

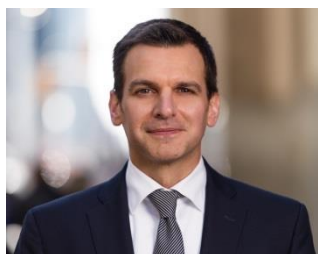
TURNER INVESTMENTS COMMENTARY



Hon. Garth Turner PC

*Senior Vice President,
Private Client Group,
Financial Advisor*

416-346-0086



Douglas Rowat

*Senior Vice President,
Private Client Group,
Portfolio Manager*

416-777-6403



Ryan Lewenza

*Senior Vice President,
Private Client Group,
Portfolio Manager*

416-777-6416

LAY OFF THE ‘HIGH’ HEAT

There’s old baseball wisdom that suggests hitters shouldn’t chase the high heat (fastballs out of the strike zone) or they’ll get burned, that is, strike out. There’s similar wisdom in the exchange-traded fund (ETF) universe: Chasing the hottest new product launches usually leads to a figurative strike-out as well.

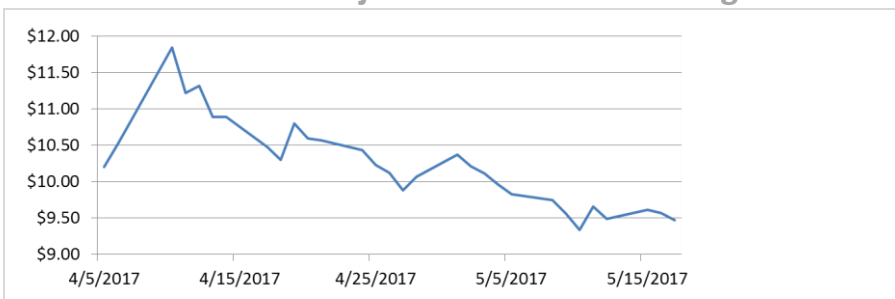
The latest form of ‘high’ heat hit the ETF market last month: The new Horizons Medical Marijuana Life Sciences ETF (HMMJ). Over the past few months, we’ve had no shortage of clients wondering if we were going to add this product to their portfolios mainly because marijuana-industry stories have been in the news endlessly over the past year. We didn’t buy it, and we alluded as to why in a recent *Greater Fool* blog post:

The ETF market is becoming very...what’s the word? Granular. Investors must be honest and ask themselves if they truly understand the highly specific areas that they’re investing in. Keep this in mind as you eagerly await the first medical marijuana ETF (it’s coming; Horizons just filed its prospectus).

Timing of new ETF issuance is not always advantageous for investors. ETF providers are in the business of sales. Fair enough, but just as a company typically only launches an IPO when its industry is red hot (read: expensive), so too do ETF providers with their product launches.

Now, we weren’t just highlighting the danger of new ETF launches because it was intuitively true—there’s also data and research to back it up.

Horizons Medical Marijuana ETF: Off To A Tough Start



Source: Bloomberg

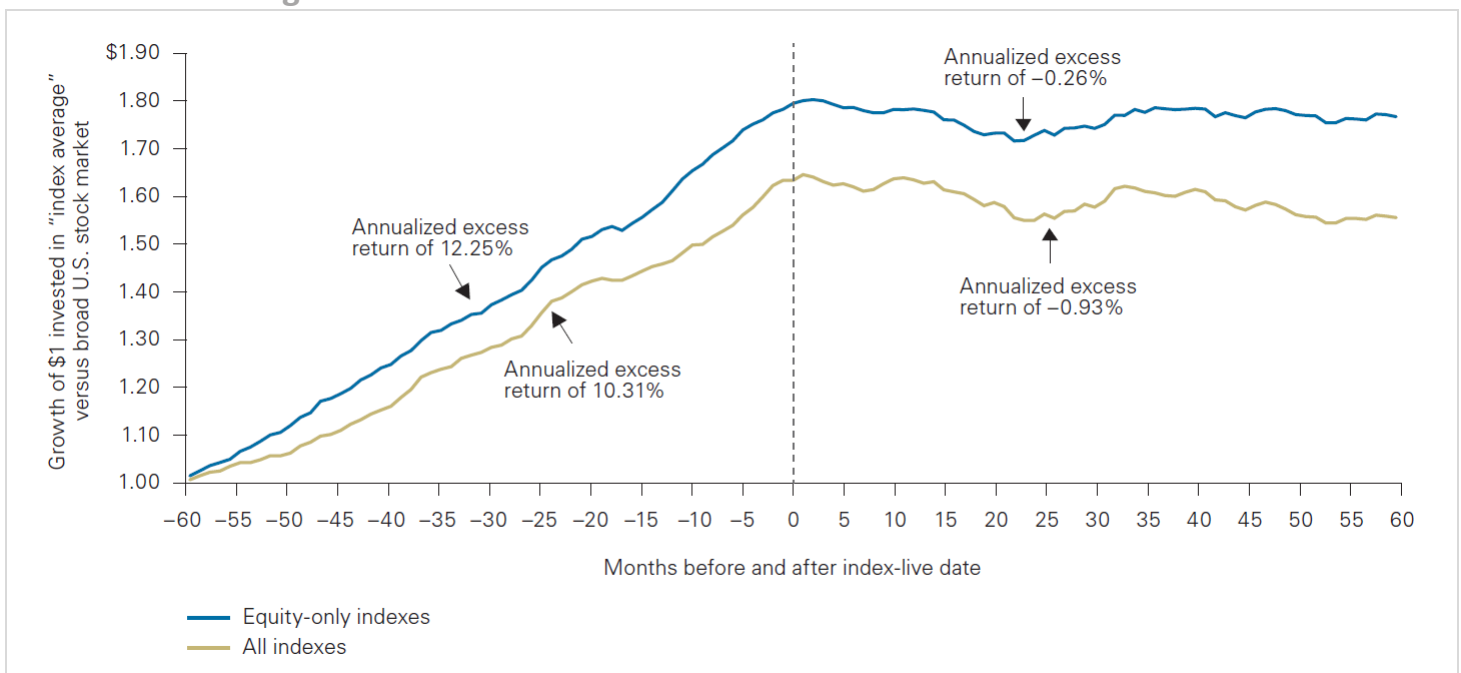
Momentum Doesn't Last Forever

For good or bad, past performance sells in the investment industry. Unfortunately, past performance often doesn't last.

In 2012, Vanguard conducted an exhaustive study of new ETF launches because it was concerned by the “dizzying array” of new products coming to market. Of course, since 2012, the number of product releases (and ETF providers) has only continued to rise. The telling conclusions of the 2012 study are very likely still true today:

...we find that ETFs are most likely to be created with indexes that have performed well relative to the broad U.S. stock market before the inception date, but that such performance, on average, does not persist. Even so, new ETFs that use indexes with back-filled data appear to have more success in attracting assets, suggesting that the availability of hypothetical performance data may contribute to the viability of a new ETF.

Hypothetical Growth of \$1 Before And After Index-Live Date (i.e., New ETF Launch)—ETF Providers Marketed The Returns To The Left Of Dotted Line, Investors Actually Received The Returns To The Right



Source: Vanguard, Turner Investments. Compares performance versus broad US stock market. Analysis includes data from 370 new indices.

Certainly the performance of the Horizons Medical Marijuana Life Sciences ETF has done nothing to contradict Vanguard's conclusions—HMMJ has badly underperformed since its launch, and Canopy Growth and Aurora Cannabis, two of the world's largest medical marijuana companies and a combined 20% of HMMJ, were up a mindboggling 290% and 448%, respectively, a year prior to the ETF launch.

But let's not just pick on Horizons. Let's also examine the rise of low-volatility equity strategies, which ETF providers have leveraged as much as possible. Low-volatility ETFs have become an incredibly popular ETF sub-category with 14 of them currently on the market with US\$100 million or more in assets.

The 'Low Vol' Problem

As markets began to rally following the uncertainty of the global financial and European sovereign debt crises, 'low vol' ETFs suddenly became all the rage. Investors wanted attractive equity returns but with less risk. The only problem was that the longer-term back-filled data for these low-vol ETFs was misleadingly stellar because volatility was high during these crises. It's unsurprising that two of the largest low-volatility ETFs by assets—the iShares Edge MSCI Min Vol USA ETF (USMV) and PowerShares S&P 500 Low Volatility ETF (SPLV)—were launched in 2011 when Low Volatility Equities topped the asset class return table below. The following year, the Low Volatility Equities category plunged to near the bottom.

Asset Class Returns: Outperformance Eventually Fades

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
High	18.6% Emerging Markets Equities	6.4% Canadian Bonds	52.0% Emerging Markets Equities	17.6% Canadian Equities	10.7% Low Volatility Equities	16.0% Emerging Markets Equities	41.6% U.S. Equities	23.9% U.S. Equities	26.9% Low Volatility Equities	21.1% Canadian Equities
	9.8% Canadian Equities	-7.9% High Yield Bonds	35.1% Canadian Equities	13.0% Emerging Markets Equities	9.7% Canadian Bonds	15.3% International Equities	31.6% International Equities	22.2% Low Volatility Equities	21.6% U.S. Equities	13.4% High Yield Bonds
	3.7% Canadian Bonds	-11.4% Low Volatility Equities	33.8% High Yield Bonds	9.2% U.S. Equities	7.0% High Yield Bonds	13.0% High Yield Bonds	27.4% Low Volatility Equities	11.9% Diversified Portfolio	19.5% International Equities	8.1% U.S. Equities
	-0.2% Diversified Portfolio	-13.8% Diversified Portfolio	12.5% International Equities	9.2% High Yield Bonds	4.5% U.S. Equities	12.8% U.S. Equities	17.6% Diversified Portfolio	11.7% High Yield Bonds	14.4% High Yield Bonds	7.7% Emerging Markets Equities
	-5.3% International Equities	-23.3% U.S. Equities	12.4% Diversified Portfolio	8.3% Diversified Portfolio	1.4% Diversified Portfolio	8.8% Diversified Portfolio	14.6% High Yield Bonds	10.6% Canadian Equities	8.7% Diversified Portfolio	5.8% Diversified Portfolio
	-8.0% Low Volatility Equities	-28.8% International Equities	9.3% U.S. Equities	6.9% Low Volatility Equities	-8.7% Canadian Equities	2% Canadian Equities	13.0% Canadian Equities	8.8% Canadian Bonds	3.5% Canadian Bonds	4.4% Low Volatility Equities
	-10.1% U.S. Equities	-33.0% Canadian Equities	5.4% Canadian Bonds	6.7% Canadian Bonds	-9.6% International Equities	6.5% Low Volatility Equities	4.3% Emerging Markets Equities	7.0% Emerging Markets Equities	2.4% Emerging Markets Equities	1.7% Canadian Bonds
Low	-13.3% High Yield Bonds	-41.4% Emerging Markets Equities	-0.5% Low Volatility Equities	2.6% International Equities	-16.2% Emerging Markets Equities	3.6% Canadian Bonds	-1.2% Canadian Bonds	4.1% International Equities	-8.3% Canadian Equities	-2.0% International Equities
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016

Source: TD Asset Management

Low vol regained its status as a market darling from 2014–2015 and more and more low-volatility equity ETFs were launched—just in time for the effectiveness of this strategy to decline significantly in 2016, as concerns over rising interest rates and a lack of market volatility negatively impacted performance. Once again, Low Volatility Equities fell to near the

bottom of the table. Low-volatility ETFs were also sold as much on a global-markets-are-going-to-get-much-more-volatile outlook as they were on performance. Examining the two largest low-volatility ETFs mentioned above, they were released at a time when past volatility had been very high. Since their launch, volatility has significantly declined (see table below). Once again, the past didn't equal the future. But the past was certainly easier to sell.

We've also highlighted in previous newsletters that there are often fairly simple ways to reduce overall portfolio volatility (increase bond exposure, for example) without the need to purchase more expensive, actively managed low-volatility equity ETFs. In other words, before you purchase a new, low-volatility flavour-of-day ETF, it's important to consider 1) how potentially over-valued this area of the market has become and 2) recognize that there may be lower cost ways to replicate the ETF's strategy.

Key Low-Volatility ETFs Were Marketed On Higher Expected Volatility—Unfortunately, It Never Happened

	Ticker	Launch Date	Average VIX Index (Volatility)		% Chg VIX
			Levels—3 Years Prior	Levels—3 Years After	
iShares Edge MSCI Min Vol USA ETF	USMV	10/21/2011	28.1	16.3	-42.0
PowerShares S&P 500 Low Volatility Portfolio	SPLV	5/6/2011	28.1	18.4	-34.5

Source: Bloomberg

It's also worth noting the remarkable steadiness of the Diversified Portfolio category (light green boxes) in the asset class returns table above. It's a model of consistency—the Diversified Portfolio never shoots the lights out, but it never collapses either. Now, the Diversified Portfolio in the table above differs from the Turner Investments model, but it still highlights the usefulness of having diversification and balance. Simply owning a diversified portfolio generally provides all the 'low vol' that you need.

IT'S NOT A RULE, ONLY A WORD OF CAUTION

The marijuana sector could easily have continued its uptrend and every new ETF that comes to market isn't without merit. We're not saying that all new ETFs are bad. What we are saying is that you must exercise caution when a new product is introduced, particularly when the underlying index, sector, industry or theme it's based on has been doing well. Research suggests that if you buy these new ETF releases at the outset, they'll likely underperform in the future. Wait a bit, let them cool off, and just as importantly, ask yourself if you actually understand what you're investing in. Watching a story on the nightly news about the marijuana industry doesn't qualify you as an expert—just ask the investors who bought HMMJ last month.

This newsletter has been prepared by Turner Investments, and expresses the opinions of the authors and not necessarily those of Raymond James Ltd. (RJL). Statistics, factual data and other information are from sources RJL believes to be reliable but their accuracy cannot be guaranteed. This newsletter is furnished on the basis and understanding that RJL is to be under no liability whatsoever in respect thereof. It is for information purposes only and is not to be construed as an offer or solicitation for the sale or purchase of securities. RJL and its officers, directors, employees and their families may from time to time invest in the securities discussed in this newsletter. This newsletter is intended for distribution only in those jurisdictions where RJL is registered as a dealer in securities. Any distribution or dissemination of this newsletter in any other jurisdiction is strictly prohibited. Securities-related products and services are offered through Raymond James Ltd., member-Canadian Investor Protection Fund. Insurance products and services are offered through Raymond James Financial Planning Ltd., which is not a member-Canadian Investor Protection Fund.

TURNER INVESTMENTS OF RAYMOND JAMES LTD.

40 King Street West
Suite 5300, Toronto, Ontario M5H 3Y2
Tel: 416-777-7000 | Fax: 416-777-7020

www.turnerinvestments.ca

TURNER
INVESTMENTS | **RAYMOND JAMES**[®]