

We Have Seen This Market Before!

Overview

When we look at the performance of the Dow Jones Industrial Average (“DJIA”) on Chart #1, we see that over the last 110 years this stock index went through repeated patterns of extended multi-year bull market phases followed by long sideways, or range-bound, market phases. On the surface, it would make sense to take a different approach to investing in stocks and bonds as different investment environments emerge. However, this is not as easy as it seems since investors, generally speaking, tend to be creatures of habit and subject to the powerful emotions of fear and greed.

The Last Sideways Market: 1966 -1982

The last sideways market spanned sixteen years from 1966 until 1982. Looking at Chart #2 on the next page, which provides a closer look at this time period, we see this investment environment looks very different from a bull market. A sideways market is more complex and is difficult for investors to achieve positive real return performance (i.e. after considering the effects of inflation). A sideways market is distinct in its duration, approximately two decades, and has repeated significant up and down trends as it goes nowhere. The only experience that may be similar is taking a ride on a mega rollercoaster. The difference is that the rollercoaster is short in duration and does not impact your wallet the same way!

The last completed bull market started in 1982 and lasted eighteen years, ending in 2000. A bull market provides market participants with a relatively easier investment environment for achieving real return performance. The most common approach to investing in a bull market is to implement a buy-and-hold strategy, made famous by Warren Buffet and endorsed by most commentators. But since the stunning “tech wreck” downturn of 2000, we believe we have witnessed the start of a new investment environment, one that can frustrate investors who continue to use a buy-and-hold strategy.

The Last Bull Market: 1982 - 2000

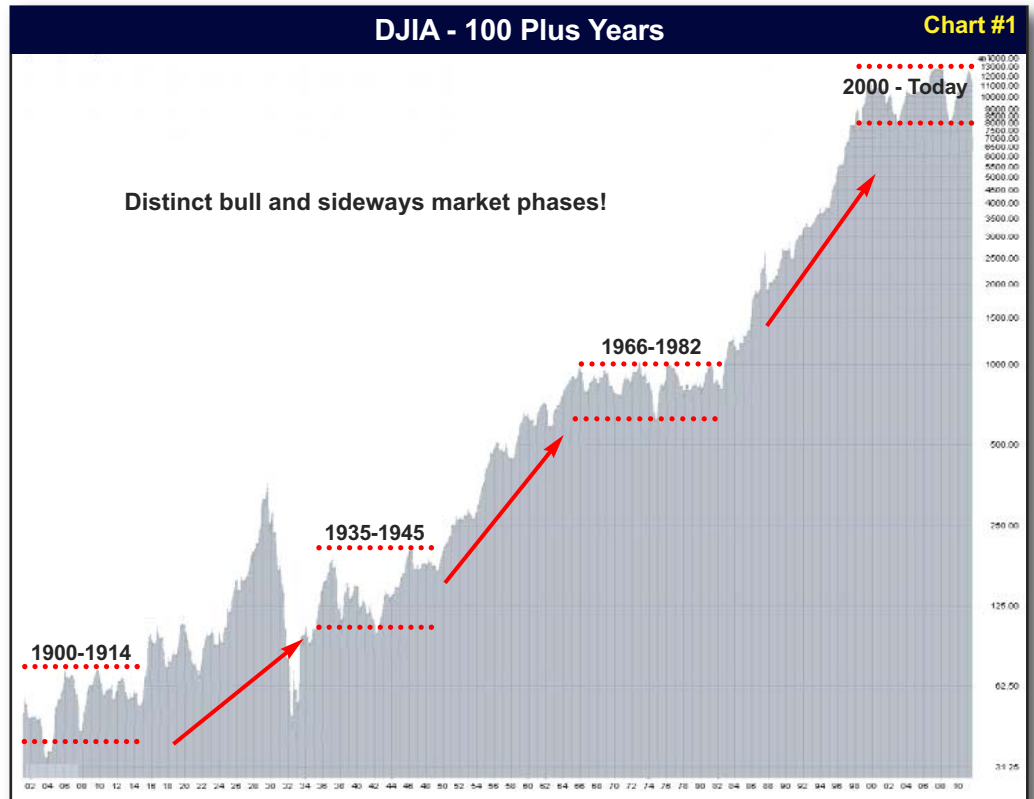
The last completed bull market started in 1982 and lasted eighteen years, ending in 2000. A bull market provides market participants with a relatively easier investment environment for achieving real return performance. The most common approach to investing in a bull market is to implement a buy-and-hold strategy, made famous by Warren Buffet and endorsed by most commentators. But since the stunning “tech wreck” downturn of 2000, we believe we have witnessed the start of a new investment environment, one that can frustrate investors who continue to use a buy-and-hold strategy.

The New Sideways Market: 2000 to Today

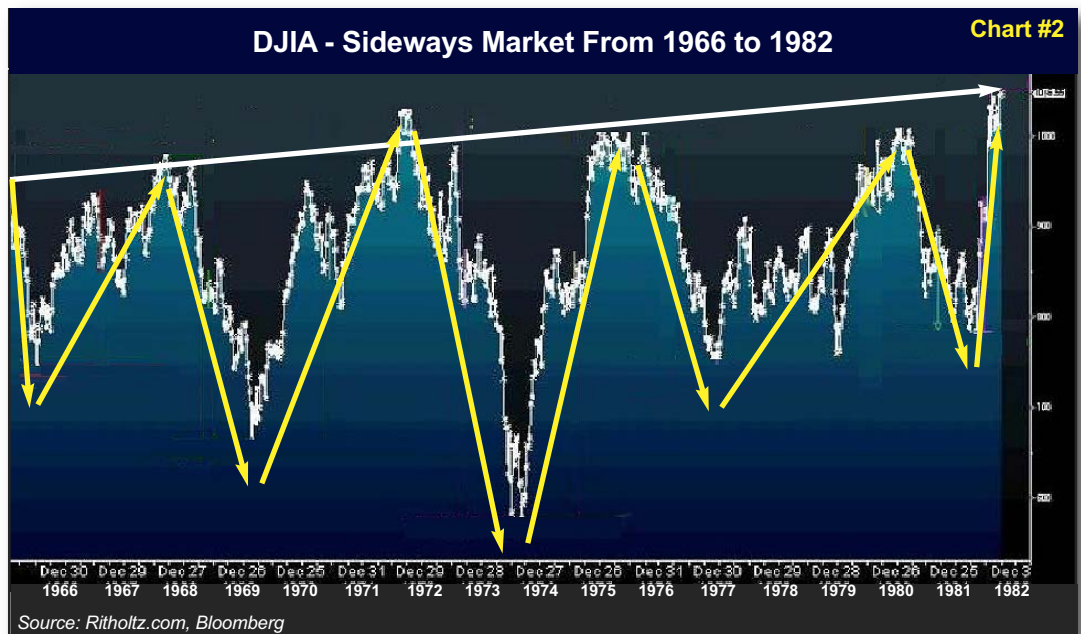
Looking at Chart #3 on the next page, which provides a closer look at the current investment environment of the DJIA over the last eleven years, we see the market is volatile, marked by significant up and down trends and moving sideways. To emphasize again, a changing market environment requires a different strategy and a buy-and-hold approach in a sideways market is much less effective than during a bull market phase. **The question to ask is, “what strategy was more effective during the 1966 to 1982 sideways market and can it be implemented in the current sideways market?”**

Investment Strategy for a Sideways Market

The answer lies in the implementation of a much more active investment style which requires timely portfolio asset allocation changes as the sideways market goes through its significant up and down trends. Today, this investment approach is commonly known as a tactical asset allocation strategy. Simply stated, this strategy requires using common techniques to spot the stock market trend changes and repositioning a portfolio into asset classes that perform well with a new emerging trend.

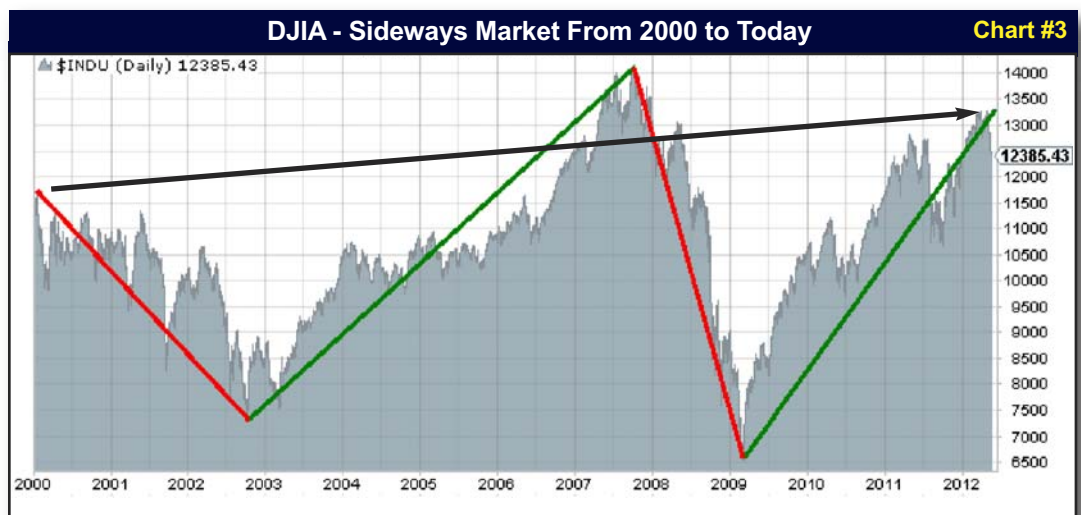


Over the last couple of years, market analysts refer to changing market trends using the terms, “risk on” and “risk off”. For example, when the stock market goes into a down trend, or risk-off trend, the expression describes a trend where money is moving away from perceived riskier assets (e.g. stocks) and into safer assets (e.g. bonds). When the stock market changes to an uptrend, or risk-on trend, the expression describes a trend where money is moving from bonds back into stocks. This sounds easy enough, but it requires the understanding and implementation of trend-following tools and the discipline of following the changing trend signals to move from one asset class to another that performs positively with the trend.



Current Sideways Market Duration

As stated earlier, most sideways markets are approximately 20 years in duration and we are only 11 years into the current sideways market. Investors should also consider population demographics as they evaluate the current investment environment. A recent report published by a group of finance professors titled, “Demography and the Long Run Predictability of the Stock Market” also suggests we are currently in a sideways market. Their study related long-term market P/E ratios to age demographics and concluded that a new generational secular bull market is not likely to occur again until around 2018. In Canada, there are 10 million Baby Boomers who are starting to retire in 2012 and these Boomers will be spending less money and starting to withdraw from their retirement savings. In today’s market, incorporating a tactical asset allocation strategy would be a better approach than a buy-and-hold strategy.



Quick Review of Trend-Following Techniques

Trend-following techniques are used to create trend models which look for, and take advantage of, medium and long-term trend moves. The idea is to use a trend-following model to pick up signals as to when a trend is changing, which then acts as the “trigger” to adjust asset classes held in a portfolio. The objective is to move into assets that are performing positively with the emerging trend, whether it is a risk-on or a risk-off trend. It is important to note that when using a trend-following strategy, the aim is not to forecast or predict specific price levels, but rather, know when to adjust asset classes in a portfolio.

Qwest’s Trend-Following Model

Qwest has developed a proprietary trend-following model that provides signals for major equity market trend changes (i.e. asset inflation or risk on trend, neutral trend or asset deflation or risk off trend). **We invite you to visit our website at www.qwestfunds.com and click on “Subscribe to Publications” to subscribe to our Trend Watch report for trend signals from our Trend Model.**

For More Information Contact

Cindy Bower, Senior Manager, Business Development & Client Services
 Email: cbower@qwestfunds.com / Phone: 1-866-602-1142 (Ext. 1) or 604-601-5804

This communication is not to be construed as a public offering to sell, or a solicitation of an offer to buy securities. Investors should contact their Investment Advisor to review their investment objectives and strategies. This information is for review purposes only and investors should consult their Investment Advisor for complete details and risk factors on specific investment strategies and various investment products.