UNITED FINANCIAL

Portfolio Construction

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Emotional decisions can cost investors

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Stock markets were volatile during September and the first half of October. From peak to trough, major indexes fell as much as 10%, which can be considered a market correction. Most of the volatility was driven by news, not long-term company fundamentals. The volatility started on September 15, when the Organisation for Economic Co-operation and Development (OECD) reduced its global growth forecasts for both 2014 and 2015. Oil prices dived as investors quickly adjusted their assumptions for future oil demand. In addition, investors were worried about the spread of Ebola and the conflict with ISIS in the Middle East. While all of these issues remain, stock markets recovered quickly. By the end of October, the U.S. market, as represented by the S&P 500 Index, recovered its losses and posted a modest gain for the two-month period.

While we were confident that a recovery would happen, its speed surprised us. Stock valuations were reasonable before the market correction and suddenly became very attractive without any changes to solid company fundamentals or central bank policies. It was a loss to emotional investors who relied too much on news coverage and a gain for disciplined investors who did research on the companies they own, much like we do. We increased our exposure to equities as a result of our disciplined portfolio rebalancing process, which is designed to adjust our portfolio exposure for short-term market fluctuations. We also reduced our exposure to fixed income and the U.S. dollar, which rallied at the time of the market correction.

A new study by Dalbar, a Boston-based financial research firm, concluded that the average investor earned a significantly lower return than the stock market during the 30-year period ended December 2013. The performance of a stock market assumes that investors invest at the beginning of a period and remain invested for the entire period. The study found that average investors become aggressive when markets are rising and fearful during downturns, effectively practicing a “buy high, sell low” strategy. The cost of emotional mistakes in investing can be high and we urge investors not to panic when markets are volatile.

We create investment solutions to meet the goals of our investors. Our investors generally own more stocks if they have a long-term investment horizon and a high risk tolerance because the extra expected return from investing in stocks requires a longer time to fully play out. We often find that the biggest challenges are not caused by market corrections, but by the emotional decisions of investors. While we agree that an investment plan should be discussed and evaluated on a regular basis, it may not be necessary every time a market correction occurs.

Combined top 15 equity holdings as of October 31, 2014 of a representative balanced United Financial portfolio with alpha-style equity exposure:*

1. Empire	6. Suncor Energy	11. Goldman Sachs
2. Toronto-Dominion Bank	7. AltaGas	12. Power Financial
3. Atco	8. Canadian Natural Resources	13. Canadian Tire
4. Manitoba Telecom Services	9. Schlumberger	14. Citigroup
5. E-L Financial	10. SNC Group	15. Open Text

Combined top 15 equity holdings as of October 31, 2014 of a representative balanced United Financial portfolio with value-style equity exposure:*

1. Microsoft	6. Bank of Nova Scotia	11. American International
2. Royal Bank of Canada	7. Suncor Energy	12. Novarits
3. Toronto-Dominion Bank	8. Citigroup	13. CIBC
4. Apple	9. UnitedHealth Group	14. Mitsubishi UFJ Financial
5. Boeing	10. Manulife Financial	15. Roche

*Approximately 37% fixed-income, 7% enhanced income, 49% equities and 7% global real estate.

To see the top 15 holdings of the individual United Pools or of the United equity Alpha mandates, please visit the United Financial web page by right clicking on this link and selecting “open web link in browser”: http://www.assante.com/wp/optima/financials.jsp#united15.