

## Sell in May and go away? Not so sure!

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**G**iven recent events, the old saying about selling stocks in May and not returning to the stock market until the fall may not be the strategy to follow—or is it? The second quarter of 2010 is now a thing of the past, and few people will miss it. While it had a promising start, the quarter turned sour in May and June, leaving world stock market participants perplexed and anxious.

Some less positive economic news from around the world put a damper on market momentum. Europe remains at the heart of current challenges, but positive economic data from the United States is stagnating, which is enough to worry stock market investors and weaken their appetite for risk once again.

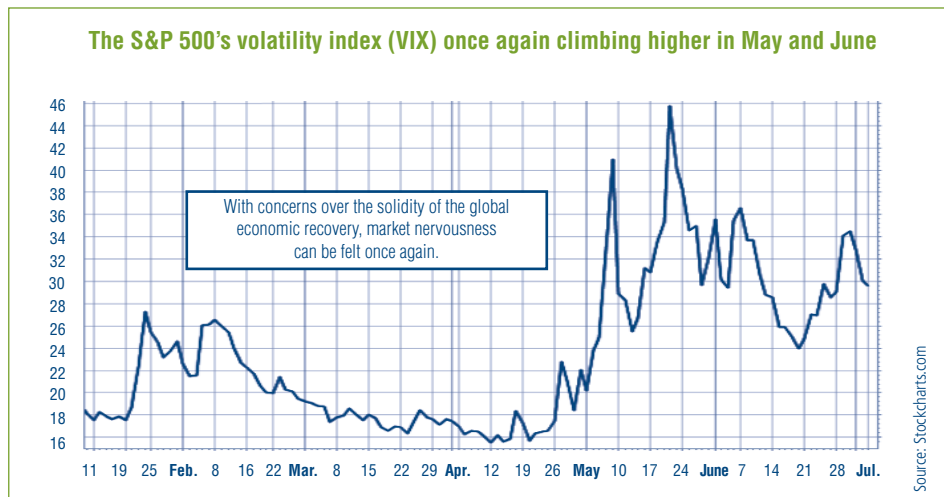
Concerns over the sustainability of the economic recovery are starting to affect U.S. consumer confidence, which plummeted in June, contributing to the worst single-day stock market performance since the start of the year. On June 29, the S&P/TSX fell 3.0%. The U.S. stock market, represented by the S&P 500, retreated 3.0% as well, while Shanghai saw its stock market drop 4.3%.

Moreover, downward revisions of some of the data on China, on which a large part of the global economic recovery is based, were hardly greeted favourably by the markets. Measures taken by the Chinese government to curb real estate speculation coupled with lower growth expectations also had an impact on North American markets.

Yet there is one important new element coming from China: a flexible exchange rate for its currency. The Yuan is no longer pegged to the U.S. dollar. The U.S. has been waiting for this for a long time in order to render trade relations between the two countries more equitable. However, for this decision to have any real impact, the currency needs to be valued according to market conditions and not be subject to controlled fluctuations, as seems to be the intent of the Chinese government.

For the moment, the consensus of economic analysts seems to be that the impact of this measure will be moderate. In the long term, however, some sectors could benefit. Raw materials are one example. The rise of the

**Banks will have to make sure they retain sufficient levels of high quality capital to absorb any such future shock themselves, without having to call on public monies.**



Yuan would make these materials less costly for the Chinese who need them in order to continue with infrastructure development, thereby possibly increasing demand. It should be noted, however, that such an adjustment did not occur automatically for all raw materials before the Yuan was tied to the U.S. dollar back in 2005. Some raw materials even saw their prices drop since the law of supply and demand remains specific to each market. In short, although the news was greeted positively much uncertainty remains with the respect to the central bank of China's new position on its currency.

Expectations of results from the G20 summit held in Toronto on June 26 and 27 created much volatility on the markets in the weeks prior to the meeting. The main priority of this summit was to safeguard and strengthen the economic recovery, lay the foundation for sustainable and balanced growth and strengthen the financial system in order to capably face future risks. But even with this worthy objective, investors had concerns created by a number of uncertainties, resulting in market gyrations.

The reform of the financial sector has thrown many financial institutions off balance, banks in particular, because there are still many unknowns. However, the outcomes of the summit did allay some of these concerns. For example, the plan for a global bank tax was revised to take into account the particular situation of each country. Thus, while in some countries the tax will be implemented, in others, such as Canada, other

measures will be taken to ensure that a monetary contribution is made so as to avoid having to resort to such massive government interventions as were required during the 2008 financial crisis or, more recently, the sovereign debt crisis in Europe. This news was greeted favourably by the markets, especially by the financial sector.

With this new reform, banks will have to make sure they retain sufficient levels of high quality capital to absorb any such future shock themselves, without having to call on public monies.

The general conclusion of this summit, which calmed market fears somewhat, is that the primary objectives of restoring countries' fiscal health, reforming the financial sector and applying exit strategies will be achieved, but using variable means, according to the economic conditions in each country. The danger of compromising the world economic recovery would be too high if a single and synchronized adjustment were to be applied to the budgetary and monetary policies of all countries at once.

Despite the difficulties in Europe and the weak economic data coming from the U.S. and China, there continue to be positive signs of a sustained recovery. The markets are reacting strongly to news and showing some jitters, but it is nonetheless normal to see some dips at this stage of a recovery, especially given the velocity of markets in 2009.

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## Table of net returns as at June 30, 2010

	Unit value \$	Net assets <sup>1</sup> in millions \$	Simple returns <sup>2</sup>			Compound annual returns				MER <sup>4</sup> %	GSB Fund Fee Rate <sup>4</sup> %	Investment Advisor
			1 month %	3 months %	YTD <sup>1</sup> %	1 year %	3 years %	5 years %	10 years %			
<b>FOCUS FUNDS</b>												<b>ECOFLXTRA</b>
Focus Prudent	13.36	106.4	0.5	(0.2)	0.4	4.6	1.5*	2.3*	3.5*	2.53	0.35	Various Managers
Focus Moderate	13.50	198.8	(0.2)	(1.6)	(1.2)	4.7	(0.3)*	2.0*	3.0*	2.63	0.45	Various Managers
Focus Balanced	13.58	336.7	(0.9)	(3.1)	(2.7)	4.8	(2.2)*	1.7*	2.5*	2.72	0.45	Various Managers
Focus Growth	13.61	120.4	(1.5)	(4.5)	(4.2)	4.9	(4.2)*	1.4*	2.0*	2.80	0.60	Various Managers
Focus Aggressive	13.62	69.9	(2.2)	(6.0)	(5.7)	5.0	(6.2)*	1.0*	1.4*	2.86	0.80	Various Managers
<b>INCOME FUNDS</b>												<b>ECOFLXTRA</b>
Money Market	16.88	215.2	0.0	0.1	0.1	0.1	1.2*	1.7*	1.8*	1.43	0.35	Industrial Alliance
Short Term Bonds	14.80	121.5	1.3	1.4	1.6	3.5	3.3*	2.1*	3.3*	2.08	0.35	Industrial Alliance
Bonds	24.58	1,321.3	1.7	2.6	3.3	4.7	5.1*	2.9*	4.7*	2.08	0.35	Industrial Alliance
Bonds - series 2	16.28	571.7	1.6	2.1	2.9	4.8	4.6*	2.8*	4.5*	2.08	0.35	Industrial Alliance
<b>DIVERSIFIED FUNDS</b>												<b>ECOFLXTRA</b>
Diversified Security	16.33	232.5	(0.3)	(1.0)	(0.4)	4.6	2.1*	2.5*	4.0*	2.58	0.35	Industrial Alliance
Diversified	28.64	1,556.5	(1.7)	(3.8)	(3.1)	4.1	(1.3)*	2.0*	3.8*	2.60	0.45	Industrial Alliance
Diversified Opportunity	17.61	199.0	(3.1)	(5.8)	(5.1)	4.4	(2.7)*	2.0*	3.5*	2.65	0.60	Industrial Alliance
Fidelity Canadian Asset Allocation	14.38	385.9	(3.0)	(5.7)	(3.6)	5.2	(1.5)*	3.8*	3.7*	2.92	0.60	Fidelity
Canadian Balanced (QV)	10.19	2.7	(0.3)	(1.7)	0.8	8.9*	(2.0)*	2.0*	2.3*	2.88	0.60	QV Investors Inc.
SRI Balanced (Inhance)	9.81	0.5	(0.6)	(3.3)	(2.1)	-	-	-	-	2.88	0.60	Vancity
Diversified Income	16.99	120.4	(2.6)	(5.4)	(2.0)	16.5	1.5*	4.5*	-	2.54	0.60	Industrial Alliance
Global Diversified (Catapult)	8.91	13.5	(1.8)	(3.8)	(0.3)	10.7	(4.8)*	-	-	2.88	0.60	Catapult
Tactical Income (Catapult)	13.11	51.6	(0.9)	(4.0)	(0.1)	15.8	-	-	-	2.88	0.60	Catapult
<b>CANADIAN EQUITY FUNDS</b>												<b>ECOFLXTRA</b>
Dividend Income	10.05	120.4	(2.2)	(5.2)	(0.9)	12.2	(7.1)*	0.3*	6.6*	2.31	0.80	Industrial Alliance
Dividend Growth	11.88	576.8	(2.9)	(4.6)	(2.2)	8.7	(2.6)*	4.7*	9.3*	2.55	0.80	Industrial Alliance
Canadian Equity (Leon Frazer)	13.34	132.9	(1.3)	(3.6)	(1.2)	12.3	(1.2)*	3.2*	-	2.86	0.80	Leon Frazer
Canadian Equity Index	15.97	30.2	(3.7)	(6.0)	(4.2)	5.2	(5.7)*	3.2*	(0.2)*	2.64	0.90	Industrial Alliance
Select Canadian	21.81	47.9	(5.7)	(8.0)	(6.6)	5.2	(4.5)*	3.1*	4.3*	2.64	0.90	Industrial Alliance
Canadian Equity Value	32.84	430.1	(4.9)	(8.8)	(7.3)	2.4	(8.1)*	0.8*	4.0*	2.71	0.90	Industrial Alliance
Canadian Equity (Dynamic)	16.43	525.1	(2.8)	(5.2)	(6.6)	14.1	(4.3)*	8.2*	9.2*	3.00	0.90	Dynamic
Canadian Equity (Jarislowsky)	12.17	89.6	(5.0)	(7.9)	(6.4)	3.1	(5.9)*	1.7*	6.4*	3.00	0.90	Jarislowsky
Canadian Leaders	12.67	9.0	(2.6)	(6.4)	(4.9)	5.1	(2.4)*	-	-	2.64	0.90	Industrial Alliance
Fidelity True North®	20.75	342.2	(4.1)	(6.4)	(4.8)	6.4	(6.4)*	3.6*	3.9*	3.07	0.90	Fidelity
Canadian Equity Growth	19.25	201.0	(4.6)	(6.9)	(3.8)	12.4	(2.6)*	6.8*	-	2.64	0.90	Industrial Alliance
Fidelity Canadian Opportunities	22.95	142.8	(4.5)	(5.3)	(1.3)	26.8	1.7*	6.5*	5.5*	3.07	0.90	Fidelity
Canadian Equity (Small Cap.) (QV)	13.49	12.1	(1.3)	(5.2)	(1.4)	20.6	(5.5)*	3.0*	11.3*	3.00	0.90	QV Investors Inc.

## Table of net returns as at June 30, 2010 (continued)

	Unit value \$	Net assets <sup>1</sup> in millions \$	Simple returns <sup>2</sup>			Compound annual returns				MER <sup>3</sup> %	GSB Fund Fee Rate <sup>4</sup> %	Investment Advisor
			1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %			
<b>U.S. &amp; INTERNATIONAL EQUITY FUNDS</b>												<b>ECOFLXTRA</b>
Global Dividend (Dynamic)	8.86	46.1	(2.1)	(9.5)	(7.0)	10.4	(6.9)*	-	-	2.96	0.90	Dynamic
Global Dividend (BNP Paribas)	11.92	9.0	(2.8)	(8.8)	(6.0)	12.5	(15.1)*	(3.3)*	-	2.96	0.90	BNP Paribas Inv Partners
Global Equity	10.17	64.8	(1.7)	(9.3)	(9.9)	-	-	-	-	2.84	0.90	Industrial Alliance
Global Equity (Templeton)	8.64	169.9	(1.0)	(9.5)	(11.7)	(2.1)	(14.9)*	(4.6)*	(3.0)*	3.09	0.90	Templeton
Global Equity (Mackenzie Cundill)	10.95	6.0	(6.2)	(10.7)	(8.3)	3.7	(10.8)*	(2.5)*	-	3.17	0.90	Mackenzie Cundill
Global Equity (Oppenheimer)	8.35	8.0	(1.5)	(8.9)	(7.0)	1.3	(11.5)*	(3.5)*	(3.8)*	2.96	0.90	Oppenheimer
Fidelity NorthStar®	8.92	29.0	(3.3)	(6.2)	(4.0)	8.6	(9.4)*	(2.2)*	-	3.09	0.90	Fidelity
Global Equity Small Cap. (DB Advisors)	7.88	50.9	0.0	(5.3)	(3.2)	6.3	(11.5)*	-	-	3.07	0.90	DB Advisors
International Equity Index	5.86	12.1	0.0	(10.3)	(13.0)	(5.5)	(14.8)*	(4.4)*	(5.8)*	2.64	0.90	BlackRock
International Equity	11.02	68.0	1.7	(7.1)	(9.7)	1.5*	-	-	-	2.84	0.90	Industrial Alliance
International Equity (Templeton)	10.94	71.5	0.2	(9.8)	(13.5)	(4.1)	(15.5)*	(4.4)*	(4.1)*	3.09	0.90	Templeton
International Equity (McLean Budden)	8.34	6.4	(0.4)	(10.2)	(13.5)	(4.0)	(12.6)*	(3.4)*	(5.7)*	2.96	0.90	McLean Budden
Fidelity European Equity	7.35	69.3	0.6	(9.1)	(12.0)	(2.9)	(13.6)*	0.4*	(3.8)*	3.09	0.90	Fidelity
U.S. Equity Index	6.47	26.3	(4.3)	(7.9)	(6.7)	1.7	(12.7)*	(6.6)*	(7.7)*	2.64	0.90	SSGA (State Street)
U.S. Equity	7.25	113.8	(5.4)	(11.0)	(9.4)	(1.0)*	(11.9)*	-	-	2.84	0.90	Industrial Alliance
U.S. Equity (McLean Budden)	7.97	30.6	(4.3)	(11.3)	(10.7)	(2.8)	(12.2)*	(5.7)*	(4.4)*	2.96	0.90	McLean Budden
U.S. Equity (Sarbit)	10.87	0.7	(4.3)	0.5	8.1	13.8*	-	-	-	2.96	0.90	Sarbit
<b>DISTINCTION FUNDS**</b>												<b>ECOFLXTRA</b>
Distinction Prudent	11.36	2.5	(1.0)	(2.3)	(0.4)	6.3	(1.4)*	1.7*	-	2.64	0.45	Industrial Alliance
Distinction Conservative	11.78	2.0	(1.4)	(3.2)	(1.2)	7.0	(1.9)*	2.1*	-	2.72	0.45	Industrial Alliance
Distinction Balanced	12.03	8.8	(1.5)	(3.9)	(1.7)	8.2	(3.7)*	1.5*	-	2.77	0.60	Industrial Alliance
Distinction Monthly Income	11.97	1.0	(1.3)	(3.6)	(1.0)	9.7	(5.0)*	-	-	2.59	0.60	Industrial Alliance
Distinction Growth	12.19	9.3	(2.4)	(5.5)	(3.3)	7.8	(6.5)*	(0.4)*	-	2.90	0.60	Industrial Alliance
Distinction Bold	12.34	1.0	(2.8)	(6.6)	(4.3)	8.3	(7.7)*	(0.1)*	-	3.01	0.80	Industrial Alliance

## Returns after deduction of MER (Management expense ratio). Past performance is not a guarantee of future returns.

The EcoStrategist in Brief | Ecoflextra economic and financial bulletin, produced monthly, and its more exhaustive quarterly version, are available on the Company's website under *Investment Vehicles* and *Publications*.

<sup>1</sup> Total net assets of the fund including individual and group contracts.

<sup>2</sup> The rates for the period are non-annualized.

<sup>3</sup> Management expense ratio (GST included).

<sup>4</sup> The GSB fund fee rate (guaranteed surrender balance) is used to determine the GSB Fee based on the year-end GSB. The GSB fund fee rate applies to the Guaranteed Surrender series only.

<sup>5</sup> Indexes presented in this document are total return index.

\* Simulation of past returns as if the fund had been in effect for these periods.

Index funds: Simulation of past returns from the return of the index that the fund aims to reproduce.

\*\* Distinction Funds are only offered in the Guaranteed Surrender Series.

Reference indexes<sup>5</sup> - Returns as at June 30, 2010

	Simple returns <sup>2</sup>			Compound annual returns			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
<b>INDEXES RELATED TO INCOME FUNDS</b>							
DEX 91 day Tbill Index	0.1	0.1	0.2	0.3	2.1	2.8	3.0
DEX Short Term Bond Index	1.4	1.7	2.2	4.3	6.3	4.5	5.6
DEX Universe Bond Index	1.8	2.9	4.2	6.9	6.9	4.9	6.6
SC - Income Trust	(1.1)	(3.1)	3.8	30.6	1.7	5.8	15.2
SB - World Government Bonds (Can. \$)	3.1	4.7	0.3	(6.0)	7.7	2.1	3.0
<b>INDEXES RELATED TO CANADIAN EQUITY FUNDS</b>							
S&P/TSX 60	(4.0)	(5.7)	(3.3)	7.9	(3.5)	6.1	2.8
S&P/TSX Completion Index	(2.7)	(4.9)	0.0	29.1	(4.4)	4.5	4.4
S&P/TSX Composite Index	(3.7)	(5.5)	(2.5)	12.0	(3.9)	5.5	3.3
S&P/TSX Capped Composite Index	(3.7)	(5.5)	(2.5)	12.0	(3.9)	5.5	5.3
<b>INDEXES RELATED TO U.S. &amp; INTERNATIONAL EQUITY FUNDS</b>							
S&P 500 (Can. \$)	(3.9)	(7.5)	(5.4)	4.4	(9.9)	(3.6)	(4.8)
S&P 500 (Can. \$) (Reuters)	(4.1)	(7.2)	(5.4)	4.7	(9.9)	(3.6)	(4.8)
MSCI - World (Can. \$)	(2.1)	(8.8)	(8.6)	0.5	(11.5)	(2.8)	(4.3)
MSCI - World Small Cap. (Can. \$)	(3.3)	(6.4)	(2.3)	10.8	(9.4)	(0.9)	-
MSCI - EAFE (Can. \$)	0.4	(10.2)	(12.1)	(3.4)	(13.5)	(2.0)	(3.1)
MSCI - EAFE (Can. \$) (Reuters)	0.2	(9.9)	(12.1)	(3.1)	(13.4)	(2.0)	(3.1)
MSCI - Europe (Can. \$)	0.7	(11.1)	(15.2)	(3.0)	(14.6)	(2.0)	(2.4)
<b>EXCHANGE RATE (Can. \$ / US \$)</b>							
As at June 30, 2010: 1.0606	1.4	4.4	1.3	(8.8)	(0.1)	(2.9)	(3.3)
<b>EXCHANGE RATE (US \$ / Can. \$)</b>							
As at June 30, 2010: 0.9429	(1.4)	(4.2)	(1.3)	9.6	0.1	2.9	3.4

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## MARKETS

In Canada, the S&P/TSX Composite Index had a rough quarter (-5.5%), suffering the ups and downs caused by fears over the strength of the global recovery. The sectors that contribute the most to the index's performance, energy, materials and financial services, all had mixed results. The energy sector rebounded in June, after experiencing difficulties in April and May. Despite the surge of the greenback, this sector ended the quarter in fifth position, posting a return of -5.6%, thanks in particular to the pipelines sub-sector (-1.1%). The materials sector ended the quarter more or less

back where it had started, delivering a return of 0.8%. Gold stocks, which account for close to 13% of the index, offered a very good return (21.1%) given all the uncertainty currently hanging over the markets. The sector's heavyweights performed very well: Barrick Gold (24.0%), Goldcorp (22.8%), Eldorado Gold (54.7%) and Kinross Gold (4.8%).

Financials went for a bit of a roller coaster ride. After a slow start, concerns over the sector's reform and the proposal to tax banks in order to create a reserve fund pushed this sector downward (-10.6%).

The situation was not much better for other stock exchanges. In the U.S., the S&P 500 ended the quarter down 11.4% in local currency. In Canadian-dollar terms, the rise of the greenback against the loonie led to a slight improvement of the index's performance (-7.5%).

On the global front, the MSCI - EAFE Index and the MSCI - World Index both ended the quarter down 11.2% in local currency, or -10.2% and -8.8% respectively, in Canadian-dollar terms. ■