in the price of commodity futures, not in the commodity price.

Currency ETFs

Currency ETFs provide exposure to currencies and can also hold either the actual currency or futures contracts. Some are designed to be long or short on one currency against others; some are designed to hold a mix of long and short futures positions among several currencies.

Actively Managed ETFs

Index ETFs are generally designed around a passive strategy and therefore typically have lower management fees. Some ETF providers offer actively managed ETFs that operate more closely to the concept of a mutual fund. These ETFs have an active manager making investment decisions, often with the objective of outperforming rather than tracking a particular benchmark index, but usually with lower management fees than a traditional mutual fund.

Exchange Traded Notes (ETNs)

Exchange traded notes are debt obligations of the issuer and trade like ETFs. They do not guarantee any return of principal at maturity and do not pay any interest during their term. While they exhibit no tracking error in that their return at maturity is linked to the return of the underlying index (minus expenses), they do exhibit credit risk linked to the issuer. ETNs offer long and short or inverse exposure to commodities and currencies as well as leveraged exposure.

Source: tmxmoney.com

The Next Dimension of ETFs

The second half of the last decade saw an explosion in the number and variety of ETFs being offered globally. That proliferation was clearly evident here in Canada. The marketplace has evolved in three significant ways that have allowed ETFs of all kinds to proliferate and become ubiquitous in the financial landscape.

Barry Gordon
President & Chief Executive Officer

XTF CAPITAL
EXCHANGE TRADED FUNDS
A First Asset Company

1 ETF providers have become more sophisticated in their ability to come up with different ways to view the investible universe, and have developed new ways to deliver those solutions; *hand-in-hand with*

2 Acceptance by both retail and institutional investors of ETF product delivering exposure to more than just "simple" capitalization weighted beta; *facilitated by*

3 More adept and competitive market makers, willing and eager to work with ETF sponsors to deliver their proposed investment solutions to investors in ETF format

As you can tell from the presentation above, the three factors are interrelated, and each has been integral in creating the modern ETF landscape. I'll briefly discuss all three, and then outline how I think the marketplace is evolving – what we refer to as the next dimension of ETFs. This treatment is necessarily brief, and ignores or understates many important developments in the ETF landscape.

Development of Different Strategies

It will not be news to those of you who have watched ETFs over the past decade that the concept of what constitutes an index has evolved. Initially, delivering market capitalization weighted index beta, on "traditional" indices like the S&P 500 or the S&P/TSX 60, with minimal tracking error and at low cost, was the order of the day. Next, the ETF world began ordering itself in different ways, delivering "style beta" in the form of growth oriented, value oriented and GARP oriented indices which measured the relative attractiveness of stocks based on commonly accepted metrics like price/earnings. Then, as different ways to measure the relative attractiveness of equities continued to evolve, this translated into a whole new series of ETFs based around replicating these relative value strategies – what I call, for lack of a better term, "modern index" strategies, such as economic value added, or fundamental value. Set aside whether these valuation methodologies are in fact "modern", I use the term only to convey their newness in the ETF sense and not as a judgment on their efficacy. Along the way, academics have debated the relative merits of all of these strategies, including variants of indices using equal weighting as the raison d'etre.

Paralleling the evolution of what constitutes an index, we have observed the proliferation of single-strategy or commodity ETFs, delivering returns on gold, oil, gas, currencies and even volatility.

Many of these trends have also been paralleled in the fixed income world. The relative opacity of the bond market has in many respects slowed the growth of fixed income ETFs though. However, I believe that will change.

Layered on top of all of the above are strategies that deliver inverse returns and daily returns that are a multiple, up or down, of the reference index, strategy or commodity. Many observers and commentators muse that there are now too many varieties of ETFs – that the ETF industry has become profligate.

Demand Led Development

I think it is axiomatic to say that the current size of the ETF market – some $40 billion in Canada and $1.4 trillion globally – and its 20% a year growth rate experienced over the past several years, with the corresponding development of all the different types of ETFs, is a result of investors seeking alternatives they want and need. The attractiveness of ETFs as a delivery vehicle for investment returns, be it index beta, commodity beta or otherwise, has led to proliferation. Admittedly, in rapid growth markets like ETFs we observe the "build it and they will come" phenomenon. There have been and will continue to be ETFs which never reach their hoped for potential. Suffice it to say that individual investors, their advisors, as well as institutions, are increasingly looking to either: (a) shift assets into what they often perceive to be lower cost delivery solutions, and/or (b) diversify away from the traditional asset allocation paradigms and are looking for transparent, liquid ways to invest in an increasingly sophisticated global marketplace of investment ideas. I believe this trend will continue. I particularly believe we will observe a gradual but inexorable adoption of ETFs into the portfolio construction processes of investment advisors in Canada, as they realize they can adopt and adapt without dis-intermediating themselves in the advice channel.

Market Makers and Algorithms

Long gone are the days when market makers processed trades and hedges by hand (they did!). The development of increasingly complex and effective programs to trade baskets of equities and bonds, futures, options and to delta hedge exposures, have allowed ETFs to thrive. The number of ETF sponsors now offering solutions to the market, and the variety of investment choices within the ETF universe, has been facilitated by the relative ease of new product development. The industry should not underestimate the importance of these developments, and the access to bank and dealer balance sheets, in the rapid expansion of the ETF marketplace.

Where to now?

Many observers postulate that there are too many ETFs already. How can there possibly be demand for more? I believe there will continue to be growing demand for ETF solutions that offer different risk adjusted ways to participate in the modern investment world. Investors are well served by the existing suite of ETFs delivering efficient broad market returns to investors on a transparent, low cost basis. However, the financial services market, like every other market in the world, is a constantly evolving one.

The next dimension of ETFs will be those that combine the best qualities of ETFs – transparency and liquidity – with the best qualities of active management. They will address the needs of the new investment reality – lower volatility, uncorrelated returns, current income, tax-efficiency – and be positioned to be solutions for individuals, advisors and institutions alike. Asset classes like convertible bonds, which combine elements of both fixed income and equities. Strategies that attempt to lower volatility, deliver current income but maintain a strong core long exposure to markets. Fixed income strategies which are not achievable by individuals, and address what investors are really looking for from their fixed income allocations – income! Strategies which are driven by tomorrow's investor needs, as opposed to yesterday's.

ETFs are not attractive simply because they are low fee. Anything can be low fee. ETFs are attractive when and if the solution they provide, for the fee they charge, is attractive, relative to the alternatives. The best hedge fund managers in the world charge 2% base fees and performance fees of 20% of all net new returns. They are not low fee. However, people flock to the best ones because they deliver value for the fee. ETFs are no different. Next dimension ETF providers will be looking for new ways to deliver value added solutions to investors, addressing specific needs in portfolios. If they do not deliver value relative to the alternatives, they will fail. In addition, some strategies and solutions will fall out of favour, or never achieve it in the first place. However, I believe it is incumbent on the ETF industry to continue to be at the forefront of new product development. We must not let the (correctly held) view that ETFs are presenting some of the most attractive investment solutions for individuals, advisors and institutions, atrophy.

The next dimension of ETFs will: (a) be focused on addressing modern investor needs; (b) assist advisors in their increasingly complex task of constructing portfolios for their clients; (c) deliver value for the fee charged.

Barry Gordon, President and Chief Executive Officer,
XTF Capital and parent company First Asset Capital Corporation.

Volatility Mitigation Strategies in an Uncertain Market

Volatile, temperamental, undecided, distorted... you decide the term to sum up the market's recent behaviour. Though investor sentiment was quick to bounce between "risk-on" and "risk-off" coming into 2011, the pace at which the market changes its mood has become even more rapid since early August.

Alfred Lee
Vice President & Investment Strategist, BMO Asset Management

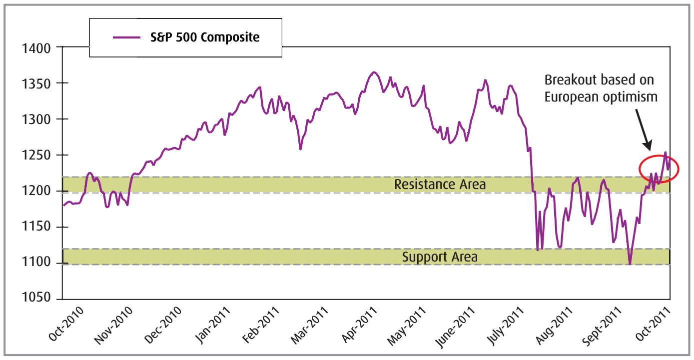
The catalyst to the great uncertainty has been a myriad of events. The primary culprits have been the downgrade of U.S. Treasuries by credit rating agency, Standard & Poor's, the European Sovereign debt issues coming to a boil and increased concerns of China's economy headed for a hard landing. With these three areas struggling, global economic growth could continue to face headwinds, which may also place pressures on global equity markets, despite the recent optimism on the European bailout. Our view is that lower growth and higher volatility will be with us for quite some time as such periods have historically followed extended secular bull-runs.

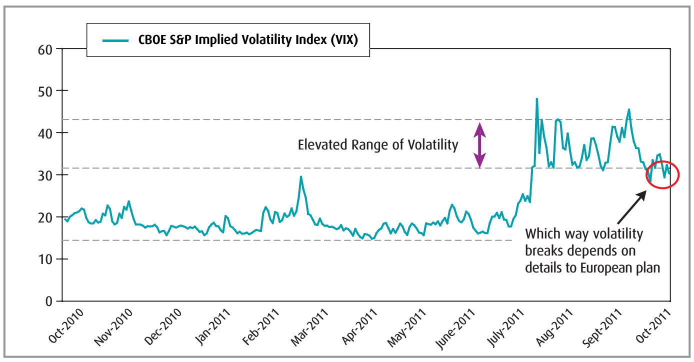
The *CBOE S&P Implied Volatility Index (VIX)*, which is widely recognized as a "fear index" or a gauge to investor sentiment, has itself been volatile due to this uncertainty. In addition, it has remained significantly elevated since the beginning of August. Though the market swings may be good for traders, it has been difficult for longer-term investors, especially those relying on fundamentals. The story at the company level, although promising, has largely been weighed down by the macro-economic and political headlines and markets have followed technical swings.

BMO Financial Group
Exchange Traded Funds

Volatility has a tendency to be mean-reverting, but as we have mentioned throughout the year, one consistent theme is that we do expect volatility to see sudden shocks on a frequent basis, due to the sensitivity of investors' sentiment to negative headlines. Investors as a result, should consider strategies that could potentially help reduce volatility in their portfolio and/or increase income to wait out the turbulence.

Volatility Remains Elevated Despite Recent Rally From Lows





Source: BMO Asset Management Inc., Bloomberg

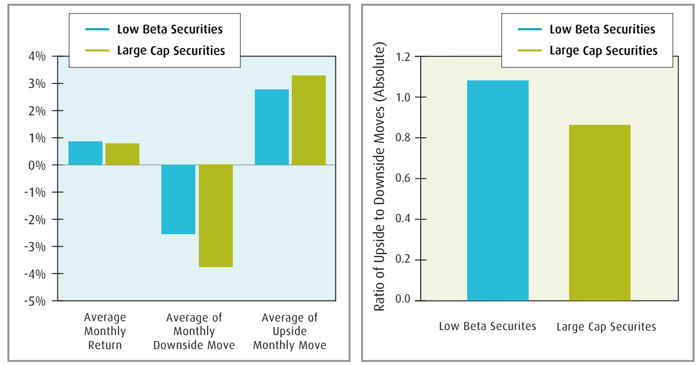
Consideration #1: Reduce Equity Beta

At the onset of the year, one of our major asset allocation strategies was to moderately increase our allocation to non-traditional fixed income such as emerging market sovereign debt and U.S. high yield bonds. Though we don't suggest a large allocation, it should help investors increase their portfolio yield. As these areas tend to be more sensitive to macro-economic factors than traditional fixed income, our recommendation has been to offset some of this risk by reducing beta in the equity component of your portfolio. Investing in lower beta stocks, or equities that are less sensitive to market movement, could potentially help investors reduce some of the market noise.

Financial academia, has always taught us that higher returns can only be generated through higher risk. More recent studies, however, have shown that lower beta equities have actually outperformed over the long-term. Thus investors may not necessarily have to overexpose themselves to risk in order to maximize their returns. The implementation of lower beta stocks could therefore help investors as a volatility reduction strategy and potentially increase their long-run returns, thus creating a more efficient portfolio strategy. Lower beta stocks could be utilized either as a core strategy or a tactical overlay in this challenging market environment.

Potential Investment Idea:
• BMO Low Volatility Canadian Equity ETF (ZLB)

Low Beta Stocks Have Outperformed and Participated Less on Downside



Source: BMO Asset Management Inc., Bloomberg (Please note data is based off of U.S. equities. Large Cap Securities represented by S&P 500 Total Return Index, Low Beta Securities represented by S&P 500 Low Volatility Total Return Index. Data from November 30, 1990 to September 30, 2011)

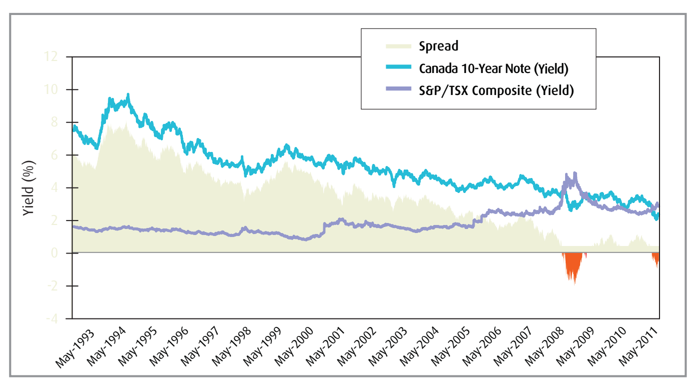
Consideration #2: Increase Dividends

In the 1990's, or what was dubbed "the new era," high flying growth stocks that provided capital gains were the theme of choice for most investors. Historically, however, the majority of the returns from a stock have been attributable to the dividend portion of the investment. Since the 2008 financial crisis, market participants have been looking for equities to "normalize" and higher growth stocks to come back to favour. It can be argued however that we have already normalized, with the outperformance of high growth stocks in the decades past being more of an anomaly. In addition, with U.S. Federal Reserve Chairman, Ben Bernanke, pledging to keep rates low until at least 2013, this may lead to a high demand for yield oriented assets and thus outperformance by dividend paying securities.

Regardless of how the final details of the European debt situation is laid out and how the U.S. handles its growing deficit, an increase in austerity measures is likely to be involved. As a result, the macro-economic backdrop will likely continue to trickle down to the company level. Investors may therefore want to consider companies with sustainable dividends and diversification across sectors as slower growth environment will likely impact various industries differently.

Potential Investment Idea:
• BMO Canadian Dividend ETF (ZDV)

Record Low Interest Rates Should Make Dividend Yielding Stocks Attractive



Source: BMO Asset Management Inc., Bloomberg (Spread is difference between Canada generic 10-year note yield and S&P/TSX Composite dividend yield)

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Consideration #3: Covered Call Strategy

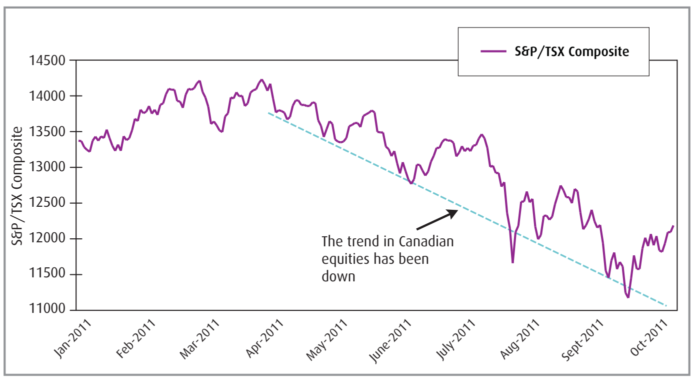
One strategy that we have favoured during the year are covered call strategies, which involves going long equities and then selling call options against some of those positions. (For a more detailed explanation of the mechanics behind a covered call strategy, please see the white paper on our website www.bmo.com/etfs.) This is a consideration for investors that may want to both potentially reduce volatility and raise income.

In a bear market, as we currently find ourselves in, a covered call option writing strategy will help investors raise yields in their portfolio strategy while slightly limiting the downside risk by the option premiums. Covered call strategies will however underperform a non-covered strategy in an aggressive bull market. A number of studies have shown that covered call strategies may offer better risk/return profiles than an uncovered strategy. The addition of covered call strategies in your portfolio can thus potentially improve its efficiency. Though investors should always consider their risk-adjusted returns, in today's market environment, it is even more important to do so.

Potential Investment Idea:

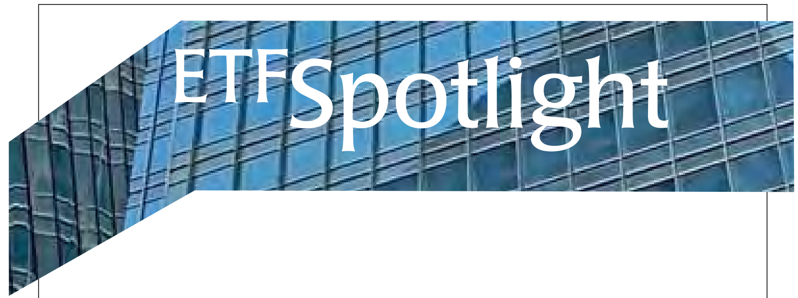
- *BMO Covered Call Utilities ETF (ZWU)*
- *BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF (ZWA)*
- *BMO Covered Call Canadian Banks ETF (ZWB)*

Covered Call Strategies May Help Offset Weakness in Equities for Canadian Investors



At the time of writing this report, the market is still anticipating final details out of the European Union Summit in how they will deal with their sovereign debt crisis. Though the markets have rallied on optimism, the deadline has been moved back a number of times already, which may leave us in another situation where leaving key decisions to the eleventh hour may be frowned upon by the market. Regardless of whether a solidified plan is eventually released or not, it may be a short-term solution, and the devil may be in the details as the recent rally has been lifted by unbacked optimism at the time of this report. Regardless, the economic growth in the coming decade may be muted to what we've been accustomed to in the last two decades and volatility is likely to remain with us, with a number of unresolved economic concerns. Investors may therefore want to consider reducing volatility and/or raising income as part of their portfolio strategy using the considerations previously discussed as they are portfolio construction ideas for long-term investors.

Alfred Lee, Vice President & Investment Strategist,
BMO Asset Management ***alfred.lee@bmo.com***



Global X Funds Launches First Social Media ETF

New York, November 15, 2011 – Global X Funds, the New York based provider of exchange traded funds, today launched the Global X Social Media Index ETF (NASDAQ Ticker: SOCL), the first ETF globally to focus on social media companies.

The social media industry continues to grow rapidly, providing new ways for people to connect, share, shop, create and network. The Global X Social Media Index ETF attempts to capture this global industry in a single ETF, and includes companies from all over the world that provide social networking, file sharing, and other web-based media applications.

User growth in social media has skyrocketed; a Pew Research Center survey says that in 2011 approximately 65% of adult internet users said that they use a social networking site, which is nearly double the percentage that reported social network usage in 2008. An increase in mobile phone usage has further propelled social media, with nearly 40% of social media users accessing such content directly from their mobile phones (Nielsen, 2011). Not only are individual users tapped into this phenomenon, but approximately 84% of Fortune 100 companies utilize branded social media channels, while nearly 81% of the top Asian companies have expanded into branded social media channels, according to a 2011 study conducted by Burson-Marsteller. In the U.S. social media use by small businesses has grown to include nearly one out of every three businesses, demonstrating rapid growth with room for further expansion (Network Solutions, 2011).

"SOCL can provide an efficient way to tap into this global, dynamic sector," said Bruno del Ama, chief executive officer of Global X Funds. "As the industry continues to expand through IPOs, the index will capture these new companies shortly after their public debut, providing a relatively cost effective way to gain exposure to the social media industry."

The Global X Social Media Index ETF tracks the Solactive Social Media Index, which is designed to reflect the equity performance of companies involved in the social media industry. As of November 11, 2011, the Underlying Index's three largest stocks were DeNA Co., Sina Corp. and Netease.com Inc. International country exposure as of November 11, 2011 includes: China [36.28%], US [26.22%], Japan [19.95%], Russia [9.55%], Germany [2.28%], and other [5.65%].

Covered Call Writing ETFs: the Perception and the Reality

The covered call investment strategy, and covered call writing exchange-traded funds (ETFs) in particular, have gained popularity in recent months.

Oliver McMahon
Director,
Head of iShares Product Management,
BlackRock Asset Management Canada Limited

While the strategy has been around for a long time, it is useful for investors to understand the mechanics, advantages and disadvantages of this particular investment approach, with a specific focus on its suitability within the ETF structure.

While ETFs began as simple, transparent, and low-cost instruments through which investors could gain access to the major market indexes, such as the S&P/TSX 60 Index, the S&P 500 Index and the MSCI World Index, their tremendous popularity and growth has spurred innovation – and innovators.

Recently we have seen a rush of ETFs that are more complex than the original or conventional ETFs that came to market – those that hold the securities directly and aim to track a benchmark. Leveraged, inverse, active and various ETFs investing primarily in derivative products are now available in the marketplace. While these new innovations may bring a host of advantages, we would also argue that some of the original benefits of ETFs have been eroded. ETFs originally became popular for their simplicity, low cost, tax efficiency, liquidity and transparency. As we see the market develop, it is important for investors to keep those precepts in mind. It is also critical for investors to fully understand the strategies they are buying in to so that they can appropriately determine suitability in their portfolios, and the types of risk/return characteristics to expect.

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Covered Call Writing: The Mechanics

Some definitions are in order here. An "option" is a derivative, whose value is related to an underlying security. Options can trade on a regulated exchange, such as the Montreal Exchange, or over-the-counter as customized contracts between two parties. Options take two basic forms: puts and calls. We will focus our discussion on the latter as it is "calls" that are used in the covered call strategy.

A call option gives the "buyer" the right, but not the obligation, to buy an underlying security (e.g. stock) at a predetermined price (known as the strike price or exercise price) on or before a pre-defined date (the expiration date of the option). The "price" paid to enter into this agreement, and paid by the buyer of the call option to the seller, is called the premium. In this transaction the buyer is paying a fee for the opportunity to buy a stock at a price agreed upon now knowing that he could benefit from any move higher in the future.

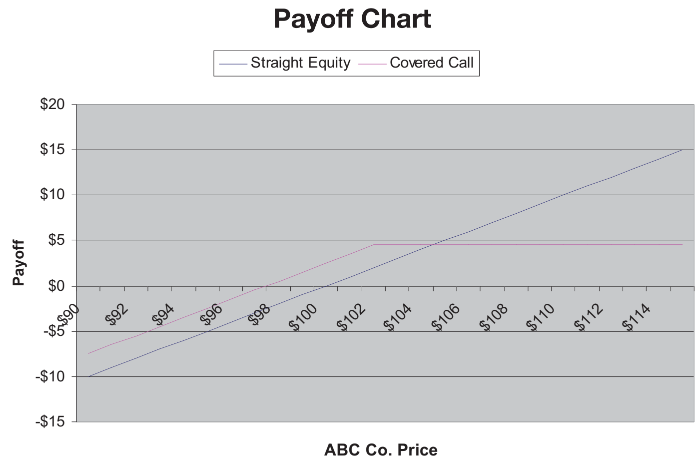
The "seller" of the call option, or call "writer", therefore earns premiums by writing these contracts, and is betting on the stock not heading sharply higher. The writer is, in effect, willing to sell the chance of any upside for a small fee.

The investment strategy of covered call writing involves the writing of call options on stocks that one owns in order to earn extra income on the portfolio. The "covered" term comes from the fact that the investor already owns the underlying stock, thereby covering against unlimited losses in the event that it becomes profitable for the holder of the option to exercise i.e. the stock goes up and the option goes "in-the-money". This strategy is also referred to as a "buy-write" strategy, which derives its name from the fact that one would buy the underlying shares and also write call options on those shares. Ideally, selling or writing calls produces an income for the portfolio. In the worst case, the stock is called away and the benefit of an upward move in the price of the stock may be sacrificed to the buyer of the call position.

A simplified hypothetical numerical example may be helpful here. Consider a portfolio that consists solely of one share in ABC Co. whose shares are trading at $100 each. Now suppose that a one-month out-of-the-money call option on ABC Co. shares with strike price of $102 is valued at a premium of $2.50. The covered call strategy would involve selling a call option on ABC Co. shares to receive $2.50 in income.

A number of things can happen from here. If ABC Co. shares trade "sideways" for the month and remain valued at $100 at the end of the month, then the call option would expire unexercised and the portfolio would have earned the $2.50 payoff in call writing income without any economic cost. If ABC Co. shares were to decline in price, then the premium income received would "buffer" the decline, but only to the extent of the dollar amount earned (that is, the call writing premium received in this example would help to offset any capital losses up to $2.50).

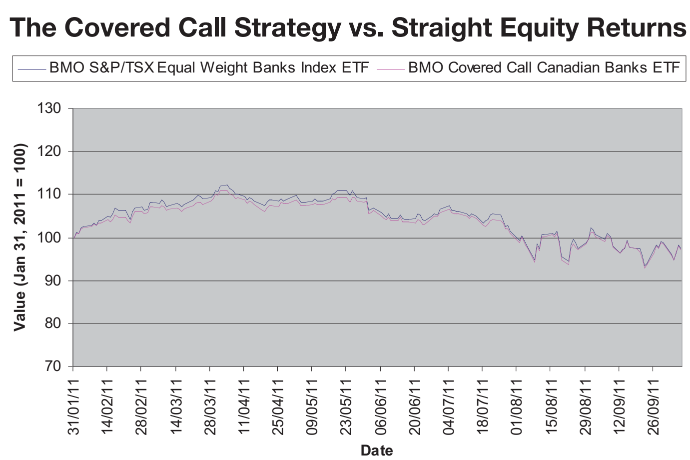
However, if ABC Co.'s share price were to appreciate beyond $102, the call option would move in-the-money and would be exercised by the holder. The portfolio would thus be forced to sell ABC Co. shares to the option holder at $102 thereby foregoing any gains beyond this price. The opportunity cost is unlimited and the trade-off being entered into by using the covered call writing strategy is clearly evident when the underlying asset appreciates significantly in value. The table below illustrates this simple example.



The Truth about Covered Call Writing

There is a common misconception amongst many retail investors that the covered call investment strategy offers stock market returns plus an extra yield, all within a lower risk structure than holding straight equities. But the benefits of a covered call investment strategy depend on a number of factors, and the reality is that investors can't have it all – as the above chart illustrates, there is a well-defined trade-off at play here.

To put it more academically, selling "out-of-the-money" call options is equivalent to selling implied (i.e., forecast) volatility on the underlying stock (conversely buying out-of-the-money call options is like buying implied volatility), while owning the underlying stock is equivalent to buying market (i.e. actual) volatility. Thus, the active view being taken when employing a covered call investment strategy is to short implied volatility while going long market volatility to earn a profit on any mispricing between the two. However, this mispricing in the market can only be temporary and random, and, theoretically at least, there should be no consistency, or any guarantee, in this strategy achieving higher than market returns over the long run (much like any other form of active management). This assumption seems to be borne out through the performance (albeit, limited) of covered call ETFs thus far. As the chart below illustrates, the total returns (including distributions based on respective NAVs and the impact of respective fees) of an example straight equity and corresponding covered call investment strategy have virtually replicated each other.



Source: Bloomberg, 10/07/11

Continued on page 14

Continued from : Covered Call Writing ETFs page 13

The covered call investment strategy works best when the underlying stock or stocks are range-bound. That way, the investor would receive the premium, and would continue to hold the stock as it never reaches the exercise price of the option contract and thus is never sufficiently in profit to produce a wealth transfer to the holder. However, if the stock moves up sharply, past the strike price, the investor forfeits much of the upside and gains only the premium.

The difficulty is accurately predicting how a given stock is going to behave in the future, and there is no evidence thus far to suggest that anybody can consistently do this. Furthermore, for the buy-write strategy to persistently outperform a straight long equity position over the long term would suggest a persistent one-way mispricing of the corresponding call options (i.e. overvalued), and this scenario surely cannot exist in the marketplace.

Covered Call ETFs

As mentioned above, while the early success of ETFs was a result of their transparency, cost-effectiveness and liquidity, employing more complicated investment strategies within these structures can move ETFs further and further away from these benefits. Covered call ETFs can fall into this category, and certain issues need to be evaluated in order to fully appreciate the risk and ultimate return (net of underlying costs) of these products.

The immediate factor to consider is that covered call ETFs typically have higher trading costs than other types of ETFs due to the fact that the indexes used as a benchmark for Canadian covered call ETFs are equal-weighted. Equal weighting requires periodic rebalancing to keep the portfolio weights intact. That may incur higher trading costs than a more straightforward, market-weighted ETF.

Another cost stems from the nature of options. Contracts are rolled over every month, meaning each month the ETF manager must close out the existing contract and replace it with another. Option markets are notoriously illiquid and spreads of 5 per cent are reasonably common.

As well, covered call ETFs are quasi-actively managed. Managers must make decisions about which stocks to write an option on and at what strike price, as well as when to close out an option and so on. As one fund manager, of the BMO Covered Call Canadian Banks ETF, explains: “The Fund... dynamically writes covered call options. The call options are written out of the money and selected based on analyzing the option's implied volatility.”[1] This can introduce active risk, as well as a lower level of transparency.

Option trading is a zero sum gain before costs and can be a nasty surprise for or have unintended impacts on investors who are unaware of the risks once trading costs are included.

As the ETF universe continues to expand, it becomes all the more important to know what your ETF is invested in, how it delivers its returns, and how far it can stray from the historical returns. Only after one understands the mechanics, advantages and disadvantages of a given investment strategy, and feels comfortable with the risk/return characteristics being assumed can one properly evaluate its appropriateness for inclusion in a portfolio.

The underlying costs and transparency need to be evaluated when making an investment in any ETF. While the covered call investment strategy is widely accepted and has gained considerable popularity, these factors should be carefully weighed and well understood before any investment decisions are made.

1. Source: http://www.etfs.bmo.com/bmo-etfs/glance?fundId=83031

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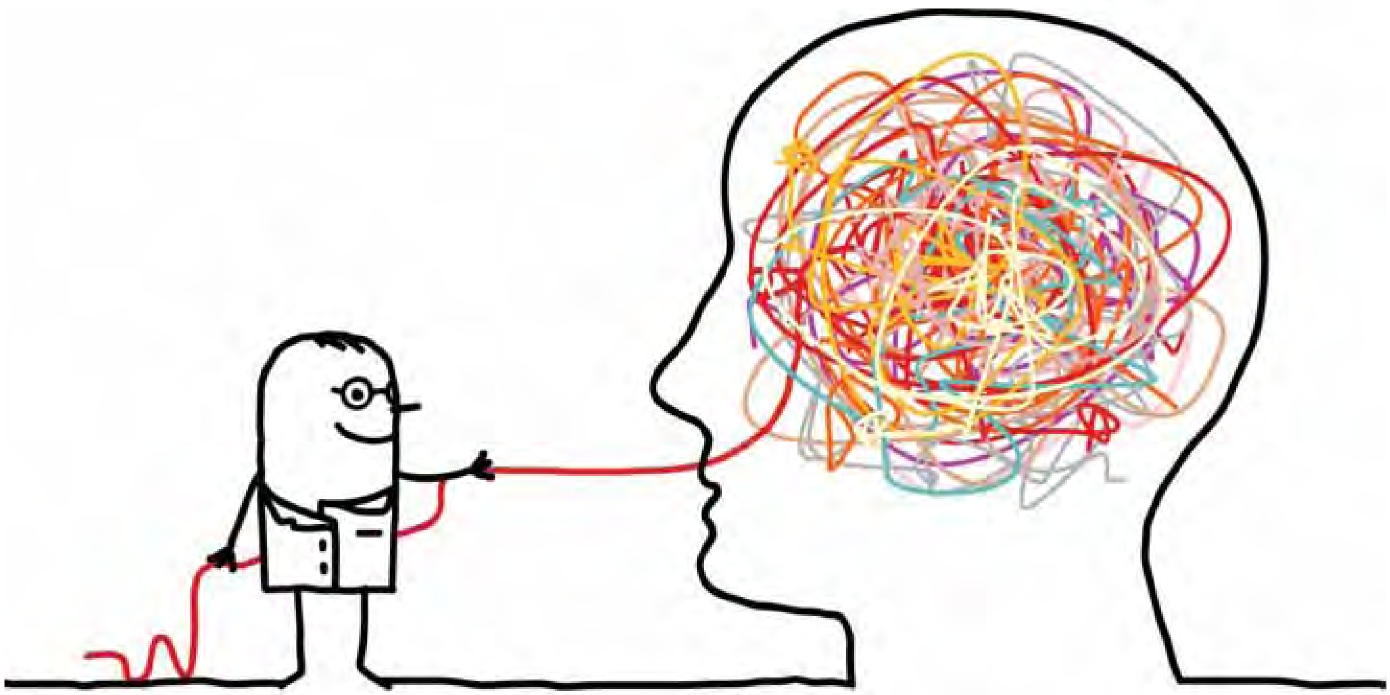
Workers of the World Untied: Has Capitalism Come Undone?



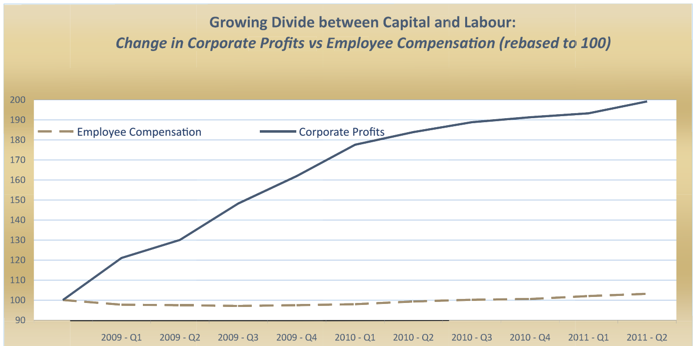
"In the long run the workman may be as necessary to his master as his master is to him; but the necessity is not so immediate."

Adam Smith, The Wealth of Nations (Book 1, Chapter 8)

Tyler Mordy
Director of Research, HAHN Investment Stewards & Company Inc.

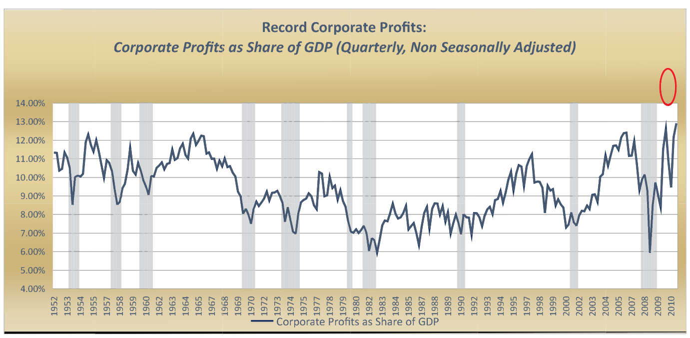
In recent years, the most conspicuous feature of the financial landscape has been the growing divergence between US labour and corporate profit trends. While household incomes have languished, corporate earnings have soared – despite the most difficult economic cycle in the post-war period. These trends are having a significant impact on current and future equity market index returns.

Bulls and bears may dispute the causes or disagree on forecasts, but everyone will gape at the numbers. From the fourth quarter of 2008 to the second quarter of 2011, real domestic corporate earnings have surged by almost 100% while real employee compensation has risen by a mere 3%.



Source: Haver Analytics, Bureau of Economic Analysis.

Looking back further, a pattern has become well-entrenched – profit recoveries have become increasingly stronger, while labour market rebounds have become progressively weaker. Cumulatively since 1990, profits have risen more than 200% while employee compensation has risen just 20% *(in real terms)*. Profit margins have also seen a veritable levitation in the last few years, even while the official unemployment rate remains stubbornly over 9%. The latest figures show that profits now account for 12.9% of national income – the highest proportion ever recorded. *(The previous peak occurred in 1942 when wartime factors created a huge demand for materials, while wage and price controls were imposed by governments).*



Source: Haver Analytics, Federal Reserve "Flow of Funds".

What gives? Until recent episodes of isolated social upheaval, none of the above has generated instability, much less violence. Instead, they have produced a huge, yawning complacency. Looking ahead, even while income growth is forecast to remain sluggish, the consensus view is that more of the same lies in the future. Analysts are predicting record earnings next year *(as we write, 2012 forecasts for S&P 500 bottom-up operating profits currently stand at $112.35 per share, well surpassing the pre-crisis record of $91.47).*

Left Behind – Orphans of Prosperity. On the surface, the above trends indicate that capital owners have had an extraordinary advantage over workers. The late Karl Marx foresaw this potential problem. *(Not surprisingly, his "workers of the world unite" ideas are witnessing a popular revival).* He argued that an inherently exploitive dynamic exists within the capitalist system, as employers attempt to hire workers for less than their value add, pocketing the difference in "profit". Of course, his interpretation is blasphemous for die-hard capitalists and has generally been rejected. Such profit is due reward for "risk taking" and "enterprise" *(according to Marx, mere euphemisms for theft).*

Admittedly, political economy is not normally the target domain of portfolio managers such as this author. We pledge no allegiance to any long-dead philosophers or other academic scribblers. Rather, our goal is the pragmatic stewardship of client capital... focusing on the world as it is, not as it should be. Yet, trends in returns on capital versus returns on labour – the central battleground of many of these ideological debates – are inextricably linked with sustainable wealth creation. Even passive indexers and ETF enthusiasts must rely on a minimum level of balanced economic growth, and indeed a functioning capitalistic system, to tap into the other well-known benefits of indexing.

For investors and political economists alike, these developments need to be examined and understood. Can these trends continue? Or, is the capitalistic model broken? After all, classical economic theory – indeed, the very underpinnings of capitalism itself – asserts that higher profits and productivity should translate into higher wages. During boom times, margins should eventually be under pressure as workers gain bargaining power and competition drives up other cost inputs. And, as Henry Ford learned almost 100 years ago, the health of the corporate sector is ultimately tied to the health of its customer. Therefore, the combination of rising profits and stagnant income growth *(and thus weak aggregate demand)* cannot possibly last forever.

Or can it? In a globalized era, a new investment class has emerged – the multinational corporation. Rising out of a more interconnected world, these companies transcend the restrictions of individual nation states, roving the globe for arbitrage and profit opportunities. They can seamlessly shift production from country to country, accessing better tax regimes and, importantly, cheaper labour. The same advantages are now also available to global portfolio managers, as client capital can be invested in profitable economies or enterprises anywhere around the world.

A Crisis of Capitalism? To be sure, predicting the demise of capitalism is nothing new. *Time* magazine's April 1980 cover story, entitled "Is Capitalism Working?", bemoaned the decline of free enterprise and the "vitality and élan" of capitalists. That article printed immediately before profit margins made a secular trough and a generational stock market upswing began.

Also, on one point, let's be clear. Capitalism, in its pure form, hardly exists today. If it did, governments would also allow market discipline to work on the downside. Clearly, that has not been the observable case recently. Witness banking bailouts, sovereign bond guarantees and numerous other government interventions. Clearly, the "socialization of losses" and "privatization of gains" is today's status quo.

Still, looking beyond this asymmetric form of capitalism, perhaps the largest threat to the long-term health of the domestic economy remains the disparity between labour and capital trends. To understand forward risks, a look back at historical trends in profit margins is instructive.

Beyond cyclical influences, secular forces were also at work. Two major margin troughs have occurred since the 1930s. The first occurred immediately after the Great Depression, where the combination of WWII military spending and the 1950s reconstruction boom restored profit margins from the difficult 1930s. For the next two decades, however, the environment was less hospitable, as rapid unionization and high inflation initiated a structural decline in margins to the end of the 1960s.

Continued on page 18

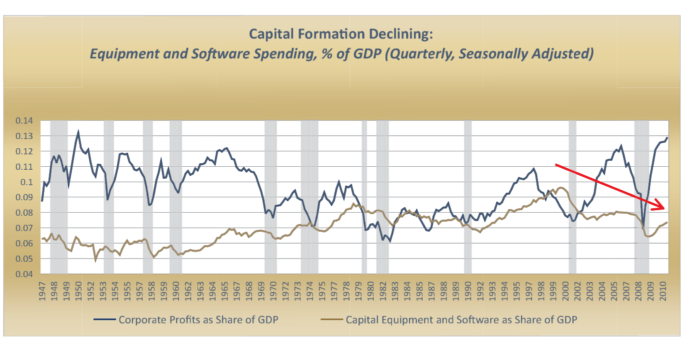
The second significant trough happened in the early 1980s. Then, so-called "Reaganomics" – supply-side reforms aimed at reducing both government regulation and marginal income taxes – swept across Western economies. This also led to the systematic dismantlement of unions, increasing labour mobility and competition. Meanwhile, free market capitalism was taking hold in developing parts of the world, creating a boom in international trade, cross-border capital flows and, of course, global labour arbitrage. The net result was a marked improvement in labour productivity and, consequently, profit margins.

Why is the above important? Because these trends have contributed to an income distribution progressively skewed towards capital at the expense of labour in many Western countries. Statistical measures of income inequality *(such as the Gini coefficient)* have steadily drifted higher over the last few years. Until recently, households did not take notice. Aided and abetted by easy monetary policy, they relied on lower savings, asset bubbles and housing-financed debt growth to plug the gap between subdued increases in wage growth and continuing increases in consumption.

Capitalism *(as it has been sold in the West)* is hardly supposed to work this way. Having a more egalitarian income distribution *(i.e. a middle class)* results in not only a more stable, equitable society but also generates greater prosperity over the long run. A prosperous middle class buys houses and cars, and whose children, properly educated, become leaders and entrepreneurs of tomorrow.

In a globalized world, the same trends that favour the multinational corporation also place workers in a weak negotiating position. It has become increasingly difficult for workers to overcome the pressures of mobile capital to regain a greater share of any prosperity. However, if a country cannot sell its products internally, which country ultimately wins? It should not come as a surprise that the most income-skewed nations such as the United States are now facing weak domestic demand.

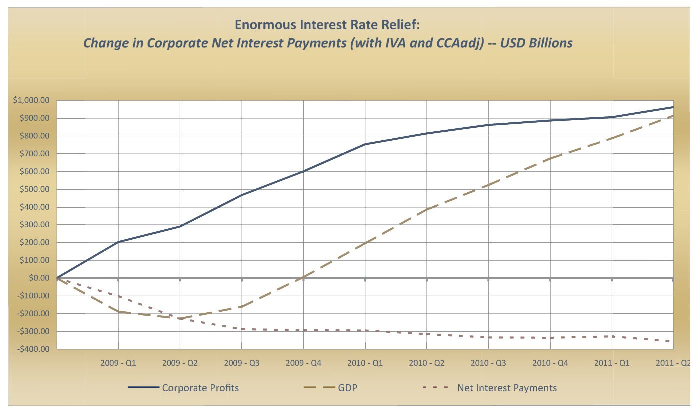
Shareholder Driven Capitalism. Restrained wage growth has not been the only corporate cost-cutting measure supporting record margins. In fact, other structural trends, in place for some time now, have acted to bolster short-term profits while simultaneously undermining both labour growth and longer-term profits. Importantly, maximizing shareholder value has often been placed ahead of productive wealth accumulation. This is primarily an outgrowth of changing incentive structures since the early 1980s. Facing short-term quarterly earnings pressures, option-laden managers (whether consciously or not) favour measures that immediately boost share prices rather than securing long-term profit growth. For example, since the late 1990s, spending on capital equipment and software has significantly lagged earnings growth. Over time, these actions deplete productive capital formation, reduce macroeconomic growth *(and, ultimately contribute to a reduction in employment).*



Source: Haver Analytics.

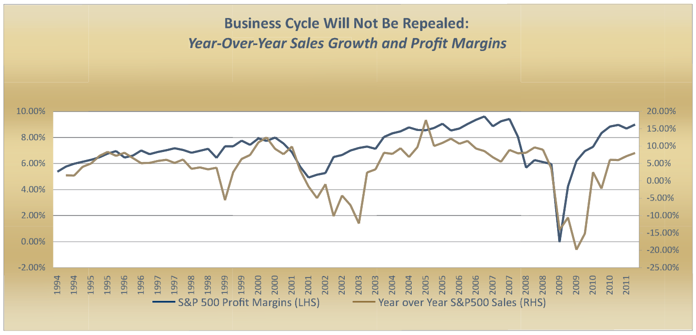
Does all this matter to investors? After all, many of these trends in labour arbitrage and other short-term performance enhancers can persist for some time. And, much of the above may only be important over the very long run *(as Keynes once said, "... the long run is a misleading guide to current affairs. In the long run we are all dead.")*. Yet, looking at the current economic cycle, many of these factors do indeed have a finite life, even for the indomitable multinational corporation.

In fact, profit margins will likely confront trouble in the period immediately ahead. Many factors that contributed to record margins, both on a cyclical and structural basis, have either run their course or have simply been "one off" profit boosters. Of course, subdued labour costs have been a key prop here. But other factors have been similarly important. For example, the Bernanke Fed has lowered interest rates to the near zero bound. Correspondingly, corporate net interest payments have fallen dramatically since the onset of the financial crisis. How likely is this to be repeated? Rates cannot fall much lower, certainly not to the extent that they have.



There are many more notable examples, not least of which is fading government stimulus and a shift toward austerity measures. But the important point is that further productivity gains will be more difficult in the period directly ahead without either employee hiring or renewed capital spending. In fact, a productivity downturn may have already begun. Labour costs and tensions have been rising this year. Figures from the BLS show nonfarm business productivity contracting in the first and second quarters of 2011 by 0.6% and 0.3%, respectively.

So far, our profit discussion has centered on "bottom line" factors. However, "top line" factors are equally crucial. Most of recent earnings growth has come from government-sponsored growth rather than organic expansion in aggregate demand or consumer incomes. Ultimately, however, growth in top line revenue depends on the financial health of its customers *(whether they are domiciled domestically or internationally).* In a post-credit driven world, consumer spending, certainly in most slow-growth Western regions, will rely more on income growth than rising debt burdens. Yet, it's highly unlikely that there will be wage growth acceleration given the high level of unemployment and corresponding weakness of labour's bargaining position. That makes the revenue outlook, which has already been anaemic, less than rosy. Margins, and importantly earnings, will have little protection during the next economic downturn.



Source: Haver Analytics, S&P.

Undoubtedly, however, corporations will remain focused on cost control and productivity gains. As part of that equation, financial engineering will remain key. Consider that companies have a number of options when utilizing their capital. They can reinvest back in the underlying business, retire debt, buy back shares, or pay out dividends. Why would corporate executives pursue the first two options when aggregate demand is weak and interest rates are at historic lows *(and pledged to remain there until at least mid-2013)?*

A more rational approach, even if not beneficial to labour, attempts to boost stock prices by reducing share count or increasing dividends. That has been the observable case, as corporations have been actively increasing dividends or share buybacks. For the first half of 2011, the net domestic common stock dividend increase of $30.2 billion already surpasses all of 2010, representing an 11.1% increase (4.1% for Q2 and 6.7% Q1). From a capital allocation standpoint, these trends are completely logical and likely to continue for some time.

Investment Outlook. Many are predicting that high corporate cash positions and healthy balance sheets will lead to stronger domestic employment growth and higher incomes. However, a more likely scenario is that corporations will emphasize overseas expansion instead of domestic hiring and investment. This would be consistent with recent trends. In the past 5 years, US direct investment overseas has been 20% higher than domestic non-residential investment. During the 1960s and 1970s that ratio averaged 6%, before climbing to a 13.5% average between the mid-1990s and mid-2000s.[2]

Investors – particularly passive indexers – need to gear their asset mix decisions in view of these labour market trends. Broad stock market exposures, especially those tracking the most income-skewed Western economies, are likely to show muted returns. A better approach will be to focus on index constructions that emphasize global opportunities, stable dividends and, importantly, overweight the world's great asset class – the multinational corporation.

Workers may indeed be untied from corporate earnings trends of late, but this hardly proves Marx's overall thesis correct. What he failed to recognize is that free financial markets, though not perfect, ultimately expose any underlying flaws and self-correct better than any type of government intervention. And, frankly, identifying distortions and allocating capital accordingly is also the job of portfolio managers.

[1] http://www.time.com/time/magazine/article/0,9171,924018,00.html
[2] Figures from the Bank Credit Analyst.

This article originally appeared in Index Universe's "Journal of Indexes"

Tyler Mordy, Director of Research, HAHN Investment Stewards & Company Inc. ***tmordy@hahninvest.com***

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EXCHANGE TRADED FORUM 2011

Monday, October 24th, 2011

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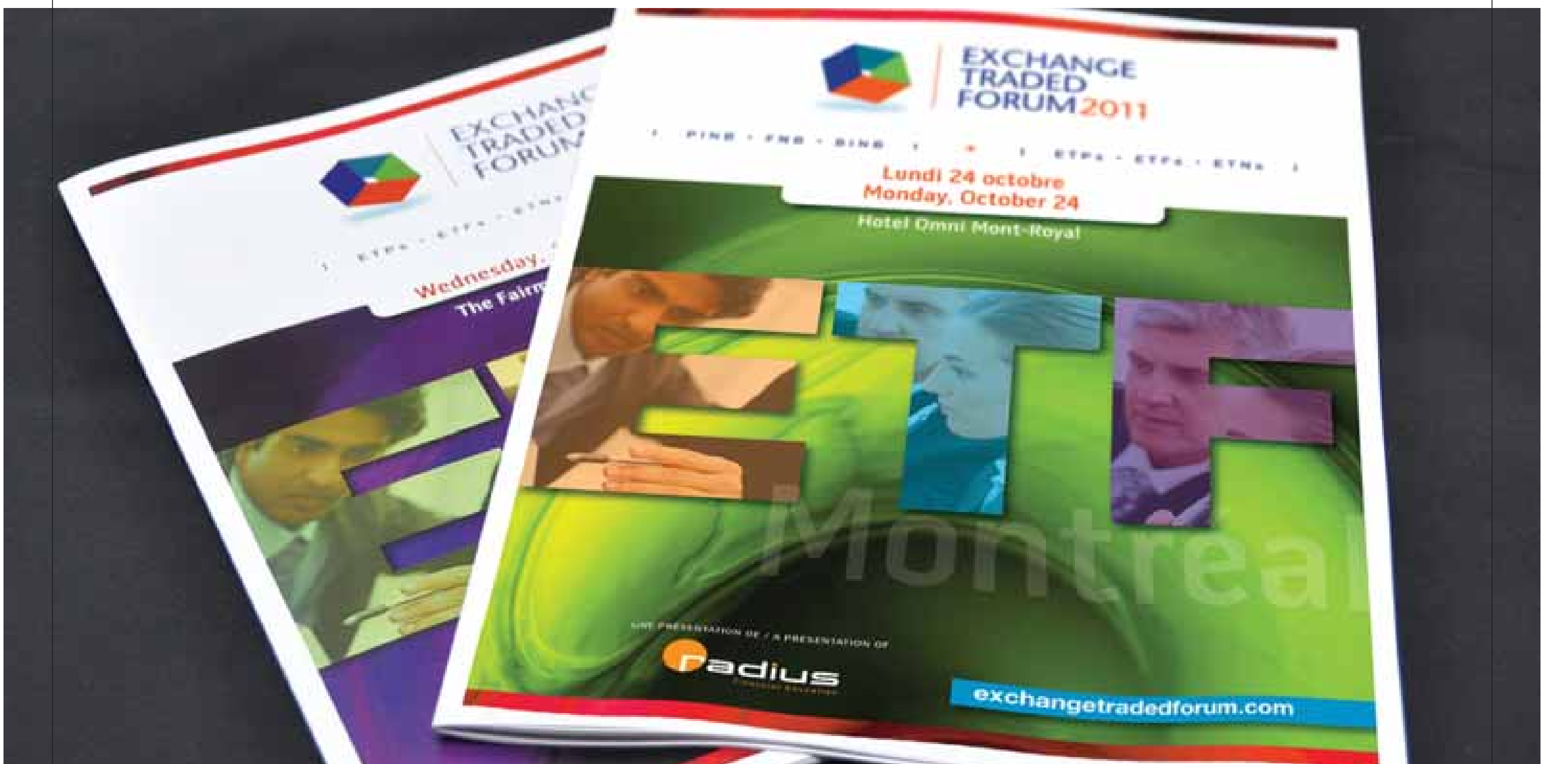
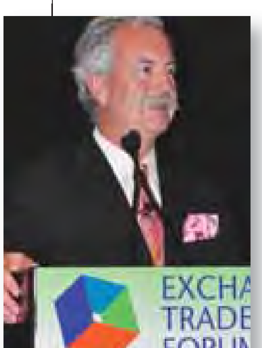


More than 200 attendees energized the conference centre at the Hotel Omni Mont-Royal on October 24, for the inaugural Exchange Traded Forum Montreal.



Moderator, Pat Bolland

By Sovaida Pandor, *Radius Financial Education*

The inaugural gathering of the ***Exchange Traded Forum (ETF) Montreal*** *took place on October 24th, 2011 at Hotel Omni Mont-Royal. The forum was created by Radius Financial Education (Radius) to enhance education and communication on exchange traded products. The target audience was investment professions who are interested in furthering their knowledge base in this rapidly growing and changing asset class. By building a top down agenda and infusing the forum with North America's leading thinkers from academia, journalism and regulatory bodies, delegates were able to freely exchange ideas, share successes and learn about emerging issues.*

A special thanks goes to our corporate partners, iShares, TMX, XTF Capital, Bank of Montreal Exchange Traded Funds, Claymore Investments Inc., Horizons Exchange Traded Funds, PowerShares Canada, National Bank Financial Markets, Vanguard, KPMG, Investment Executive, Interactive Brokers and Canada Claims Management.

We began our day with the official welcome from moderator **Pat Bolland**, Senior Counsel, Veritas Communications. Pat, formerly from BNN, drew on his engaging and astute skills, stimulating additional questions and discussions during the forum.

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The agenda began with *ETFs in Canada*, presented by, **Amelia Nedovich**, Head, Business Development, ETFs & Structured Products, Toronto Stock Exchange, who shared the facts and figures of the Canadian ETF landscape. This session was followed by **Elisabeth Prefontaine**, Vice President, Business Development Officer in Quebec, BlackRock Asset Management Canada Ltd. who continued the facts on *ETF: State of the Nations*. She addressed three ways one can take advantage of ETFs given the current market conditions, the growth of ETFs, what the future holds and why investors have embraced ETFs and will this trend continue.

Once again the *Fixed Income* panel was a great discussion with **Greg Walker**, Director, iShares Institutional Business, BlackRock Asset Management Canada, **Mark Raes**, Portfolio Manager, BMO ETFs, and the new player on the field was **Michael Cooke**, Head of Distribution, PowerShares Canada, with their three new fixed income products.

Barry Gordon, President and CEO, First Asset Capital Corporation took the stage to present *The Future of ETFs: Beyond Traditional Indexing*. He spoke primarily on the next dimension of ETF products and the strategies that are being built to address lower volatility, uncorrelated returns, current income and tax efficiency. He stated that the ETF marketplace has, and will continue to develop at a rapid pace in order to meet innovation expectations of investors.

Rohit Mehta, Senior Vice President, Sales & Marketing, XTF Capital, **Jamie Purvis**, Executive Vice President, Horizons Exchange Traded Funds and **Mark Yamada**, President & CEO, PUR Investing, gave a comprehensive presentation on *Advanced ETF Strategies*. Their bottom line message to the diligent listeners was… "Understanding the underlying assets behind any ETF is the most important first step to building a successful portfolio."

Representatives of BMO ETFs, Claymore Investments Inc., Horizons ETFs, iShares, PowerShares Canada and XTF Capital all took part in the *TMX | Toronto Stock Exchange | TSX Venture Exchange's ETF Product Workshop*, moderated by **Amelia Nedovich**, Head, Business Development, ETF & Structured Products, Toronto Stock Exchange, to discuss how to benefit from strategies such as covered call writing and spreads, along with what's new in their product lines.

The live *Trading Demo* with **Andrew McOrmond**, Managing Director, WallachBeth Capital LLC, once again proved to be one of the highlights of the forum. He captivated the audience by going "live to Scotty" at a U.S. trading desk to illustrate an ETF trade execution. His tip: "Use more than one source or request multiple "risk quotes" to ensure you're getting a fair and accurate representation of the best price available within the context of the prevailing market." Following the demo was the *Trading Execution* panel where **Oliver McMahon**, Director, Head of Product iShares Canada, BlackRock Asset Management, **Gary Knight**, Vice President, Trading, TSX Markets and **Greg Jones**, Managing Director, Equity Derivatives, National Bank Financial Markets, provided insightful information on best execution for clients, dark pool and market order vs. limit order.

When it came to the *Index Methodology* panel **Kevin Gopaul**, Vice President & CIO, BMO ETFs, **Michael Cooke**, Head of Distribution, PowerShares Canada, **Som Seif**, President & CEO, Claymore Investments Inc. and **Sandip Bhagat**, Head of Equities, Vanguard, did not hold anything back. Their passion for index methodology came through in this heated discussion. The final result: all methodologies have a place and it is up to the advisor to decide for each individual client's needs, do you choose cap weight, market weight or fundamental indexing?

Continued on page 24

Continued from : Exchange Traded Forum 2011 page 23

Joining together on the stage after a much needed networking break was the *Risks & Regulatory Impact on ETFs* panel. **Oliver McMahon**, Director, Head of Product iShares Canada, BlackRock Asset Management, **Jaime Purvis**, Executive Vice President, Horizons ETFs and **Philippe Grubert**, Audit Partner, KPMG; gave the audience their views on hidden fees, counterparty risk, whether the industry is setting proper expectations and how one can protect themselves from fund closures.

Our featured speaker of the day, and back by popular demand, **Alex Jurshevski**, Founder, Recovery Partners, held the audience's full attention as he presented the scary facts on *Beyond our Borders – What in the world is going on!* He told the audience "Keeping investments safe will be difficult in a scenario where the public debt crisis spins further out of control, sovereign defaults and financial institution bankruptcies become a wide spread occurrence rather than a possibility, distortions in asset markets persist and civil unrest possibly intensifies as populations lose whatever confidence they have left in their governments".

Wrapping up the day, Radius held a draw for a 46-inch LCD television which was won by **Cordell Tanny**. Radius' goal was to host a truly educational event and we would like to thank our speakers and sponsors for their invaluable contribution. We would also like to thank all those who completed an evaluation form; these commentsare essential and will be the foundation of our 2012 ETF Forums, planned for **May in Toronto & Montreal and June in Calgary & Vancouver.**

Announcements

Vanguard Canada Files Final Prospectus for Suite of Low-Cost ETFs

Vanguard Investments Canada Inc. is one step closer to listing its first suite of Canadian exchange traded funds on the Toronto Stock Exchange.

The Canadian subsidiary of Valley Forge, Pennsylvania-based investment management giant The Vanguard Group, Inc. announced on Wednesday that it filed a final prospectus with securities regulators for six new ETFs.

Vanguard expects to list the four equity ETFs and two bond ETFs on the TSX, subject to meeting all regulatory requirements. They include:

- Vanguard MSCI Canada Index ETF (TSX: VCE)
- Vanguard MSCI U.S. Broad Market Index ETF (CAD-hedged) (TSX: VUS)
- Vanguard MSCI EAFE Index ETF (CAD-hedged) (TSX:VEF)
- Vanguard MSCI Emerging Markets Index ETF (TSX: VEE)
- Vanguard Canadian Aggregate Bond Index ETF (TSX: VAB)
- Vanguard Canadian Short-Term Bond Index ETF (TSX: VSB)

Vanguard has a reputation for providing low-fee investment funds, and the new Canadian ETFs will be no different.

Vanguard unveils ETFs for Canadian investors
www.investmentexecutive.com/-/news-59321

The ETFs feature an average management fee of 0.24%, with one of them carrying a fee of just 0.09%. While the official management expense ratios for the ETFs will not be calculated until after their first year-end, the company expects the MERs to be "substantially similar" to the management fees for each fund.

In comparison, the average MER for an ETF in the industry is 0.88%, and the average MER for a Canadian mutual fund is 2.04%, according to Vanguard.

"Research by Vanguard, Morningstar and others has shown time and again that costs are the key determinate of mutual fund or ETF performance. By controlling costs, investors are on better footing towards reaching their long-term investment goals because they keep more of their returns," said Atul Tiwari, managing director of Vanguard Investments Canada Inc.

Vanguard Investments Canada is the manager of the ETFs and The Vanguard Group will provide portfolio management services to the funds. Globally, Vanguard has $157 billion in ETF assets.

Invesco Announces Filing of Preliminary Prospectus for PowerShares Exchange-Traded Funds

Toronto, November 14, 2011 – **Invesco** announced today that a preliminary prospectus has been filed with the Canadian securities regulators for five new PowerShares exchange-traded funds (ETFs). Currently there are six PowerShares ETFs already trading in Canada.

The new PowerShares ETFs are:

Fixed income
- PowerShares Senior Loan (CAD Hedged) Index ETF

Fundamental Index Methodology
- PowerShares FTSE RAFI Canadian Fundamental Index ETF
- PowerShares FTSE RAFI US Fundamental (CAD Hedged) Index ETF
- PowerShares FTSE RAFI Emerging Markets Fundamental Index ETF

Equity
- PowerShares S&P 500 Low Volatility (CAD Hedged) Index ETF

A preliminary prospectus containing important information relating to securities of the new PowerShares ETFs has been filed with the securities commissions or similar authorities in all provinces and territories of Canada. The preliminary prospectus is still subject to completion or amendment. Copies of the preliminary prospectus may be obtained from Invesco Canada and are also available on www.sedar.com. There will not be any sale of or acceptance of an offer to buy the securities until a receipt for the final prospectus has been issued.

For further information, please contact:

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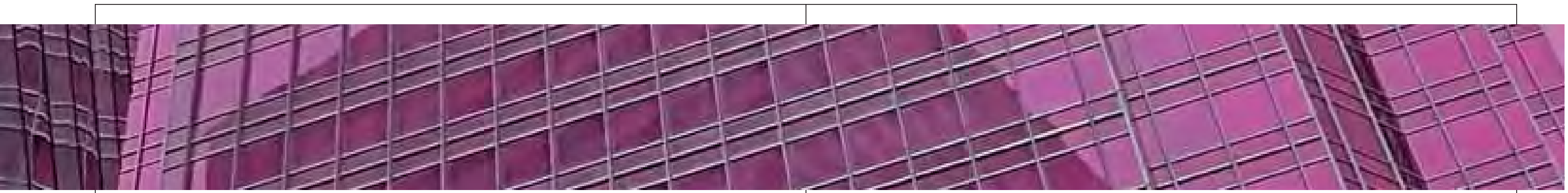
VelocityShares Launches Suite of Eight First-to-Market Precious Metals-Related ETNs Including 3x Leveraged Long and Inverse Gold and Silver and 2X Leveraged Long and Inverse Platinum and Palladium ETNs

Darien, CT, October 17, 2011 – VelocityShares LLC, creator of exchange traded products for professional traders, announces the launch of eight first-to-market leveraged and inverse precious metals-related Exchange Traded Notes (ETNs) on the NYSE Arca stock exchange.



The new VelocityShares ETNs represent the first suite of 3x and 2x leveraged long and inverse precious metals exchange traded instruments to be listed in the US. The new ETNs are in a response to demand for instruments to manage risk and express tactical views in the precious metals market. The ETNs provide institutional traders a means of managing their precious metals exposures and expressing market views.

“Precious metals trading volumes have been on the rise, and institutional traders are looking for alternative ways to implement their positions.” said Nick Cherney, Co-founder and Chief Investment Officer of VelocityShares. “This launch further emphasizes our commitment to developing the sophisticated exchange traded products needed by professional trading community.” Credit Suisse AG is the issuer of the ETNs and VLS Securities LLC, a wholly owned subsidiary of VelocityShares LLC, is marketing the ETNs.

Exchange Traded Note	Ticker
VelocityShares 3x Long Gold ETN	UGLD
VelocityShares 3x Inverse Gold ETN	DGLD
VelocityShares 3x Long Silver ETN	USLV
VelocityShares 3x Inverse Silver	DLSV
VelocityShares 2x Long Palladium ETN	LPAL
VelocityShares 2x Inverse Palladium ETN	IPAL
VelocityShares 2x Long Platinum ETN	LPLT
VelocityShares 2x Inverse Platinum ETN	IPLT

The UGLD and DGLD ETNs allow traders to manage gold exposures using a 3x leveraged long and inverse positions linked to the S&P GSCI™ Gold Index ER, and the USLV and DSLV ETNs allow traders to manage silver exposures using a 3x leveraged long and inverse positions linked to the S&P GSCI™ Silver Index ER. The LPAL and IPAL ETNs allow traders to manage palladium exposures using 2x leveraged long and inverse positions linked to the S&P GSCI™ Palladium Index ER, and the LPLT and IPLT allow traders to manage platinum exposures using 2x leveraged long and inverse positions linked to the S&P GSCI™ Platinum Index ER. The indices are published by Standard & Poor’s Financial Services LLC, a subsidiary of the McGraw Hill-Companies, Inc.

The ETNs are intended to be daily trading tools for sophisticated investors to manage daily trading risks. They are designed to achieve their stated investment objectives on a daily basis, but their performance over different periods of time can differ significantly from their stated daily objectives. The ETNs are riskier than securities that have intermediate or long-term investment objectives, and may not be suitable for investors who plan to hold them for a period other than one day. Accordingly, the ETNs should be purchased only by knowledgeable investors who understand the potential consequences of investing in the applicable Index (as defined below) and of seeking daily compounding leveraged long or leveraged inverse investment results, as applicable. Investors should actively and frequently monitor their investments in the ETNs, even intra-day. Although we intend to list the ETNs on NYSE Arca, a trading market for the ETNs may not develop.

Credit Suisse AG has filed a registration statement (including a prospectus) with the SEC for the offerings to which this communication relates. Before you invest, you should read the prospectus and other documents Credit Suisse AG has filed with the SEC for more complete information about the issuer and the offerings. You may get these documents for free by visiting EDGAR on the SEC website at **www.sec.gov**. Alternatively, Credit Suisse AG (**1-800-221-1037**), VLS Securities LLC, or any agent or dealer participating in the offerings will arrange to send you the prospectus and other applicable documents if you request it.

An investment in VelocityShares ETNs involves risks, including possible loss of principal. For a description of the main risks see “Risk Factors” in the applicable prospectus.

The ETNs (the “Securities”) are senior unsecured securities issued by Credit Suisse AG through its Nassau branch. The Securities are riskier than ordinary unsecured debt securities and have no principal protection. Any payment on the Securities is subject to the ability of Credit Suisse AG to satisfy its obligations as they become due. The return on the Securities is linked to the performance of a market index. Investing in the Securities is not equivalent to investing directly in index components or the relevant index itself.

Because the ETNs are linked to the daily performance of the applicable underlying Index and include either inverse or leveraged exposure, changes in the market price of the underlying futures will have a greater likelihood of causing such ETNs to be worth zero than if such ETNs were not linked to the inverse or leveraged return of the applicable underlying Index. The ETNs include restrictions on the minimum number of ETNs that can be redeemed, the dates they can be redeemed, an early redemption charge, do not guarantee any return of principal at maturity and do not pay any interest during their term.

The market value of the Securities may be influenced by many unpredictable factors. Risks include limited portfolio diversification, uncertain principal repayment, and illiquidity. Also, the investor fee will reduce the amount of your return at maturity or on redemption, and as a result you may receive less than the principal amount of your investment at maturity or upon redemption of your Securities even if the value of the relevant index has increased.

Brokerage commissions will apply to purchases and sales of the Securities in the secondary market. The sale, redemption or maturity of the Securities will generate tax consequences. The trading prices of the Securities will reflect changes in their intrinsic value as well as market supply and demand, among other factors. The trading prices of the Securities may also be influenced by changes in the credit rating of Credit Suisse AG.

New 2011 ETF Listings YTD

October 25	BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF To Trade On Toronto Stock Exchange
October 25	BMO Covered Call Utilities ETF To Trade On Toronto Stock Exchange
October 25	BMO Low Volatility Canadian Equity ETF To Trade On Toronto Stock Exchange
October 25	BMO Canadian Dividend ETF To Trade On Toronto Stock Exchange
October 21	Claymore 1-10 Yr Laddered Corporate Bond ETF To Trade On Toronto Stock Exchange (CBH)
October 21	Claymore 1-10 Yr Laddered Government Bond ETF To Trade On Toronto Stock Exchange (CLG)
September 15	iShares DEX Short Term Corporate Universe + Maple Bond Index Fund To Trade On Toronto Stock Exchange
September 15	iShares S&P/TSX Venture Index Fund To Trade On Toronto Stock Exchange
September 13	RBC Target 2020 Corporate Bond ETF To Trade On Toronto Stock Exchange
September 13	RBC Target 2019 Corporate Bond ETF To Trade On Toronto Stock Exchange
September 13	RBC Target 2018 Corporate Bond ETF To Trade On Toronto Stock Exchange
September 13	RBC Target 2017 Corporate Bond ETF To Trade On Toronto Stock Exchange
September 13	RBC Target 2016 Corporate Bond ETF To Trade On Toronto Stock Exchange
September 13	RBC Target 2015 Corporate Bond ETF To Trade On Toronto Stock Exchange
September 13	RBC Target 2014 Corporate Bond ETF To Trade On Toronto Stock Exchange
September 13	RBC Target 2013 Corporate Bond ETF To Trade On Toronto Stock Exchange
September 12	Horizons Enhanced Income US Equity (USD) ETF To Trade On Toronto Stock Exchange
September 9	Claymore S&P US Dividend Growers ETF To Trade On Toronto Stock Exchange
August 16	Horizons BetaPro COMEX® Long Gold/Short Silver Spread ETF
August 16	Horizons BetaPro COMEX® Long Silver/Short Gold Spread ETF To Trade On Toronto Stock Exchange
July 18	Horizons Australian Dollar Currency ETF To Trade On Toronto Stock Exchange
July 5	Horizons BetaPro COMEX® Gold Inverse ETF To Trade On Toronto Stock Exchange
July 5	Horizons BetaPro COMEX® Silver Inverse ETF To Trade On Toronto Stock Exchange
June 27	Horizons Enhanced U.S. Equity Income Fund To Trade On Toronto Stock Exchange
June 17	PowerShares Fundamental High Yield Corporate Bond (CAD Hedged) Index ETF To Trade On Toronto Stock Exchange
June 14	PowerShares Canadian Preferred Share Index ETF To Trade On Toronto Stock Exchange
June 14	PowerShares QQQ (CAD Hedged) Index ETF To Trade On Toronto Stock Exchange
June 14	PowerShares Canadian Dividend Index ETF To Trade On Toronto Stock Exchange
June 13	PowerShares Ultra DLUX Long Term Government Bond Index ETF To Trade On Toronto Stock Exchange
June 13	PowerShares 1-5 Year Laddered Investment Grade Corporate Bond Index ETF To Trade On Toronto Stock Exchange
June 10	Claymore Advantaged Convertible Bond ETF To Trade On Toronto Stock Exchange
June 3	Canadian Convertible Liquid Universe ETF To Trade On Toronto Stock Exchange
June 1	Can-Financials Income ETF To Trade On Toronto Stock Exchange
June 1	Can-Materials Income ETF To Trade On Toronto Stock Exchange
May 30	Can-Energy Income ETF To Trade On Toronto Stock Exchange
May 30	Can-60 Income ETF To Trade On Toronto Stock Exchange
May 13	Horizons AlphaPro Enhanced Income Financials ETF To Trade On Toronto Stock Exchange
April 14	iShares J.P. Morgan USD Emerging Markets Bond Index Fund (CAD-Hedged) To Trade On Toronto Stock Exchange
April 14	iShares S&P/TSX Global Base Metals Index Fund To Trade On Toronto Stock Exchange
April 14	iShares S&P Global Healthcare Index Fund (CAD-Hedged) To Trade On Toronto Stock Exchange
April 14	iShares S&P/TSX Capped Consumer Staples Index Fund To Trade On Toronto Stock Exchange
April 14	iShares S&P/TSX Capped Utilities Index Fund To Trade On Toronto Stock Exchange
April 14	iShares S&P/TSX Equity Income Index Fund To Trade On Toronto Stock Exchange
April 8	Horizons AlphaPro Enhanced Income Energy ETF To Trade On Toronto Stock Exchange
April 8	Horizons AlphaPro Enhanced Income Gold Producers ETF To Trade On Toronto Stock Exchange
March 15	Horizons AlphaPro Enhanced Income Equity ETF To Trade On Toronto Stock Exchange
February 25	Claymore Short Duration High Income ETF To Trade On Toronto Stock Exchange
February 18	Horizons GMP® Junior Oil and Gas Index ETF To Trade On Toronto Stock Exchange
February 7	Horizons BetaPro COMEX® Copper ETF To Trade On Toronto Stock Exchange
February 2	BMO 2020 Corporate Bond Target Maturity ETF To Trade On Toronto Stock Exchange
February 2	BMO 2015 Corporate Bond Target Maturity ETF To Trade On Toronto Stock Exchange
February 2	BMO 2013 Corporate Bond Target Maturity ETF To Trade On Toronto Stock Exchange
February 2	BMO Covered Call Canadian Banks ETF To Trade On Toronto Stock Exchange
February 2	BMO 2025 Corporate Bond Target Maturity ETF To Trade On Toronto Stock Exchange
February 2	BMO Precious Metals Commodities Index ETF To Trade On Toronto Stock Exchange
February 2	BMO Energy Commodities Index ETF To Trade On Toronto Stock Exchange
February 2	BMO Base Metals Commodities Index ETF To Trade On Toronto Stock Exchange
February 2	BMO Monthly Income ETF To Trade On Toronto Stock Exchange
February 2	BMO Agriculture Commodities Index ETF

2012 CALENDAR OF EVENTS

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Niagara Institutional Dialogue Interim Meeting

January 2012

We have had an overwhelming request from our **NID** members to host a meeting to discuss ***"How do we get out of this mess?".*** January 2012 will be our first meeting, designed to increase the "dialogue" for our members.

Niagara Institutional Dialogue — An Exchange of New Ideas Knowledge Practices For Institutional Investors

institutionaldialogue.com

World Alternative Investment Summit Canada - Western Canada

Calgary April 2012

WAISC is in its 11th year and is Canada's largest gathering of alternative professionals. For 2012 we are bringing the conference to **Calgary**. More money is raised every year in the newly regulated exempt markets. These products are unique and offer diversification and cash flow to a traditional portfolio of stocks and bonds. The **World Alternative Investment Summit Canada** will educate, connect and update all participants in this rapidly growing and ever changing segment of the Canadian capital markets.

WAISCWEST 2012 — World Alternative Investment Summit Canada

waisc.com

Exchange Traded Forum

Toronto ~ May   Calgary / Vancouver ~ June   Montreal ~ October

ETPs, ETFs, ETNs, Indexing

In its third year, the **Exchange Traded Forum** conference will address the latest trends and developments in this rapidly changing and growing sector. The agenda features industry experts sharing their experiences and forecasts in a format designed for retail and institutional investment professionals.

EXCHANGE TRADED FORUM 2012

exchangetradedforum.com

radiusfinancialeducation.com

2012 CALENDAR OF EVENTS

Niagara Institutional Dialogue

Monday, June 11 to Wednesday, June 13, 2012 – Niagara-on-the-Lake

Niagara Institutional Dialogue is an exchange of ideas, knowledge and practices for Canadian Institutional Investors. A selected group of senior representatives from Canadian pensions and family offices, will participate in three days of informative discussions, education and networking.
This confidential closed-door event is reserved for select industry participants.

Niagara Institutional Dialogue
An Exchange of New Ideas Knowledge Practices For Institutional Investors

institutionaldialogue.com

World Alternative Investment Summit Canada

Monday, September 17 to Wednesday, September 19, 2012 – Niagara Falls

WAISC is Canada's largest annual gathering of **alternative** and **exempt market investment** professionals and service providers. Featuring panel discussions with top-level international speakers, fund managers and leading service providers, WAISC brings together over 400 delegates to explore every side of **alternative** investments.

WAISC2012
11th World Alternative Investment Summit Canada

waisc.com

Retirement Coaching Conference (RCC) - For Investment Advisors

October 2012 – Toronto

2011 marked the year that the first Baby Boomers turned 65 and every single day more than 10,000 boomers will retire. This demographic will redefine retirement and clients will need "coaching" in many crucial decisions. This is a huge opportunity for the advisor who gets it right. RCC will focus on all aspects of "retirement planning"; enabling a successful experience for clients.

RCC
Retirement Coaching Conference
FOR INVESTMENT ADVISORS

Radius Financial Education

Radius Financial Education (Radius), a division of **CHW Inc.,** has been producing high level conferences within the financial services sector in Canada for over 10 years.

As Canada's leading producer of conferences within the financial sector, **Radius** events focus completely on education and networking through an exchange of unbiased ideas and information, allowing our delegates to be leaders in their chosen fields.

Our top-down approach to the agenda enables us to deliver timely, thought-provoking, cutting edge, and sometimes controversial insight in a stimulating manner. We understand the importance of learning from the best. Each conference offers a well balanced speaker composition consisting of insight from authors, educators, economists, regulatory bodies and industry leaders from around the globe.

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