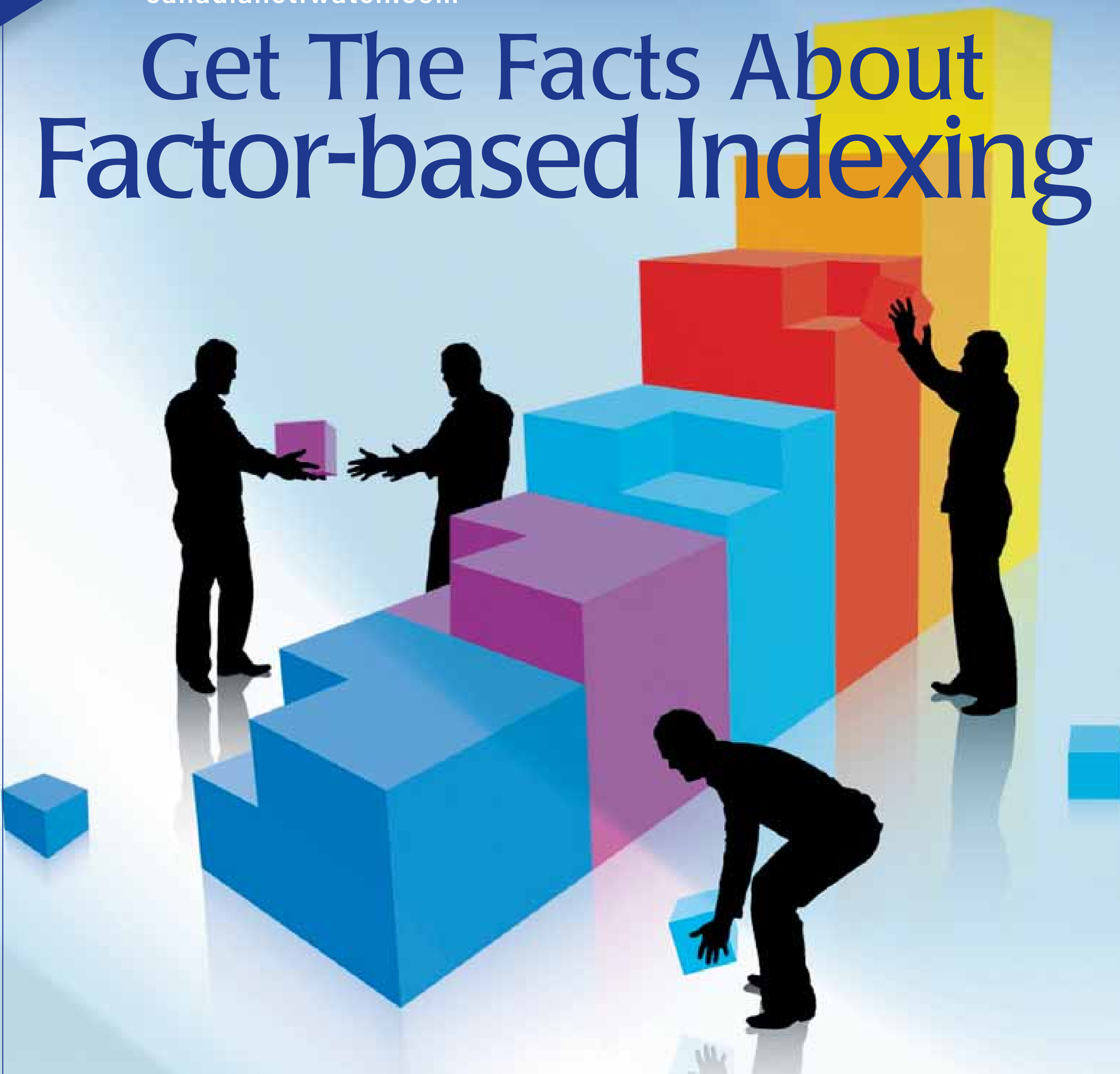
CANADIAN
ETF Watch
VOL 5 ISSUE 1 JANUARY 2014
canadianetfwatch.com

Get The Facts About Factor-based Indexing



- Canadian ETF Flows
- ETF Liquidity is More Than Just Trading Volume
- ETF Strategy: Tactical Asset Allocation
- ETF news

Robust ETP Flows In December Mark Strong 2013 With Equity ETPs Reaching All-Time Record

Global ETP flows accelerated in December to $24.7bn, following the Fed's decision to begin trimming its $85bn monthly bond-buying program. This removed market uncertainty and Equity ETPs responded, bringing in the bulk of the inflows for the month at $28.9bn – entirely from Developed Markets.

Full-year Equity ETP flows set an all-time record at $247.3bn, overtaking 2008 which was the only other year they had exceeded $200bn. US exposures gathered $147.8bn in 2013, followed by Japanese exposures with $38.2bn. Pan-European funds surged in the second half of the year and finished with $26.7bn, more than double the total from 2012.

Total 2013 flows of $235.5bn surpassed $200bn for the second consecutive year, underscoring the industry's continued secular growth. The composition of flows shifted significantly in favor of Equities versus 2012, illustrating how investors use ETPs to seek efficient, tailored access to varied investment exposures and for diversified buy-and-hold investments.

Fixed Income flows of $27.5bn, while lower than 2012, remained strong thanks to investors pouring $35.9bn into Short-Maturity ETPs.

Strategic Beta Equity – which we define as non-market cap weighted Equity ETPs – contributed a record $65.1bn of inflows in 2013 led by dividend-weighted funds, and nearly doubled the $34.2bn from last year.

Gold ETP outflows of ($40.1bn) in 2013 offset all inflows from the past three years combined as the price of Gold fell from its peak and investors turned to Equities for more attractive returns.

Source: Blackrock ETF Research

Terry Krowtowski, Vice President
Radius Financial Education

CANADIAN ETF Watch
canadianetfwatch.com
JANUARY 2014 | VOL. 05 NO. 01

Editor
Sovaida Pandor

Contributing Writers
Karl Cheong, Barry H. Gordon

Sales Director
Terry Krowtowski

Art Director
Vic Finucci

Online Developer
Ferenc Schneman

Contact Information
Canadian ETF Watch
20 Toronto St., Suite 820, Toronto, Ontario M5C 2B8
tel: 416.306.0151 ext. 2236

Media, Advertising & Editorial
info@radiusfinancialeducation.com

Subscriptions
info@canadianetfwatch.com

Canadian ETF Watch is published 6 times per year by **Radius Financial Education.** We welcome articles, suggestions and comments from our readers. All submissions become the property of Canadian ETF Watch, which reserves the right to exercise editorial control in accordance with its policies and educational goals.

If you would like to cancel your subscription at any time, please contact **info@radiusfinancialeducation.com**

Disclaimer

Canadian ETF Watch presents news, information and data on both Canadian and Global exchange traded funds activity. The information presented is not to be taken as an endorsement, investment advice or a promotion for the organizations and individuals whose material and information appears in this publication or on the Canadian ETF Watch website.

The material presented, separate from paid advertisements, is for the sole purpose of providing industry-specific information. As with all areas of financial investing, Canadian ETF Watch recommends strongly that readers should exercise due diligence by consulting with their investment advisor or other trusted financial professional before taking any action based upon the information presented within these pages.

Radius Financial Education
radiusfinancialeducation.com

CONTENTS

CONTENTS

06 Get The Facts About Factor-based Indexing

Looking Beyond Market Beta for Performance.

4 **Canadian ETF Flows: Negative Flows but U.S. & EAFE Still Strong**

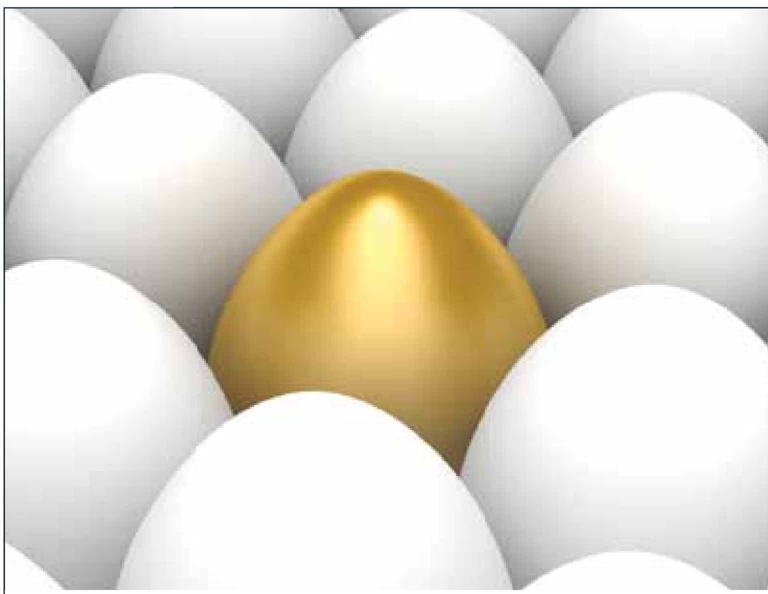
8 **ETF Liquidity is More Than Just Trading Volume**

It's a misconception that ETFs with a smaller market capitalization and less trading volume are illiquid and should therefore be avoided. Rather attention should be paid to evaluating fund attributes which differentiate one ETF from another.

11 **Radius 2014 Calendar of Events**

12 **ETF Strategy: Tactical Asset Allocation**

14 **ETF News**



Canadian ETF Flows: January 2014
Negative Flows but U.S. & EAFE Still Strong

ETF RESEARCH & STRATEGY

February 3, 2014

- ***January was down modestly with outflows of $278 mln or -0.4% driven by equity and levered ETFs***
- ***Top two outflows were for Canadian equity exposure still under pressure with $625 mln combined***
- ***EAFE and U.S. equities remain in strong demand representing six of the top 10 product flows***
- ***Vanguard had top flows in the month, with young providers seeing strong percentage flows***

Flows by Category

Equity was down $217 mln in the month mostly due to steady redemptions **from broad Canadian equity ETFs** like **XIU** and **HXT**, which were offset by continued interest and inflows into U.S. and international equity ETFs like **ZDM**. Fixed income was mostly flat but still negative at $40 mln in outflows, and so was commodity at $11 mln out. Multi-asset ETFs were the only asset class that saw inflow in January at $8 mln, which went to income products such as **FIE**, iShares Canadian Financial Monthly Income.

Flows by Provider

Vanguard was the provider with the highest inflows in January, with $200 mln of inflows spread across every single one of its suite of core asset ETFs. BMO had healthy creations to **ZDM** and **ZSP** echoing the continuing interest in international and U.S. markets, respectively. First Asset had a good month with its largest creations going to its Morningstar Value Index ETFs for both U.S. (**XXM**) and Canada (**FXM**). First Trust was the largest percentage grower with flows into **FSL** senior loans. RBC launched four new ETFs in January, including the actively managed quant-driven dividend funds for Canada (**RCD**), U.S. (**RUD**) and EAFE regions (**RID**), as well as a short-term corporate bond ladder (**RBO**).

Flows by Product: January 2014

Inflows in the month mirrored the prior year's trends, with a bias towards the U.S. as well a short-term bond theme. BMO's **ZDM** (MSCI EAFE, CAD-hedged) was the top ETF with $43 mln in creations, while **VUN** from Vanguard (a wrap of the U.S.-listed **VTI**) was the most popular vehicle for U.S. exposure. However, **ZSP, XUS** and **VFV**, all of which track unhedged versions of the S&P 500, were also all on the top 10 list. Outflows were primarily from broad Canadian equity (**XIU**, **HXT**), some sector funds (iShares Capped Energy **XEG**), rate sensitive aggregate bonds (**ZAG, XBB)** and prefs (**CPD**).

ETF Flows by Category - Jan-2014

Asset Class	AUM ($M)	Flow ($M)	% AUM
Equity	$37,859	-$216.8	-0.4%
Fixed Income	$21,960	-$39.9	-0.2%
Multi-Asset	$1,537	$8.2	0.5%
Commodity	$589	-$11.3	-2%
Levered Long	$458	-$111.7	-22%
Inverse	$530	$93.3	19%
Total	**$62,933**	**-$278.2**	**-0.4%**

Source: National Bank Financial, Bloomberg

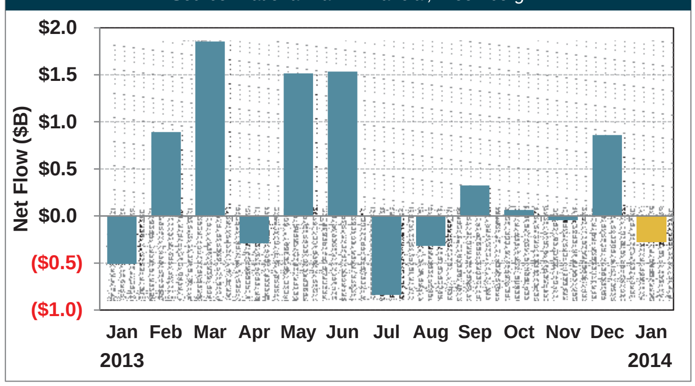
ETF Flows by Provider - Jan-2014

Provider	AUM ($M)	Flow ($M)	% AUM
Vanguard	$1,958	$200.3	11%
BMO	$12,682	$57.1	0.5%
First Asset	$538	$50.7	10%
RBC	$213	$25.1	13%
Purpose	$149	$17.3	13%
PowerShares	$1,767	$14.2	0.8%
First Trust	$70	$12.2	21%
Horizons	$3,895	-$227.9	-6%
BlackRock	$41,663	-$427.2	-1%
Total	**$62,933**	**-$278.2**	**-0.4%**

Source: National Bank Financial, Bloomberg

Chart 1: Canadian ETF Flows by Month

Source: National Bank Financial, Bloomberg



January 2014 FLOWS

INFLOWS

Top Single Long ETF Inflows

	Ticker	Name	Flow ($M)	% AUM
1	ZDM	BMO MSCI EAFE Hedged to CAD Index ETF	$43.1	6%
2	VUN	Vanguard US Total Market Index ETF	$42.5	82%
3	HFR	Horizons Floating Rate Bond ETF	$39.9	11%
4	VSC	Vanguard Canadian Short-Term Corp	$30.0	17%
5	CDZ	iShares S&P/TSX Canadian Dividend Aristocrats	$29.5	3%
6	ZSP	BMO S&P 500 ETF	$26.4	3%
7	XUS	iShares S&P 500 Index ETF	$22.4	27%
8	ZUB	BMO Equal Weight US Banks Hedged to CAD	$21.9	11%
9	VFV	Vanguard S&P 500 Index ETF	$21.2	9%
10	ZPR	BMO S&P/TSX Laddered Preferred Share	$21.1	2%

OUTFLOWS

Top Single Long ETF Outflows

	Ticker	Name	Flow ($M)	% AUM
1	XIU	iShares S&P/TSX 60 Index Fund	-$441.6	-4%
2	HXT	Horizon S&P/TSX 60 Index ETF	-$184.1	-21%
3	HXS	Horizons S&P 500 Index ETF	-$56.1	-28%
4	ZAG	BMO Aggregate Bond Index ETF	-$46.1	-6%
5	PSB	PowerShares 1-5 Year Laddered Inv. Grade Corp	-$34.2	-13%
6	XBB	iShares DEX Universe Bond Index Fund	-$33.5	-2%
7	XEG	iShares S&P/TSX Capped Energy Fund	-$32.3	-5%
8	CPD	iShares S&P/TSX Canadian Preferred Share	-$24.9	-2%
9	XCB	iShares DEX All Corporate Bond Index Fund	-$23.1	-2%
10	ZLC	BMO Long Corporate Bond Index ETF	-$22.0	-13%

Source: National Bank Financial, Bloomberg

NATIONAL BANK FINANCIAL

Pat Chiefalo, CFA | 416.869.7931 | pat.chiefalo@nbc.ca
Daniel Straus, M.Fin., PhD | 416.869.8020 | daniel.straus@nbc.ca
Ling Zhang, M.Fin. | 416.869.7942 | ling.zhang@nbc.ca

Get The Facts About Factor-based Indexing

Looking Beyond Market Beta for Performance.

Barry H. Gordon
President and Chief Executive Officer
First Asset

The exchange traded funds (ETF) industry has been growing rapidly over the past decade, as has investor demand for increasingly new and sophisticated index products to help meet the financial needs of ETF investors.

One relatively new type of ETF investment that looks beyond systematic risk (or beta) to the various other factors that tend to impact relative performance is "factor-based" investing, which has also been referred to as intelligent (or smart) beta. Factor-based investing is based on the notion that factors such as a company's value, momentum, or size will all have an impact on its risk-adjusted performance. Factor-based indexing is the next generation of ETFs, allowing investment advisors to tilt portfolios toward one or more important factors in an effort to deliver stronger risk-adjusted returns than more traditional, capitalization-weighted indices.

Factor-based investing looks at the many drivers that tend to influence a stock's risk and return profile. For example, a company's "value" factor isn't considered in most passive mandates. But equities with more favourable valuation ratios (such as price-to-earnings and price-to-book) have demonstrated persistent outperformance, particularly when compared to stocks that do not have favourable valuation ratios. Factor-based mandates can be structured to benefit from the potentially higher gains available from those stocks with attractive valuation ratios. Weighing the many considerations when it comes to passive investing, factor-based mandates can take index investing performance to a whole new level, while also potentially lowering risk. Factor-based mandates also tend to maintain weighting restrictions to avoid the overweighting or underweighting of certain investment sectors, providing diversification benefits not available when you simply "buy the market."

To provide Canadian investors with access to factor-based ETFs, First Asset Exchange Traded Funds launched a series of factor-based ETFs based on Morningstar® Indexes almost two years ago. These funds include First Asset Morningstar Canada Momentum Index ETF (WXM), First Asset Morningstar Canada Value Index ETF (FXM), and First Asset Morningstar Canada Dividend Target 30 Index ETF (DXM). In October 2013, First Asset launched the US equity factor-based ETFs: First Asset Morningstar US Momentum Index ETF (YXM) and First Asset Morningstar US Value Index ETF (XXM).

The value and momentum factor-based funds – including FXM and WXM – have been extremely popular in Canada and were among the strongest-performing mandates in the Canadian equity category over 2013. All of First Asset Exchange Traded Funds' factor-based ETFs – which come in both currencies, hedged and unhedged versions – aim to replicate Morningstar Indexes that leverage CPMS investment strategies. CPMS is Morningstar's proprietary equity research platform that integrates fundamental, estimate and technical data, as well as economic and commodity data, for over 4,000 Canadian and U.S. companies.

At First Asset Exchange Traded Funds, we aim to deliver better risk-adjusted results through our factor-based indexing approach, and our factor-based ETFs' performance thus far has been as strong as we had expected. By leveraging Morningstar's CPMS methodology, First Asset has created ETFs that capture value and momentum effects for Canadian investors. These professional portfolio management solutions were available to only a few individuals just a few years ago. Our leadership and success in factor-based indexing over the past two years should open the door to additional ETF options across other asset classes that can benefit from factor-based analysis.

To learn more about the benefits of factor-based ETF investing and First Asset Morningstar ETFs, please contact First Asset Exchange Traded Funds at 1.877.642.1289.

Barry H. Gordon, President and Chief Executive Officer, First Asset

1. Top performing Canadian Equity Funds-Source: Morningstar. FXM & WXI's Morningstar performance rankings are solely based on 1 year total return performance as at Dec. 31, 2013, in the CIFSC Canadian Equity category for ETFs, which has 31 funds in the ETF group. FXM & WXM's performance: 1 Yr - 26.38% and 25.97%, since inception: 21.22% and 19.16%, respectively. FXM & WXM inception date is February 13, 2012. Performance shown is for the common units of the Funds. The Fund's performance is subject to change every month.

This communication is intended for informational purposes only. The Funds are offered by prospectus. Individuals should seek the advice of professionals, as appropriate, and read a Fund's prospectus prior to investing. Copies of the prospectus may be obtained from your investment advisor, First Asset or at www.sedar.com. Commissions, trailing commissions, management fees and expenses all may be associated with an investment in ETF Funds. ETF Funds are not guaranteed, their values change frequently and past performance may not be repeated. The opinions contained in this article are solely those of First Asset and are subject to change without notice. First Asset is under no obligation to update the information contained herein. The information should not be regarded as a substitute for the exercise of your own judgment.

ETF Liquidity is More Than Just Trading Volume

It's a misconception that ETFs with a smaller market capitalization and less trading volume are illiquid and should therefore be avoided. Rather attention should be paid to evaluating fund attributes which differentiate one ETF from another.

Karl Cheong
Senior Vice President, Head of Product Development

In recent years, much has been made of exchange-traded funds (ETFs) and the benefits they afford investors. One of the benefits is the stock-like characteristics of ETFs, for example benefits like (intraday trading, exchange listed, various order types – to name a few) however, further examination relating to the depth of the trading market or liquidity for any particular ETF is warranted.

One of the misconceptions is that smaller ETFs with a smaller market capitalization and less trading volume are illiquidand should therefore be avoided. The "stock-like" characteristics of ETFs naturally lead to ETFs being assessed for liquidity just like you would a common stock. However, a core difference is rooted in the open-ended nature of ETFs. While stocks have a fixed number of shares requiring that there be sellers of a stock to satisfy the demand from buyers ("limited offerings"), ETF shares on the other hand can be created or redeemed in large "creation unit" aggregations to satisfy demand ("continuous offerings"). As a result of this structure, there is more liquidity than can be ascertained by simply looking at the market capitalization and daily trading volume of the ETF itself.

First Trust
Portfolios Canada®

Let's take an example of a small market capitalization/low trading volume fund and drill into the specifics.

Daily Closing Price of First Trust AlphaDEX™ U.S. Dividend Plus ETF

Date	Last Price	Vol
06/27/13	19.99	550
06/28/13	20.08	10,000
07/04/13	20.24	425
07/05/13	20.21	1,265
07/08/13	20.39	1,650
07/09/13	20.5	1,830
07/10/13	20.47	2,875
07/11/13	20.71	400
07/12/13	20.75	1,635
07/16/13	20.78	83,611
07/17/13	20.81	1,560
07/18/13	20.99	2,650
07/19/13	21.02	675
07/23/13	21.15	225
07/24/13	20.95	15,694
07/26/13	20.98	5,702
07/30/13	20.89	1,337
07/31/13	21.03	4,580

Source: Bloomberg

The First Trust AlphaDEX™U.S. Dividend Plus ETF (CAD-Hedged) (TSX:FUD) typically trades just 2,306 shares per day. The total market capitalization of the fund is $5.60 million. In the exhibit below you can see the historical prices and volumes of the ETF. On 7/16/13 an investor purchased nearly 83,611 shares of the ETF. "Stock-like" analysis would suggest that this trade would significantly impact the price of the ETF as this trade would represent 32 times the volume of a typical trading day. Yet, since the security is an ETF, the more appropriate way to assess the impact of the increased trading on the liquidity of the security is to realize that this trade represents a small fraction of the average daily volume of the individual underlying stocks that comprise the ETF's portfolio holdings.

Despite the fact that the trading volume was extraordinary relative to historical trading levels, the price did not fluctuate accordingly. If you had been using the average daily trading volume (ADV) number to guide your trading strategy, then you might have never imagined you could trade that many shares in one day.

FUD Trading Detail on 7/16/13 – A Closer Look

Trade Recap 07/16/13 of First Trust AlphaDEX™ U.S. Dividend Plus ETF

Date	Volume	Vol
09:39:20	25	20.87
09:39:20	200	20.87
10:41:16	14	20.86
10:41:16	78,900	20.86
10:51:22	300	20.87
10:58:49	90	20.83
10:58:49	100	20.83
11:03:15	7	20.82
11:03:15	400	20.82
11:07:58	1,500	20.78
11:23:36	600	20.80
11:28:37	75	20.80
11:28:37	400	20.80
13:01:16	50	20.77
13:01:16	200	20.77
13:25:44	75	20.74
13:25:44	100	20.74
14:09:39	75	20.78
14:09:39	100	20.78

Source: Bloomberg

A further look at the actual trades made in FUD during the day on 7/16/2013 allows one to draw a number of reasonable conclusions.

1) Volume is not driving the price of the ETF. A large block (78,900 shares) trade is executed on the heels of a number of smaller block trades with no fluctuation in the price; and

2) One can see that the declining price in the 9:39 am to 11:07 am timeframe is driven by the value of the underlying stocks held in the ETF's portfolio, not trading volume of the ETF as one might otherwise assume based on typical trading volume analysis.

Based on the above, the following suggestions may prove useful with smaller ETFs:

1) Generally avoid trading on the open or close of the market. At the open, the market maker has to price the ETF relative to the prices of the underlying stocks held in the ETF's portfolio which tend to be a best estimate based on the data available. Be it financial crisis, geopolitical concerns or company specific issues, prices on the open can be volatile which impacts the ETF's pricing until the trading day gets underway and the prices of the stocks underlying the ETF are established;

2) Use limit orders – Limit orders are generally preferred over market orders, enabling investors to control the price at which ETF trades may be executed. In doing so, investors can often access much more depth than what is seen at the top of the order book, since ETF shares can be created or redeemed.

3) Stop Orders – if these are part of your strategy, then consider using stop limits as stop orders turn into market orders when triggered.

Continued on page 10

Continued from : ETF Liquidity is More Than Just Trading Volume page 9

Understanding ETF Implied Liquidity

In the Bloomberg chart below, we can see that the 30-day Average Daily Volume of the ETF is only 1,100 shares as of December 16, however, the ETF's implied liquidity under the trading data section, was 15.5 million shares on December 16. The implied liquidity figure displays the number of ETF shares that could potentially be traded as implied by the trading volume of each stock in the portfolio. If you were a portfolio manager who wanted to invest $100 million in the ETF, you might be hesitant at first because the ETF usually trades only about $24,409 notional per day (1,100 shares times $22.19 per share, as of December 16). However, if you review the liquidity of the underlying holdings of the ETF, you would see that you could potentially trade more than $363 million notional daily ($22.19 times 15.5 million shares) without impacting the share prices of the underlying stocks that make up the ETF portfolio.

Why does ETF liquidity matter?

Many investors assume that ETFs tracking specific segments of the market will generally offer very similar returns. However, as the diversity of approaches followed by ETFs has increased over the past decade, so has the divergence in returns, even among funds in the same sector or asset class.

As investors begin to understand ETF liquidity, recognizing that good execution and tight spreads are made possible (even for thinly traded ETFs) by the liquidity of the funds' underlying holdings coupled with the ETF creation and redemption process, more attention can be paid to evaluating fund attributes which differentiate one ETF from another, such as index methodology and portfolio holdings. With this knowledge, investors are much better equipped to begin sorting through the ever-growing universe of ETFs on the basis of information that is relevant in order to achieve their objectives.

This article is for informational purposes only and is not and should not be taken or construed as investment advice to any person. Specific investments and/or investment strategies should be evaluated in the context of an investor's entire circumstances. Investors should consult their own advisors as to the merits of a particular investment. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund/ETF investments. Please read the prospectus before investing. Mutual funds/ETFs are not guaranteed, their values change frequently and past performance may not be repeated.

Karl Cheong, Senior Vice President, Head of Product Development, First Trust Portfolios Canada

Bloomberg Fund Summary of First Trust AlphaDEX™ U.S. Dividend Plus ETF

2014 CALENDAR OF EVENTS

Brought to you by Radius Financial Education

radiusfinancialeducation.com

Exchange Traded Forum (ETF)

Monday, March 31, 2014 ~ Toronto

Canada's leading event dedicated to **Exchange Traded Products**. Hear from leading financial industry professionals and industry experts who will provide valuable insights into the issues and trends that matter most to Canada's financial professionals. Join us for presentations, advisor/client-focused sessions, roundtable discussions, networking events and knowledge sharing critical issues facing the financial industry. This is an opportunity for IIROC based financial advisors and also Portfolio Managers to gather together in a great location to network, learn from each other, and participate in the numerous educational opportunities that fill the agenda.

ExchangeTradedForum.com

Radius Practice Management & Retirement Summit (RPMRS)

Thursday, May 8, 2014 ~ Toronto

RPMRS offers proven **practice management** tools and education to help enhance **business-building** efforts, increase efficiencies within your practice, and grow revenue to sustain your practice. This extensive one day event delivers a focused set of tools and resources from select sponsor partners that include products, retirement coaching and planning, current economic perspectives, information on advisor support programs and tools for your business and development. This is an opportunity for financial advisors to gather together in a great location to network, learn from each other, and participate in the numerous educational opportunities that fill the agenda.

RadiusPRMS.com

Niagara Institutional Dialogue (NID)

Mon., June 9 to Wed., June 11, 2014 ~ 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.

An Exchange of New Ideas Knowledge Practices For Institutional Investors

InstitutionalDialogue.com

Exchange Traded Forum (ETF West)

Tuesday, June 17, 2014 ~ Vancouver

Canada's leading event dedicated to **Exchange Traded Products**. Hear from leading financial industry professionals and industry experts who will provide valuable insights into the issues and trends that matter most to Canada's financial professionals. Join us for presentations, advisor/client-focused sessions, roundtable discussions, networking events and knowledge sharing critical issues facing the financial industry. This is an opportunity for IIROC based financial advisors and also Portfolio Managers to gather together in a great location to network, learn from each other, and participate in the numerous educational opportunities that fill the agenda.

ExchangeTradedForum.com

World Alternative Investment Summit Canada (WAISC)

Mon., Sept. 15 to Wed., Sept. 17, 2014 ~ Niagara Falls

WAISC is in its 12th year and is Canada's largest gathering of **alternative** and **exempt market** investment professionals and service providers. Featuring panel discussions with top-level Canadian and international speakers, fund managers and leading service providers, WAISC brings together over 300 delegates to explore every side of **alternative** investments. WAISC is a popular annual event that is not to be missed.

World Alternative Investment Summit Canada

waisc.com

World Alternative Investment Summit Canada (WAISC West)

Wednesday, November 12, 2014 ~ Vancouver

WAISC West is in its 3rd year and is Canada's largest 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 200 delegates to explore every side of **alternative** investments.

World Alternative Investment Summit Canada

waisc.com

Radius Financial Education (Radius), has been producing high level conferences within the financial services sector in Canada for over 12 years. As Canada's leading producer of conferences within the financial sector, **Radius** events focus on education and networking through an exchange of independent ideas and information, allowing our delegates to be leaders in their chosen fields. Our top-down approach to the agenda enables us to deliver relevant, 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.

For more information, please contact:

Radius Financial Education T 416.306.0151 info@radiusfinancialeducation.com

ETF STRATEGY
Tactical Asset Allocation: January 2014
FINANCIAL PRODUCTS RESEARCH

January 9, 2014

- ***We see mildly improving global growth, contained inflation and accommodating monetary policy***
- ***Equities overweight favouring developed over emerging, with high dividends and smaller caps***
- ***Rates remain a concern so we favour short duration high yield with governments underweight***
- ***Our preference is to overweight U.S. dollar-denominated exposure to U.S. & EAFE stocks***

Our recommended ETFs to express National Bank's Asset Allocation Strategy:

Table 1 - Recommended ETFs

Asset Class		Ticker	Fund Name	Price ($)	Type*	QMV** ($M)	20D ADV (000)	MER (%)
Equity	U.S. Broad	VTI US	Vanguard Total Stock Market ETF	95.49	USL	39,137	3,454	0.05
		VUN CN	Vanguard US Total Market Index ETF	28.08	UnH	60	58	0.15***
	U.S. Dividend	ZDY CN	BMO US Dividend ETF	17.60	UnH	63	18	0.34
		VGG CN	Vanguard US Dividend Appreciation	27.49	UnH	27	21	0.28***
		UXM/B CN	First Asset Morningstar US Div Target 50	10.90	UnH	1	5	0.60***
	U.S. Small Cap	IJR US	iShares Core S&P Small-Cap ETF	108.05	USL	14,236	1,009	0.17
		VB US	Vanguard Small-Cap ETF	109.77	USL	8,243	438	0.10
	EAFE	XEF CN	iShares MSCI EAFE IMI Index ETF	23.67	UnH	82	31	0.30***
		VDU CN	Vanguard FTSE Developed ex North America	27.96	UnH	45	26	0.28***
Fixed Income	High Yield	ZHY CN	BMO High Yield US Corporate Bond CAD-H	15.96	C$H	613	108	0.62
		XHY CN	iShares US High Yield Bond CAD-Hedged	21.54	C$H	595	83	0.61
		HYI CN	Horizons Active High Yield Bond ETF	10.72	C$H	34	51	0.67
	Short Term High Yield	HYS US	PIMCO 0-5 Year High Yield Corporate Bond	106.54	USL	3,681	228	0.55
		SJNK US	SPDR Barclays Short Term High Yield Bond	30.89	USL	3,108	954	0.40

**Type: US-Listed (USL); CAD with US dollar (USD); CAD with currency hedge (C$H), and Non-currency hedged (UnH); ** ZSP/U and HXS/U's QMV and 20D ADV include both CAD and USD units; ***Stated Management Fee; Source: NBF, Bloomberg; Data as of 08-Jan-14*

Asset Allocation Strategy Report: *Carefully stick to the plan! –Jan. 8, 2014*

Reference: Martin Lefebvre, Asset Allocation and Investment Strategist

- We expect global growth to gather some steam but still remain tepid in 2014. Inflation should be contained, which will help global monetary policy to stay highly accommodative.
- Although it remains to be seen what the impact of the Fed's reduction of bond purchases will be, we see fewer risks on the horizon. Of course, the potential for deflation in Europe remains a concern, but consensus "bullishness" could well turn out to be the biggest hurdle to overcome this year.
- We recommend keeping government bond exposure at a minimum, with a corresponding overweight position in riskier issuers. Duration should be kept short but closer to benchmark.
- We are maintaining an overweight equity position at the expense of fixed income securities. While it would be tempting to bet on underperformers and undervalued securities to start the year, we believe

Table 2 - Global Asset Allocation 3-Month Horizon

Asset Classes	Weight: Min	Under	Equal	Over	Max
Cash			■		
Bonds		■			
(Duration)			■		
Federal		■			
Investment Grade			■		
High Yield (USD)				■	
Non-traditional Income				■	
World Equities				■	
S&P/TSX			■		
S&P 500 (USD)				■	
Growth vs. Value			■		
Large Cap vs. Small Cap			■		
Defensives vs. Cyclicals			■		
MSCI EAFE (USD)				■	
MSCI EM (USD)			■		
Alternative Investments			■		
Commodities			■		
Energy				■	
Base Metals		■	←		
Gold			■		
Hedge Funds (USD)			■		
REITs		→	■		

Source: Consulting Investment Committee, NBF

NATIONAL BANK FINANCIAL

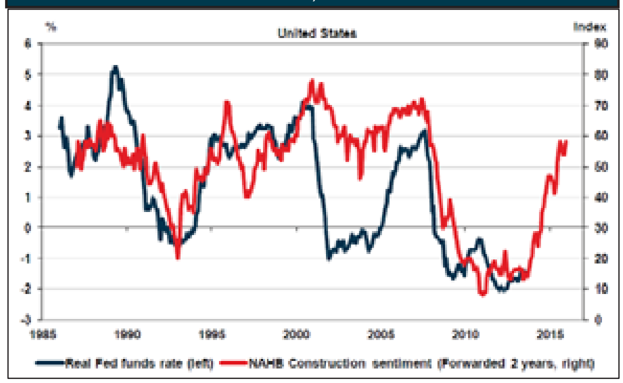
Pat Chiefalo, CFA | 416.869.7931 | pat.chiefalo@nbc.ca
Daniel Straus, M.Fin., PhD | 416.869.8020 | daniel.straus@nbc.ca
Ling Zhang, M.Fin. | 416.869.7942 | ling.zhang@nbc.ca

U.S. and EAFE markets will continue to outperform markets linked to commodity prices. Although double digit growth is not our base case scenario for 2014, we wouldn't be surprised if this turned out to be the case again.

Exceptional year…not so much
Source: NBF. Datastream

- From a fundamental perspective nothing is changed, and we continue to believe that developed market equities will outperform every other asset classes.
- Although double-digit growth is not our base case scenario for this year, we wouldn't be surprised if this turned out to be the case again.
- In fact, over the past decades, 25%-plus equity performances in a context of easy monetary conditions have always been followed by strong growth the subsequent year.

Pressure on interest rates remains upward
Source: NBF, Datastream



- We do not anticipate that bond yields will rise significantly in 2014.
- Nevertheless, since it is the first step towards unwinding some of the extraordinary measures that were put forward during the crisis, upward pressure on yields will likely remain strong as long as the economy keeps improving.
- In short, this means that there is still a fair chance of seeing negative bond returns, albeit not as pronounced as those witnessed last year.

Valuations still attractive
Source: NBF Datastream

- There is no denying that last year was characterized by multiples' expansion for equities, since earnings growth came out below expectations. However, valuations are still attractive by most metrics.
- When we look at the price-to-forward-earnings ratios, equities remains in line with historical trends for U.S. and Canadian markets, they are well below trend for the EAFE regions and are near historical lows for most emerging markets
- Therefore, while some analysts are already proclaiming that we are in a bubble, to us equities appear to be far from expensive. PE ratios at these levels are also historically associated with good returns over the long run

Pat Chiefalo, CFA | 416.869.7931 | pat.chiefalo@nbc.ca
Daniel Straus, M.Fin., PhD | 416.869.8020 | daniel.straus@nbc.ca
Ling Zhang, M.Fin. | 416.869.7942 | ling.zhang@nbc.ca

ETF News

INVESTMENT COMPANY INSTITUTE®

1401 H Street, NW, Washington, DC 20005-2148, USA
202/326-5800 www.ici.org

Media Relations Line: 202-371-5413

Ianthé Zabel, ianthe.zabel@ici.org
Rachel McTague, rachel.mctague@ici.org
'Stephanie Ortbals-Tibbs, stephanie.ortbalstibbs@ici.org
Inga Vitols, inga.vitols@ici.org

ICI Reports ETF Assets and Net Issuance

WASHINGTON, DC, JANUARY 29 , 2014 – The combined assets of the nation's exchange-traded funds (ETFs) were $1.675 trillion in December, according to ICI. The Institute's monthly statistical collection also includes the value of shares issued and redeemed by exchange-traded funds.

Assets of Exchange-Traded Funds by Type

Millions of dollars

	Nov 2013	Nov 2013	Dec 2012
Total Domestic Equity	1,028,450	998,675	764,732
Domestic (Broad-Based)	761,701	731,096	509,338
Domestic (Sector/Industry)	266,748	267,579	255,394
Global/International Equity	398,846	395,224	328,521
Hybrid	1,448	1,412	656
Bond	245,862	247,661	243,203
All	**1,674,607**	**1,642,972**	**1,337,112**

Value of Shares Issued and Redeemed by All Exchange-Traded Funds

Millions of dollars

	Dec 2013	Nov 2013	2013	2012
Gross Issuance	135,324	88,078	1,336,003	1,154,074
Gross Redemptions	115,353	74,727	1,156,137	968,679
Net Issuance	**19,970**	**13,350**	**179,865**	**185,394**

Number of Exchange-Traded Funds by Type

	Dec 2013	Nov 2013	Dec 2012
Total Domestic Equity	603	602	575
Domestic (Broad-Based)	292	291	274
Domestic (Sector/Industry)	311	311	301
Global/International Equity	438	436	404
Hybrid	14	14	13
Bond	238	233	202
All	**1,293**	**1,285**	**1,194**

Highlights: Assets of all exchange-traded funds rose in December by $31.64 billion, or 1.9 percent, to $1.675 trillion. Over the past 12 months, ETF assets increased $337.50 billion, or 25.2 percent. Assets in domestic equity ETFs increased $263.72 billion since December 2012, and global equity ETF assets rose $70.33 billion during this period. At the end of December 2013, assets of bond funds were $245.86 billion and hybrid funds were $1.45 billion.

During December, the value of all ETF shares issued exceeded that of shares redeemed by $19.97 billion. In December 2012, the value of all ETF shares issued exceeded that of shares redeemed by $32.58 billion.

TMX – an ETP leader

TMX Toronto Stock Exchange

Exchange Traded Products ETPs

TMX

Canada Equity
Growth
Dividend
Value
S&P/TSX 60
S&P/TSX Composite
Low Volatility
High Beta
S&P/TSX Small Cap
Covered Calls
S&P/TSX Venture Select
MSCI Canada
FTSE RAFI Canada
Morningstar Canada
Dow Jones Canada

International Equity
Emerging Markets
Global Funds
Japan
Latin America
United States
BRIC (Brazil, Russia, India & China)
EAFE (Europe, Australia, Asia, and the Far East)

Currencies
Australian Dollar
Euro
Pound
U.S. Dollar
Yen

Multi-Asset
Core Portfolio Funds
Completion Portfolio Builders
Monthly Income Funds

Commodities
Agriculture
Base Metals
Precious Metals
Energy
Broad

Volatility & Alternative Strategies
VIX Short-Term Futures
VIX Mid-Term Futures
Managed Futures
Hedge Fund

Fixed Income
Corporate
Convertible
Government
Real Return
High Yield
Target Maturity
Laddered
Barbells
Senior Loan

Sector Equity
Agriculture
Consumer Staples
Energy
Financial
Healthcare
Infrastructure
Information Technology
Materials
Metals & Mining
Real Estate
Socially Responsible
Utilities
Water

For more information

www.tmx.com

Amelia Nedovich
Head, Business Development
ETPs and Structured Products
416 947-4499 or **amelia.nedovich@tsx.com**

Olga Trofimova
Head
International Trading and Research
416 947-4355 or **olga.trofimova@tsx.com**

Vanguard®

Overpaying for investments doesn't make sense either.

Vanguard MERs are a fraction of the industry average cost for mutual funds or ETFs.
We pioneered index investing in 1976, and we've been perfecting low-cost investing ever since.

AVERAGE MERs		
Mutual funds	ETFs	Vanguard ETFs
2.01%	0.88%	0.27%

888-293-6728
vanguardcanada.ca