WEALTH FOCUS

SUMMER 2012 Q2

A QUARTERLY REPORT FROM CANACCORD WEALTH MANAGEMENT

Financial markets have priced in a fair amount of economic uncertainty, suggests Martin Roberge

It's not surprising that many investors are skittish these days, paying a premium for protection or simply standing on the sidelines. Financial stress in the Euro Zone and the risk of expiring tax benefits and automatic budget cuts in the U.S. are cause for concern.

However, Canaccord Genuity Portfolio Strategist Martin Roberge gets the sense that much of current global economic uncertainty is already reflected in share prices – giving investors a better margin of safety than they had at this time last year.

While such a margin of safety may not be sufficient to guard against the risks of Euro Zone dissolution, the announcement of forceful policy measures could quickly send markets back to this year's highs. Thus, while Roberge believes stocks could stay in a range this summer — until stronger economic statistics validate the recovery — he remains cyclically positive on equities.

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CANACCORD Wealth Management

DON'T MISS THE BIG PICTURE

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RISK AVERSION REMAINS HIGH

Compared to the summer of 2011, stocks are cheaper, bonds are more expensive and earnings growth expectations are more muted. U.S. economic growth is more self-sustaining. Further, the Euro Zone enjoys hyper-accommodative monetary conditions for two reasons: European Central Bank (ECB) rate cuts, and the plunge in the euro vs. the U.S. dollar and the Chinese yuan. Additionally, in China the government has adopted new measures to promote consumption and fixed asset investments. The net result is that more leading economic indicators are rising globally.

Yet, judging by the extreme valuation gaps between defensive and late-cyclical equity sectors, investors are as risk averse as they were following the Lehman Brothers collapse and start of the great recession in late 2008.

Roberge believes that the overvaluation of many defensive sectors and emerging signs of fiscal re-flation in China creates conditions for a pre-emptive rotation into late cyclical sectors. So what are the best cyclical sectors to target?

1. ENERGY

The energy sector has been hit hard lately. At the beginning of June, relative to Canadian banks, Canadian energy stocks were oversold by nearly 20% and trading at close to a 15% discount on a price to book value basis. Historically, these two conditions have come just before periods of energy stock outperformance relative to banks.

Looking more broadly at the overall market, the energy sector is deeply oversold and undervalued – similar to the situations in 2003, 2006 and 2008 that preceded periods of energy stock outperformance.

Add to this energy analysts' recent sharp cuts to earnings per share (EPS) estimates and we think the time may have come for investors to accumulate energy stocks.

2. MATERIALS

If energy is a story of punishing conditions, the materials sector is all about positive indicators. Canadian lumber stocks are benefiting from the U.S. housing market recovery and steady Chinese imports of cheap wood. Lumber prices have pushed above US$300, which should translate into positive EPS revisions in the second half of 2012.

Meanwhile, gold stocks represent a good hedge against negative European news, and fertilizer stocks are primed to perform thanks to a rebound in demand with relatively low inventory levels.

3. TECHNOLOGY

Communications equipment is an attractive area of the market as well. We believe that investors have overreacted to lower-than-expected results, and that industry fundamentals are better than many analysts think.

The ratio of total orders to inventories – the way Roberge measures demand in this sector – paints a constructive outlook for the second half of 2012. Demand is growing, equipment prices have staged a comeback, and companies are trimming labour costs to protect their margins.

Meanwhile, the semiconductor group is poised to benefit from robust global chip demand and a strong Chinese yuan, which is allowing cheaper imports of semiconductors to flow into China.

HOLD ON TIGHT TO SOME CYCLICALS!

Roberge's analysis leads him to the conclusion that stocks are stuck in a range, but not a bear trap. What will enable them to take off? We should see a bounce when stronger economic statistics validate the recovery in leading economic indicators. While we wait, we remain cyclically positive on equities.

Interested in following the rapidly changing macroeconomic environment and how to best position your portfolio through these volatile markets? Then call us to discuss your portfolio and to request your copy of Roberge's weekly report. To find out more about opportunities in the energy, materials and technology sectors, check out the Focus List picks below.

Buy recommendations from the Canaccord Genuity Canadian Focus List

Energy

Athabasca Oil Sands (ATH: TSX)
Bellatrix Exploration Ltd. (BXE: TSX)
Canadian Natural Resources (CNQ: TSX)
Novus Energy Inc. (NVS: TSX-V)
Pinecrest Energy Inc. (PRY: TSX)
Precision Drilling Corporation (PD: TSX)
Western Energy Services Corp. (WRG: TSX-V)

Materials

Argonaut Gold Inc. (AR: TSX)
Atna Resources Ltd. (ATN: TSX)
Augusta Resource Corp. (AZC: TSX)
B2Gold Corp. (BTO: TSX)
EcoSynthetix (ECO: TSX)
Fortress Paper (FTP: TSX)
Inmet Mining Corporation (IMN: TSX)
Labrador Iron Mines (LIM: TSX)
MAG Silver Corp. (MAG: TSX)
MBAC Fertilizer Corp. (MBC: TSX)
Prodigy Gold Inc. (PDG: TSX-V)
SilverCrest Mines Inc. (SVL: TSX-V)
Tahoe Resources Inc. (THO: TSX)
Yamana Gold Inc. (AUY: NYSE; YRI: TSX)

Technology

Pure Technologies Ltd. (PUR: TSX)
Sierra Wireless (SW: TSX)
Wi-LAN Inc. (WIN: TSX)

SOMETIMES THE BEST DEFENSE IS AN OFFENSE

Meet the "dividend growers"

Last year, in an environment of global economic challenges, bearish equity markets and low interest rates, investors flocked to defensive dividend-paying equities.

But is a dividend play always a defensive play? When economic indicators are pointing upwards, it may be time for new thinking.

SOLID, STEADY DIVIDENDS

Dividend payers have a well-deserved reputation for participating in market upswings and, typically, providing a steady stream of dividend income when markets falter. Furthermore, they have a record of providing superior total returns on a lower-risk basis than the overall stock market.

From January 1, 1986 to December 31, 2011:

- Dividend payers generated an annualized total portfolio return of 10.1%, compared to 6.5% for the S&P/TSX Composite Index and 1.1% for non-dividend payers.‡
- Dividend payers had annualized volatility of 14.0%, compared to 17.0% for the S&P/TSX Composite Index and 23.0% for non-dividend payers.‡

‡ *Source: RBC Capital Markets Quantitative Research*

Canaccord Genuity shines at StarMine Awards

Canaccord Genuity analysts won more awards than analysts at any other Canadian company at the 2012 StarMine Awards, taking home 12 trophies.

Our analysts were among the top three **earnings estimators** in the following industries:

- Auto components (David Tyerman: #1)
- Energy equipment & services (John Tasdemir: #2)
- Financial services (Scott Chan: #3)
- Insurance (Mario Mendonca: #1)

We also have three of Canada's top three **stock pickers** in the following industries:

- Auto components (David Tyerman: #1)
- Chemicals & utilities (Juan Plessis: #1)
- Commercial banks (Mario Mendonca: #1)
- Energy equipment & services (John Tasdemir: #2)
- Insurance (Mario Mendonca: #2)
- IT equipment (Robert Young: #1)
- Telecommunications services (Dvai Ghose: #2)

In addition, Sara Elford of Canaccord Genuity is a top 10 earnings estimator thanks to her work on diversified industrials.

StarMine is the leading provider of objective ratings of securities analysts. It measures analysts' performance based on the return of their stock recommendations and the accuracy of their earnings estimates. The 2012 awards were presented by The Globe and Mail and StarMine (a Thomson Reuters company).

A FRESH LOOK AT CYCLICALS

Many investors have been focused on dividend payers in defensive sectors such as utilities, telecommunications and consumer staples — areas of the market that are less affected by market ups and downs.

However, a brightening economic picture may point to diversifying into dividend payers with exposure to cyclical sectors such as industrials, financials, materials and consumer discretionary.

MEET THE TOP DIVIDEND GROWERS

Canaccord recently unveiled their top "dividend growers" – stocks they believe are well positioned to benefit from a rebounding market.

Specifically, Canaccord's analysts have identified dividend payers with the potential to rise in value thanks to these factors:

- Signs of improving market technicals in Canada,
- Muted recovery in global leading economic indicators,
- Disproportionate underperformance of cyclicals relative to defensive stocks over the past few years, and
- Diminishing odds of a hard landing in China.

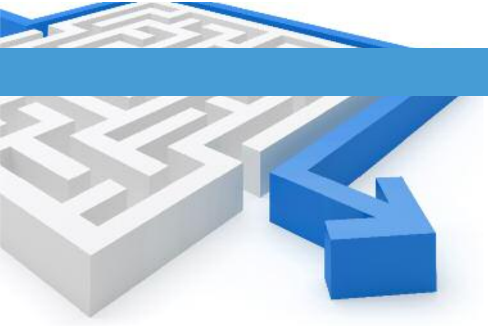
Here are the stocks that made the cut:

Dividend grower	Ticker	Yield	Projected 12-month total return*
Algonquin Power	AQN: TSX	4.4%	13.4%
Amica Mature Lifestyles	ACC: TSX	4.7%	30.2%
AutoCanada Inc.	ACQ: TSX	4.9%	27.0%
Bird Construction	BDT: TSX	5.1%	15.9%
CI Financial	CIX: TSX	4.4%	19.1%
Pembina Pipelines	PPL: TSX	5.8%	24.5%
Suncor Energy	SU: TSX	1.8%	58.4%

** As of June 7, 2012, derived by Canaccord Genuity Analysts.*

All demonstrated strong cash flow, solid balance sheets and a history of consistent dividend growth. They offer investors the potential for both rising dividends and capital gains in 2012. Like all dividend payers, they have a tax advantage, with $1.00 in dividends generally worth 1.22 to 1.46 times $1.00 of interest income on an after-tax basis, depending on the province.

Interested in adding dividend growers to your portfolio? Contact us to discuss your portfolio's allocation to dividend paying equities and to request a copy of Canaccord's special report, Dividend Growers: Going on the Offensive.



WEALTH MANAGEMENT SIMPLIFIED

As your investment portfolio grows, it can become significantly more complex. At a certain point, investors may want to look for account structures that help to streamline administration, reporting and fees. Canaccord offers three types of wealth management accounts that provide both control and flexibility for sophisticated investors.

COMPLETE CANACCORD FEE-BASED ACCOUNTS

Investment minimum: $100,000

Are you a hands-on investor who wants to be able to adjust your investment strategy to meet changing market conditions — without having to worry about additional trading fees?

Complete Canaccord Fee-Based Accounts charge one inclusive monthly or quarterly fee, based on your account value and asset allocation rather than of individual transaction fees. You get to maintain control over investment decisions as we work together to maximize the value of your portfolio.

COMPLETE CANACCORD MANAGED ACCOUNTS

Investment minimum: $250,000

Perhaps you're ready to take a step back from day-to-day investment decision-making and take advantage of discretionary management.

Complete Canaccord Managed Accounts connect you to an experienced Canaccord Portfolio Manager, who customizes and oversees your investment portfolio according to your specific financial strategy. The result? The opportunity to seize investment opportunities quickly, as they arise, and the benefits of a consistent, personalized investment approach.

COMPLETE CANACCORD INVESTMENT COUNSELLING PROGRAM

Investment minimum: $100,000

Access expertise, discipline and performance generally reserved for institutional and pension fund investors with the Complete Canaccord Investment Counselling Program.

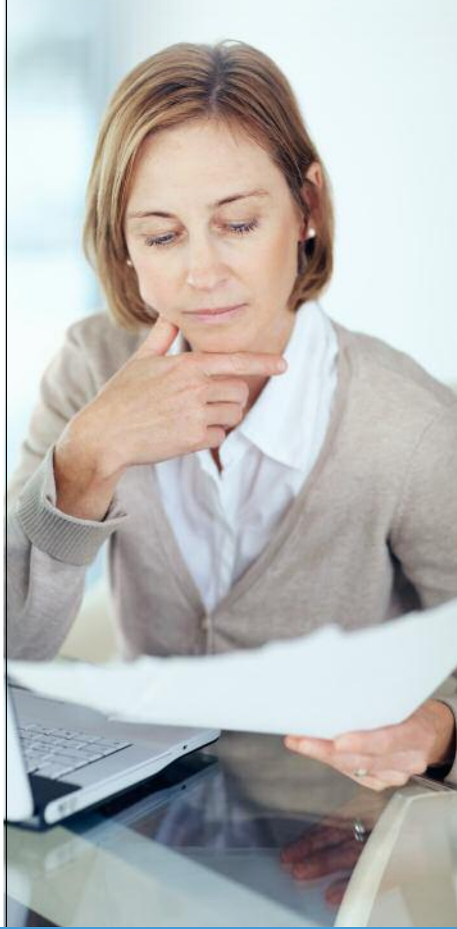
Our team will guide you towards a mix of renowned global Portfolio Managers who can help you realize your financial goals. Each of these investment management experts is carefully screened and monitored by Canaccord and Rogerscasey Canada, a leading third-party global investment solutions consultant. Since you own the securities in your portfolio directly — unlike the pooled ownership of a mutual fund — you benefit from greater tax efficiency. WF

Does one of these wealth management accounts sound like the right match for you? Contact us for more information, or to assess which program would suit your specific needs.

In your mailbox

Coming soon!

Your Canaccord statement is new and improved. Beginning with the July month-end statement, the redesigned reporting will provide an even clearer picture of your portfolio and your progress towards your investment objectives. It's another example of Canaccord's commitment to providing you with all the information you need to build your wealth.



Canaccord Wealth Management

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

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To learn more, please visit www.canaccord.com.

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