Desjardins Wealth Management
SECURITIES

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SUMMARY

LUC PAPINEAU
VICE-PRESIDENT AND GENERAL MANAGER
FULL-SERVICE BROKERAGE

A WORD FROM THE VICE-PRESIDENT

Diversify your assets wisely

Investment solutions are becoming increasingly standardized and even automated. Because your investment advisor has access to all of the financial products currently available on the market, they are in the best position to offer you personalized solutions. They can help you benefit from not only traditional products you're already familiar with—stocks, bonds, investment funds and exchange-traded funds—but also a new category of assets that include private equity funds, real estate funds and structured notes. To learn more, read Sébastien Hébert's next article.

Alternative investments are not meant to replace stocks and bonds, however. They complement them by reducing the volatility of your portfolio. It's all a matter of finding the right balance—and that's where our advisors stand out. They can recommend how much to allocate to each product to help you achieve your financial goals and increase your chances of enjoying a great retirement.

SÉBASTIEN HÉBERT
SENIOR ANALYST
FULL-SERVICE BROKERAGE

STRUCTURED NOTES

A look at the deposit note market

From 2009 to 2016, the deposit note market grew considerably in Canada. Primarily issued by Canadian banks, these products can be divided into two major groups:

- **Principal protected notes** are guaranteed by the issuer in the same way as a bond issued by the same company. Though often compared to equity GICs offered in bank branches, they are not guaranteed by the Canadian Deposit Insurance Corporation. However, the principal and interest are guaranteed at maturity by the issuer as indicated in the subscription documents.
- **Principal at risk notes** offer partial or contingent principal protection and potentially higher gains than a comparable principal protected note. Generally, the more a note is protected, the lower the potential gain will be and vice versa.

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THERE ARE TWO FACTORS THAT EXPLAIN THE POPULARITY OF DEPOSIT NOTES

1. Low interest rates have greatly contributed to the growth of the deposit note market, especially in the case of principal at-risk structures, as these deposit notes may offer high distributions.

2. Deposit notes offer the ability to adjust portfolio risk while maintaining exposure to a market. For example, an investor may be looking for exposure to a market like Europe while benefitting from a partial protection in the event markets drop. It is also possible to achieve decent returns in a stagnant market.

A WIDE VARIETY OF PRODUCTS

There is a wide variety of notes on the market today, making it possible for every investor to find one that matches their profile. Most of the products offered are notes that are tied to a stock market index or a basket of equities.

Included in a diversified portfolio, deposit notes may be suitable for all types of investors. For example, cautious investors may increase their potential return while maintaining a certain level of security. Retirees may choose a product that pays regular dividends. And investors looking for growth may opt for an accelerator note that allows them to boost the performance of the benchmark index or choose a protective barrier that allows them to minimize the risk of market downturns. Fixed income notes and autocallable notes, which are currently the two structures most sought after by investors in Canada, can generate returns even when markets are sluggish.

The above examples illustrate how deposit notes are different from traditional investments such as mutual funds and exchange traded funds. If you would like to find out more about these notes, speak to your Desjardins Securities advisor. They have the tools and expertise to help you select those that are the best match for your investor profile.

Desjardins Securities and the Montreal Canadiens Children's Foundation

Desjardins Securities is a key partner of the Montreal Canadiens Children's Foundation, which funds programs that encourage children across Quebec between the ages of 4 to 17 to adopt a healthy lifestyle.

On January 17, we held our annual Commission Day, where we donated $612,244.68 to the Foundation. This brings our total contributions over the past 15 years to more than $6 million.

We can be proud that we helped open the eighth outdoor refrigerated skating rink last month, this time in Sherbrooke.

THANK YOU TO EVERYONE FOR HELPING TO MAKE THIS INITIATIVE A GREAT SUCCESS!

ANGELA IERMIERI
FINANCIAL PLANNER
DESJARDINS FINANCIAL SERVICES FIRM INC.

PLANNING MATTERS

Do you need to rebalance your portfolio?

Before you started investing, you established your investor profile to determine the optimal asset allocation that would help you achieve your financial goals. Your portfolio's target asset allocation is the backbone of your investment discipline, because it is what you refer to before making any adjustments to your portfolio in response to market fluctuations.

Over time, investments in a portfolio may start generating different returns, which could cause your original asset allocation to shift such that it may no longer match your objectives. In order to stick to your plan, you may need to take the time to rebalance your portfolio.

This means moving amounts from one asset class to another (cash, stocks and bonds) to ensure you stay on course with your initial allocation. For example, having a weighting in stocks greater than your initial allocation could increase your portfolio's performance, but it also exposes a greater portion of it to a potential stock market correction.

When rebalancing your portfolio, your advisor might recommend selling certain assets that have gone up in value and destabilized your asset allocation to buy securities from underweight classes and get back to your original asset allocation.

It may not seem logical to sell securities that are performing well to buy securities from an underperforming class, but by remaining disciplined and sticking to your plan, you can take advantage of market deals and optimize your portfolio's performance based on your longer-term goals. In other words: buy low, sell high.

Diversification is a key contributor to your portfolio's good performance. Rebalancing aims to re-establish the desired asset mix, while maintaining optimal diversification. And since this may involve some emotion, it's the advisor's role to put this strategy into practice. The two of you can decide on the rebalancing strategy for your investment portfolio. It may be performed at a **pre-determined**

frequency (every six months, once a year), at a **predefined threshold** when the allocation is straying too far from the target (5 or 10%, for example), or using a **combination of these two methods**, in other words, periodically monitoring the portfolio and rebalancing it when it starts to shift too far from the target.

Rebalancing also provides an opportunity to review your strategy. There may be changes in your personal situation or goals that justify increasing or reducing your weighting in securities, bonds or other asset classes to properly reflect your new risk tolerance.

Your advisor has the tools and expertise to help you with this task, while being mindful of the tax consequences of these transactions and continuing to manage your needs. Feel free to get in touch!

Three questions to ask yourself

1. Is my portfolio still on course with the asset allocation I initially established?
2. Given market performance and volatility, is my target asset allocation still consistent with my investor profile?
3. Some of my investment objectives have changed. Should I review my target allocation?

MICHEL DOUCET
VICE-PRESIDENT AND PORTFOLIO MANAGER
INVESTMENT MANAGEMENT

ECONOMIC COMMENTARY

Actively manage your portfolio in 2017!

Investors face complex questions that will affect their investment decisions, and the answers, drawn from historical comparisons and real-life assumptions, can never be certain. The only certainty is the uncertainty created by the populist movement and voters seeking policies that promise change. Though it may be impossible to stop time and progress, the populist wave appears to support measures that will reduce the effects of globalization and technology, at least until the next election.

THERE WILL BE NO SHORTAGE OF CHALLENGES FOR INVESTORS IN 2017…

The future is shrouded in uncertainty. In the United States, all eyes will be on the Federal Reserve and the first 100 days of Donald Trump's presidency. The shift in monetary policy and expected protectionist measures across the border will be felt around the world. An increase in bond rates, inflation forecasts, weak emerging economies, Brexit negotiations and upcoming elections in several European countries will keep investors on their toes. Eyes will also be on China and its changing growth drivers.

…BUT ALSO SOME EXCELLENT OPPORTUNITIES!

Fiscal and budgetary policies announced by President Trump will intensify monetary stimulus measures over a 24- to 36-month period. Elsewhere—in Canada, the Euro zone and Japan—expansionist monetary policies will remain for several years to come. Until this combination of stimulus measures stabilizes the global economy, investors will have to make do with an uncertain and unequal outlook, in addition to occasional anxiety.

Generally speaking, we believe the situation calls for opportunistic optimism in the short and medium term with respect to managing assets, countries, sectors and stocks, but caution with respect to fixed income securities. Buoyed by the joint effects of monetary, budgetary and fiscal policies, the global economic and financial situation should improve, favouring stocks. The opposite is true for bonds.

"ONE OF THE FUNNY THINGS ABOUT THE STOCK MARKET IS THAT EVERY TIME ONE PERSON BUYS, ANOTHER SELLS, AND BOTH THINK THEY ARE ASTUTE." – WILLIAM FEATHER

Another big story for investors is that the downward trend of bond rates that began in the 1980s has been reversing since the fall. Against the backdrop of a positive global outlook, gradual return to formal targets for inflation and gradual normalization with respect to American monetary policy, bond rates will gradually increase over time. Even though Canada's economic outlook is different from what is going on in the United States, the Canadian bond market will be influenced to a certain extent by what happens to rates south of the border. Canadian investors should therefore actively manage duration, maturities and issuers, and adjust the risk level of their strategy accordingly.

The upward movement in rates has reintroduced duration risk in bonds. While the leverage effect of a bond with a long duration accentuates its performance when rates drop, the opposite is also true when rates rise. For example, the impact of a 1% increase in rates across the entire yield curve for a portfolio of properly diversified bonds with a duration of eight years would show a drop of approximately 8% of its value. In periods of rising rates, it is in investors' best interest to opt for short-duration bond portfolios.

The year 2017 will be marked by uncertainty, and only time will tell how it will end. That said, policy response to the rise of populism could create growth and investment opportunities in parallel with uncertainty and anxiety. Inertia is not a suggested option for investors who want to achieve their long-term investment goals.

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