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WHAT'S NEW

♦ **More Manager Turnover at Cundill -**

On September 7, it was announced that David Tiley, one of the managers of the Cundill Value Fund had left the firm. This leaves Andrew Massie as the sole manager on the fund. While Mr. Massie is listed as the sole lead manager, the firm uses a very collaborative approach where responsibilities are divided according to geographic regions. While a team approach is generally positive, the firm has experienced what we would consider to be significant levels of turnover in the past few years. Anytime we see turnover, we become concerned. This is on top of our concerns of the past few months where we have noticed a significant uptick in portfolio volatility within the fund. While this can be attributed to the deep value style used, it is our view that it has not provided an adequate return for the level of volatility that investors have been subject to. We will continue to monitor this fund closely.

♦ **AGF cuts fees on a few mandates -**

Quick - look out your window. Do you see pigs flying? Nope? Me either. That makes me a bit nervous because the unthinkable appears to be happening - mutual fund fees look to be coming down. Slowly, mind you, but still moving in the right direction.

It all began when a number of fund companies opted to go with fixed administration fees to help provide some level of cost certainty. Then a few companies actually cut fees, with the most notable being Investors Group who slashed fees several months ago. IG is well known for having some of the highest fees

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PORTFOLIO POSITIONING FOR A MARKET BOUNCE

By Dave Paterson, CFA

The best equity funds for a rising market

In our September edition, we looked highlighted a number of core equity funds that provided investors with the best downside protection for when markets were falling. In this edition, we have scoured the mutual fund universe to find some of the funds that provide the best opportunity for strong gains when markets move higher.

Looking at the historic returns of the S&P 500 dating back to January 1950, we see that it is September and October which have historically been the worst months for investors. September has typically produced the lowest average returns, while October has been the most volatile. What the chart also shows is that based on history, November and December have been some of the most rewarding months for investors.

Performance of the S&P 500 from January 1950 to July 2012

	Average Monthly Return	Worst Monthly Return	Best Monthly Return	Range of Returns	Standard Deviation
January	1.10%	-8.57%	13.18%	21.74%	4.88%
February	-0.12%	-10.99%	7.15%	18.14%	3.54%
March	1.18%	-10.18%	9.67%	19.85%	3.40%
April	1.49%	-9.05%	9.39%	18.44%	3.86%
May	0.14%	-8.60%	9.20%	17.80%	3.75%
June	-0.02%	-8.60%	8.23%	16.83%	3.49%
July	0.96%	-7.90%	8.84%	16.74%	4.11%
August	-0.04%	-14.58%	11.60%	26.18%	4.67%
September	-0.57%	-11.93%	8.76%	20.69%	4.54%
October	0.78%	-21.76%	16.30%	38.07%	5.65%
November	1.52%	-11.39%	10.24%	21.62%	4.41%
December	1.71%	-6.03%	11.16%	17.19%	3.17%

Source: Yahoo Finance

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That is not to say that we expect the markets to be “clear sailing” from here on in. In fact, it is quite the contrary. There is still a significant amount of headline risk that continues to overhang the markets. Much uncertainty remains regarding the European debt crisis. Recently, France and Germany have expressed differences of opinion on how the situation should be remedied. This further adds to the uncertainty. Another source of concern is the slowdown in China, which will continue to hang over the markets, dragging economic growth levels downward.

Fortunately, September has been a relatively peaceful month in the markets. October however, is historically the most volatile. We expect that to be the case this year. Once we get into November and December, we would expect that things will settle down.

With that in mind, we went out to find the best equity funds to hold when markets do rise higher. To determine this, we looked at a measure which is known as the “Upside Capture Ratio.” This looks at the historic performance of a fund in markets when the broader indices rose and compares the fund’s performance to the benchmark. Those funds which have a higher upside capture ratio are preferred to those with a lower ratio because they posted gains that were higher than the market.

In ranking our fund universe, we looked at the performance for the most recent 60 month period ending August 31, 2012. Only funds that had a five year track record were included in our search.

Our list of the funds with the best upside capture ratio is:

Fund	Fund Type	Upside Capture Ratio	Best Monthly Return
TD Entertainment & Communications Fund	Global Equity	145.74%	10.61%
Dynamic Power Global Growth Class	Global Equity	137.07%	14.81%
Black Creek Global Leaders Fund	Global Equity	128.20%	9.09%
Northwest U.S. Equity Fund	U.S. Equity	125.34%	12.95%
Dynamic Power American Growth Fund	U.S. Equity	124.85%	11.92%
Dynamic Power Canadian Growth Fund	Canadian Focused Equity	124.18%	14.49%
Mac Cundill American Class	U.S. Equity	123.13%	13.61%
Harbour Foreign Equity Corporate Class	Global Equity	122.40%	16.38%

Source: Paterson & Associates database, Fundata

TD Entertainment & Communications Fund (TDB 652) – This is a neat little fund that invests in companies that are involved in the entertainment, media and communications industries. It is classified as a global equity fund, but definitely not for the faint of heart given the narrowness of its mandate and the potential for very high levels of volatility. We don’t see a problem adding a bit of this fund into your portfolio as a way to boost returns, but would not suggest it be used as a core global equity holding for most investors.

Dynamic Power Global Growth Class (DYN 014) – For investors looking for a little bit of kick to their portfolios, this is a good fund to consider. It is managed by Noah Blackstein using a high turnover, concentrated approach. He uses a quantitative screen that looks to identify companies that are showing strong earnings momentum and have a history of upside earnings surprises. Turnover is high, averaging well north of 300% per year for the most recent five year period. Like most Power branded funds, this is not for everybody given it’s volatility that is substantially higher than the broader market. For those who can accept the risk, this fund has the potential to deliver strong gains in rising markets.

Black Creek Global Leaders Fund (CIG 11106) – Of the funds that we have looked at so far, this is the first that we would be comfortable recommending as a core holding for most investors. While the others have offered better upside participation, they have also been considerably more risky. This fund, managed by the team of Bill Kanko and Richard Jenkins has a go anywhere mandate and can invest in companies

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on the street. Another shop that is known for their high fees is AGF. They seem to be aware of this and have recently announced that they will be cutting and capping MERs on a few of their mandates. Most notably they are reducing the MER on the AGF American Growth Fund from 2.99% to 2.70% and the MER on the AGF EAFE Equity Fund falls from 3.39% to 2.70%. While these cuts are encouraging, we would like to see more. For example, the average MER of the international and global equity funds that we follow is around 2.5% and the average of the U.S. equity funds is around 2.4%. The positive is that they are moving in the right direction.

♦ **Mutual Fund Sales strong in August** - Building on strong July numbers, the Canadian mutual fund industry had a positive August, with net sales of nearly \$2.3 billion for the month, according to the IFIC. It was again fixed income and balanced funds that attracted the lion’s share of assets, while investors continued to shed equity funds. Equity funds saw net outflows of \$1.16 billion during the month. Long-term assets stood at \$780 billion, up from \$771 billion a month earlier, and \$744 billion a year ago.

ETFs 2.0 – FUNDAMENTAL INDEXING

By Dave Paterson, CFA

Fundamental indices supposedly offer better returns with less risk

Exchange Traded Funds (ETFs) continue to garner investor attention, growing industry assets by more than 16% as of August 31. It is not too difficult to see why investors have embraced ETFs given that they provide investors with a very transparent and cost effective way to access a variety of asset classes.

The first ETF launched was launched in 1989 and was known as the Toronto Participation Fund which was designed to track the TSE 35 Index. Soon after, ETFs made their debut in the U.S. with the launch of the SPDRs which tracked the S&P 500. In 1996, Barclays launched a family of ETFs which today are known as iShares, that were designed to track a number of established market indices.

A common thread of these early ETFs was that they all tracked well known market indices. This certainly made sense, given that these indices were, and to some extent still are, considered to be fairly representative of the equity markets. They are not without their critics. The indices which many ETFs follow are constructed using a methodology that builds the indices according to market capitalization. In other words, bigger companies play a much larger role in the index than smaller companies.

Critics say that this is not the best way to build an index because often times the biggest companies are not necessarily the best companies. In Canada, a perfect example of this was Nortel, which at one point was one of the largest holdings of the index, yet today is bankrupt and long gone. Another point that is often made is that these indices will end up

overweighting companies that are overvalued and underweight companies that are undervalued.

To help address these flaws, a process known as fundamental indexation was launched in 2002 by Robert Arnott and his Research Affiliates Fundamental Indexation methodology or RAFI for short. With the RAFI process, indexes are constructed by rating and ranking companies on a number of fundamental factors such as sales, profitability, dividends, book value and number of employees.

The argument is that by measuring these and other factors, we get a much clearer picture of a company's "economic footprint." RAFI believes that fundamental indexation can provide a better foundation on which to build an index and should, over time, provide better returns with less volatility than a more traditionally constructed index.

Whether they actually do that or not remains to be seen. If we look at the performance of the fundamentally constructed ETFs versus their more traditional ETF counterparts, we see that performance has been mixed. In Canada, the fundamental ETFs have outperformed the broader S&P/TSX Composite Index on both an absolute and risk adjusted basis. Given the makeup of the TSX, this is not particularly surprising, with its very high sector concentration in energy, financials and materials. In the U.S., the S&P 500 has outpaced the fundamental ETF on both an absolute and risk adjusted basis.

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Returns at September 30, 2012

						Five Year Standard	
	3 mth	YTD	1 Year	3 Year	5 Year	Deviation	MER
iShares S&P/TSX Composite Index	6.24%	2.99%	6.58%	4.49%	-0.45%	17.26%	0.27%
iShares Canadian Fundamental Index	5.26%	5.26%	8.50%	4.11%	0.99%	17.05%	0.72%

Returns at September 30, 2012

						Five Year Standard	
	3 mth	YTD	1 Year	3 Year	5 Year	Deviation	MER
iShares S&P500 Index	6.12%	15.05%	27.77%	11.72%	-1.45%	19.80%	0.25%
iShares U.S. Fundamental Index	6.29%	13.84%	27.26%	9.42%	-2.05%	22.34%	0.72%

Source: Globefund

ETFs - continued from page 3...

The next thing that we looked at was how the various ETFs performed during the 2008 / 2009 market drop. Again, it was tough to declare a true winner. In Canada, the iShares S&P/TSX Capped Composite dropped by 43% while the iShares Canadian Fundamental Index was off by 41%. In the U.S., the iShares S&P 500 index dropped 49% while the iShares U.S. Fundamental Index was off by 52%.

A final item we looked at was cost. In all cases, the fundamentally constructed index is more costly with an MER in both cases of 0.72%, compared with 0.25% or 0.27% for the more traditional ETFs.

Bottom Line: Fundamental Indexing is based on a very sound theory and there is much evidence and back testing which supports this theory. However, like many sound theories in the investment world, the implementation leaves a bit to be desired. In our preliminary review of the fundamental ETFs that are available in Canada, we did not see significant evidence of the stronger returns and lower risk that is often touted as a benefit of a fundamental ETF. Each ETF should be considered on its own merits. In some cases, a fundamentally constructed index may be the best choice, while in others, the more traditional ETF is best. In each case, it will depend largely on the investment objectives and risk tolerance of the individual investor.

STEADYHAND INCOME FUND IS ONE OF A KIND

By Dave Paterson, CFA

A reader looks for an alternative to this “bond beater” fund

A reader asked: “My discount broker does not allow me to purchase the **Steadyhand Income Fund**. Is there a fund with a similar allocation that you can recommend for my RSP portfolio?”

My first reaction was that this shouldn't be too difficult of a task. After all, with thousands of mutual funds available for sale in Canada, there had to be more than a few that had a similar asset mix to the Steadyhand offering. The fund's asset mix is pretty basic with a target allocation of 75% bonds and 25% dividend paying stocks and REITs.

As of June 30, this mix was 72% in bonds, 20% in dividend paying stocks and 8% in REITs. Given the current rate environment, the fixed income holdings are heavily weighted towards corporate bonds, which make up about two-thirds of the bond allocation. This mix should provide higher returns than a pure bond fund in a flat interest rate environment and provide better downside protection should rates begin to move higher.

Armed with this information, I set out to find a replacement fund for this loyal reader. After spending a few hours screening the

mutual fund universe in a number of different ways, I'm thinking it might be easier to switch discount brokers than to find a fund that is similar to the Steadyhand Income Fund.

From an asset mix perspective, there are a few funds which have a comparable asset mix. However, having an asset mix that is similar and delivering a rate of return that is comparable on both an absolute and risk adjusted basis are two different things.

Based on my review, I have found a few options that offer a similar asset mix and reasonable risk adjusted returns. However, when we compare the returns that these funds have generated compared to the Steadyhand offering, there really is no comparison.

Some of the contenders include:

BMO Guardian Income Solution (GGF 2011) – This BMO Guardian offering invests in a mix of other BMO funds with a strong emphasis on capital preservation and income generation. The target asset mix is set at 80% fixed income and 20% high

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Returns to August 31, 2012

Fund	Cash & Fixed Income		Equity				5 Year		Volatility	MER
	Weighting		Weighting	YTD	1 Yr	3 Yr	5 Yr	Standard Deviation		
Steadyhand Income	70.9%		27.9%	5.0%	8.5%	9.5%	7.3%	5.5%	Low	1.04%
BMO Guardian Income Solution	78.1%		18.3%	1.4%	4.3%	1.3%	3.7%	6.1%	Low	2.24%
Fidelity Income Allocation	77.3%		20.7%	3.4%	6.8%	11.9%	6.2%	10.6%	Medium	1.78%
TD Income Advantage Portfolio	84.4%		15.0%	2.5%	2.5%	5.7%	4.4%	4.3%	Low	1.66%

Source: Funddata, Morningstar, Paterson & Associates database

Steadyhand - continued from page 4...

yielding equities such as common shares, preferred shares and REITs. The equity exposure comes from one of our favourite income funds, the **BMO Guardian Monthly High Income II Fund**, which is about 20% of the fund. The rest of it is made up of a mix of BMO and BMO Guardian fixed income funds. Fees are a touch on the high side at 2.24% and performance has lagged Steadyhand, while volatility has been higher. It's close from an asset mix perspective, but that's about it.

Fidelity Income Allocation Fund (FID 294) – From a performance standpoint, this Fidelity offering is probably the most similar, outpacing Steadyhand on a three year basis, with a nearly 12% gain. Unlike Steadyhand, the asset mix is managed a bit more tactically, although it does have a target mix of 30% equity and 70% bonds. The managers have the ability to take the equity exposure up to 50% of the fund. The fixed income portion of the fund will typically be quite diversified, with the managers having the flexibility to invest in any type of fixed income investment they feel best for the fund based on their view of the current investing climate. The front end version of the fund is reasonably priced with an MER of 1.78%. While the absolute performance of this fund has been strong, it simply does not measure up to the Steadyhand fund on a risk adjusted basis. It also has the potential for big drops in value. For example, between August 2008 and February 2009, it dropped by 28.3%, while Steadyhand was down by 11.7%.

TD Income Advantage Portfolio (TDB 963) – While the absolute performance may have lagged the Steadyhand Income Fund, the risk adjusted numbers are definitely respectable. It invests in a mix of other TD managed funds with the objective of providing investors with income, while providing some potential for capital gains. The equity exposure is currently targeted at 20%, but in the coming weeks, TD will be making some tweaks to the fund to bring the equity target up to around 25% with the addition of a new low volatility fund that TD has launched. We don't anticipate this move increasing the volatility in a meaningful way, but does provide a bit more potential for upside. Further, it is also the lowest cost option

that we looked at. Considering all of this, if we had to pick one fund as a replacement for Steadyhand Income, this would be it.

Bottom Line: The perception among many investors is that most mutual funds are the same. While that may be true in some cases, this exercise has shown me that the Steadyhand Income Fund is a very unique offering that has no equal at the moment. That is not to say that there are not a number of other quality funds with similar mandates out there, but that Steadyhand has been head and shoulders above most of their peer group.

Can they repeat this going forward? Quite frankly, we do not expect that the fund will be able to deliver the same level of absolute returns going forward. With a 75% weighting in fixed income, and a flat to rising rate environment in the near term, returning 9.5% over the next three years will likely prove to be a very difficult task. However, we do expect that the fund has the potential to outpace most of its peer group on a relative basis going forward. It has a great management team behind it and a low cost hurdle which should make that easier to achieve.

Finally, for anyone who is unable to invest with Steadyhand through their discount broker, there is the option to invest with the company directly. For those wishing to take advantage of this option, the minimum initial investment is \$10,000.

B U I L D I N G W E A L T H

Mutual Funds / ETFs Update

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of any size. It is concentrated, holding between 20 and 25 names and the managers aren't afraid to invest in stocks that are considered "off the beaten path." They focus on companies that have the ability to grow, but are careful not to overpay for this growth. Performance has been strong since they took over the fund in 2006 and except for 2011, it has outperformed the index in every year. An added bonus is that both managers have a significant amount of their personal money invested in the funds, which puts them on the same side of the table as investors. A downside to their process is that with the concentrated nature of the fund, it can be more volatile than more diversified funds. For investors with a long time horizon and a medium or higher risk tolerance, this is a good pick over the long term.

Northwest U.S. Equity Fund (NWT 132) – While this fund may be a great performer in rising markets, its drawback is that it is also a very poor performer when markets are falling. In fact, based on our analysis, it has lost more than it has gained by a substantial margin, with a down capture ratio of more than 145%. Managed by Richard Fogler using a process that looks to identify

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DEATH AND TAXES AND CORPORATE CLASS MUTUAL FUNDS

By Dave Paterson, CFA

Taking a more detailed look at corporate class funds and highlighting our top picks and the favourite fund families.

In our September edition of the Mutual Fund and ETFs Update, we touched on the benefits of using corporate class funds in all types of non registered accounts. The main reason that many people like these funds is the potential for lower taxes. With corporate class funds, the tax savings can come in two main ways; tax deferred switching and the potential for reduced taxable distributions.

Within a corporate class fund, investors have the ability to switch between other funds in the corporation or fund family without triggering a taxable event. This is much different from a traditional mutual fund where every switch will be treated as a sell and buy for tax purposes, which may result in triggering a capital gain. Distributions may also be reduced because all income and expenses can be spread among all the funds in the corporation, which lessens the likelihood of the funds being required to distribute income to investors.

While we understand the attractiveness of these funds for most investors, we must also caution that one should not make an investment decision based solely on the tax benefit. Corporate class funds should be reviewed and evaluated using the same criteria that you would evaluate any investment. In other words, just because a fund offers potential tax savings doesn't mean it is a good investment.

Fortunately, there are now more corporate class choices available to investors than ever before, with a number of our favourite funds are available in a corporate class version. In fact, of the 42 funds on our Recommended List of Funds, 18 are available in a corporate class structure (shown in the next column).

In reviewing this list, there is one asset class that is noticeably lacking in choices – bond funds. There are a number of reasons for this, but perhaps the biggest is the way that the corporate class structure works. With a corporate class structures, the intention is to reduce the likelihood of distributions having to be paid to investors. Since fixed income funds typically distribute interest income, which is taxed at the highest marginal rate, corporations will try to limit their exposure to it. The result is a shortage of fixed income funds available in a corporate class.

Despite this, there are still a handful of decent options available. CI has perhaps the best fixed income offering in a

Recommended List Funds with Corporate Class Versions

	Action
Bond Funds	
PH&N Total Return Bond	Buy
Income Funds	
CI Signature High Income	Buy
RBC Canadian Equity Income	Hold
Fidelity Dividend	Hold
Signature Income & Growth	Hold
Balanced Funds	
AGF Monthly High Income	Hold
Fidelity Canadian Balanced	Hold
Canadian Equity Funds	
Fidelity Canadian Large Cap	Buy
IA Clarington Canadian Conservative Equity	Buy
RBC North American Value	Buy
U.S. Equity Funds	
IA Clarington Sarbit US Equity	Hold
Dynamic Power American Growth	Hold
Dynamic American Value	Hold
International/Global/North American Funds	
Mutual Global Discovery	Hold
Trimark Global Endeavour	Hold
Dynamic Power Global Growth	Hold
Black Creek Global Leaders	Hold
Sector Funds	
CI Global Health Sciences	Buy

corporate class structure, with many of their bond funds available. Other funds are available from such firms as Franklin Templeton, Manulife, Mackenzie, RBC and Invesco.

With the ability to switch between different corporate class funds

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without triggering a taxable event, a key consideration becomes the other funds in the corporation. You will want to make sure that there are a reasonable number of quality fund options available to allow you to switch without triggering a capital gain. To get a better understanding of this, we looked at all of the corporate class funds that are available and who the issuing company was.

In our review, we found that it was CI that had the broadest range of offerings in corporate class. Along with the fixed income funds we discussed above, they also have a wide range of core equity and specialty funds that are available. This would put them at the top of our list for corporate class funds. Second place becomes a bit more crowded as many of the fund companies have a good

selection of funds. We would have a tough time choosing between Dynamic, Fidelity, and Mackenzie, as all the firms have a fairly broad product lineup. If we had to choose between the three, we would reluctantly go with Mackenzie as they at least have a fixed income offering available, something the other two do not.

Bottom Line: Today, most of the major mutual fund companies have some form of a corporate class offering. Unfortunately, most of the smaller, no load shops such as Beutel Goodman, Mawer, Leith Wheeler and Steadyhand do not offer such funds. Like with any funds, investors should approach corporate class funds the same way. Focus should be put on the quality of the investment and not just the potential tax savings. The fund must be high quality and serve a function in your portfolio. If it does not, it should be avoided as there are many other options available.

INFORMATION OVERLOAD – STAYING INFORMED ABOUT YOUR FUNDS

By Dave Paterson, CFA

Investors have more access to information than at any time in history

Today, thanks to the internet, investors have access to more information about their mutual fund and ETF investments than at any point in history. Performance and holding data is readily available through a number of sources at the drop of a hat. Fund analysis and opinion can be found in a number of places including this newsletter. Along with all of that, mutual fund companies are now obligated to produce a number of in depth reports throughout the year.

The challenge for investors is being able to separate marketing hype from unbiased analysis and to be able to focus on the things that are most important. We would like to think that we can help provide that service, using our years of industry experience to help investors zero in on the key points.

There will always be investors who are looking for more. For those investors, we will highlight three of the main reports issued by the mutual fund companies that we pay attention to and what we tend to look for in reviewing them. We focus on the **Quarterly Portfolio Disclosure**, **Management Report of Fund Performance**, and the **Financial Statements**.

Quarterly Portfolio Disclosure - As the name suggests, this report outlines the holdings of the fund on a quarterly basis. It will include a breakdown of the portfolio by sector, geography, and asset class. It will also show the top 25 holdings in the fund. This report is produced four times per year, and is sent

out within 60 days of the quarter end. While this can provide some additional insight into the makeup of the fund, we find that given the lag time in receiving it, we find that its usefulness is somewhat limited.

Management Report Fund Performance - Produced two times per year, this report includes important information such as portfolio manager comments relating to performance, any changes to the risks of the fund, as well as any important trends which may affect future performance. In addition, this report shows a 10 year history of annual fund performance, as well as a five year history of financial highlights. These highlights include the net asset value per unit and distributions which have been paid and key ratios such as management expense ratio, trading expense ratio and portfolio turnover. The MRFP is produced two times per year, with the annual report being released within 90 days of year-end, while the semiannual is released within 60 days. Of all the reports that are produced, we find this one to be the most useful. We tend to focus on the historic ratios, particularly portfolio turnover and the MER. It is also quite helpful in gaining manager insight if there is a significant change to the fund or the investing environment.

Financial Statements - Audited financial statements are available within 90 days of the end of the year, while

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semiannual financials are available within 60 days of year-end. As with other financial statements, these show all the assets and liabilities of the fund, and include detailed notes which outline the key accounting policies and provide significant detail on the portfolio holdings. Like the quarterly portfolio disclosure, these reports can provide significant detail into the fund however the significant delay can in some cases reduce its usefulness.

Fund companies are obligated to send these reports to investors on an ongoing basis, unless they choose not to receive them. They are also available on the mutual fund company websites. Another interesting site that investors should be aware of is www.sedar.com, which is a great resource to access all the key regulatory reports and filings made not only by mutual funds, but also publicly traded companies. Quite honestly, this is one of the most useful sites for investors looking to stay on top of their investments.

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companies which they believe will add shareholder value over the long term. Unfortunately the fund has largely underperformed, posting a five year return of -3.4% while the S&P 500 gained 1.5% per year during the same time period. Despite the strong performance in rising markets, we believe that there are better options available in the U.S. equity category.

Dynamic Power American Growth Fund (DYN 004) – This is the second of three Power branded funds on our list. It is managed by Noah Blackstein in a way that is very similar to the Dynamic Power Global Growth Class Fund – a very high turnover, high conviction process. Perhaps the biggest difference between the two funds is that this one is focused solely on the U.S. market. While the fund is classified as a U.S. equity fund, we would be reluctant to recommend it as a core holding for most investors for a few reasons. First, it is heavily concentrated in the technology sector. As of August 31, more than half was invested in technology. Second, it is highly volatile, with a standard deviation that is more than 1.65 times the broader market. While these may prevent it from being a core holding, we believe that it can be a nice addition to a well diversified portfolio as a way to provide additional return. Before adding it to your portfolio however, make sure you are comfortable with the potential risk.

Dynamic Power Canadian Growth Fund (DYN 052) – With a level of volatility that is more than 1.7 times the broader Canadian equity market, this is not a fund that should be considered to be a core holding for any investor. Granted, it does have a history of performing well in up markets, but it has also taken its lumps in falling markets. After the sharp declines in 2008, long serving manager Rohit Seghal has made some tweaks to his investment process that has the potential to reduce the overall volatility in the fund. For example, he is now looking for more opportunities outside of Canada, with nearly 40% invested globally as of August 31. Despite these changes, we would still be hesitant to suggest this fund be used by anyone other than those investors who have a very high tolerance for risk.

Mac Cundill American Class (MFC 1588) – Managed using Cundill's deep value, high conviction process, this fund looks for U.S. based companies that are out of favour, trading at deep discounts to their estimate of its true worth. Like other Cundill funds of late, it has struggled, dramatically underperforming not only the index, but also its peer group. It was crushed in 2008, dropping nearly 40%, but in 2009 and 2010 rose sharply recapturing most of the losses. While we are big believers in the deep value style used by the managers, it is our opinion that there are much better U.S. equity choices available for longer term investors

Harbour Foreign Equity Corporate Class (CIG 1413) – Despite a level of volatility that is higher than both the category average and the MSCI World Index, this is a global equity fund that can easily be considered a core holding for most investors. Managed by the team of Stephen Jenkins and Gerald Coleman, this concentrated fund looks for well managed, financial sound, industry leading companies that are trading at a significant discount to its intrinsic value. Unlike a number of the other funds we have looked at which are managed using a very active style, the managers of this fund take a much longer term outlook, which has resulted in more modest levels of portfolio turnover. Performance has been decent finishing in the upper half of the category every year since 2006 except for 2008. Costs are reasonable with an MER of 2.44%, which is well below the category average. All things considered, this is a great core global equity holding for most investors.

Bottom Line: If one simply looks at the upside capture ratio, there is little doubt that these funds look very attractive to anyone. However, the reality is that while they can provide great returns when markets are moving higher, most will also hurt you on the way down. Out of the eight funds presented here, there are really only two that we would consider to be suitable as a core holding in a portfolio; Harbour Foreign Equity and Black Creek Global Leaders. While some of the others may have a place in a well diversified portfolio, they should be approached with caution. In our opinion, they are best used sparingly in a portfolio as a way to add some incremental return. Overall exposure should be limited for investors except those with the highest risk tolerance.