



Monthly Perspectives

Portfolio Advice & Investment Research

Outlook 2012

Inside

Economics..... 2
An Economic Perspective for Investors

Fixed Income 3
2012: Uncertainty

Canadian Equities 4 - 5
2012 Themes

U.S. Equities 6 - 7
The Binary Road Ahead

Mutual Funds 8
U.S. Dollar Monthly Income Funds

Performance Monitor 9

A Year In Pictures 10 - 11

Appendix A 12
Important Information

December 2011/January 2012

This publication is for distribution to Canadian clients only.

Please refer to Appendix A in this report for important disclosure information.

2012: The Year Ahead

In this expanded issue, the Portfolio Advice and Investment Research (PAIR) Team looks ahead with our thoughts, themes, concerns and forecasts for 2012.

Retrospective and Perspective

To say it has been a challenging year would be a serious understatement. Volatility, political brinksmanship on both sides of the Atlantic, and bankruptcies of major financial institutions (Dexia and MF Global) have all shaken investor confidence. Whether a professional, institutional or retail investor, it is difficult not to be both fatigued and cynical.

What will 2012 hold? Europe of course is the key as a collapse of the Euro zone would have contagion effects on U.S. financial institutions which would ripple through their still fragile economy. (We believe our Canadian banks, while not immune, are in much better shape). We disdain the Pollyannas equally as much as the doomsayers and try to have a balanced perspective.

Europe dominates the headlines and politics will determine the outcome. The Greek crisis has seeped into Italy, with their 10 year bond yields breaching 7% in November, unsustainable on a longer-term basis. France is at risk of losing its triple A credit rating. Germany and France cannot agree on a solution and the European Central Bank continues to resist being the lender of last resort. Some strategists believe the breakup of the Euro is inevitable; others believe the cost of a breakup is much higher than a bailout. Given that politics dominates fundamentals, we see little

value in adding to the prognostications and daily give thanks we live in Canada!

Politics dominates in the U.S. as well, and with the election next November, the rhetoric will only escalate. Recent data weighs in favour of a slow economic recovery and we optimistically believe this to be the case, rather than another recession; the caveat, of course, is Europe. And while China is slowing, we believe the government will orchestrate a soft landing. To sum up: a muddle through, low growth environment, which is the result of the deleveraging that continues. Excessive debt has been accumulated over decades and “cleaning house” will take longer than a year or two.

It is important to step back objectively from the noise and focus on the fundamentals. Equity valuations have improved, particularly when viewed relative to interest rates. Corporations are in excellent shape and continue to impress on the earnings front. Interest income is virtually nonexistent so we continue to advocate a healthy exposure to high quality, dividend paying stocks. There is good value in the equity markets for long-term investors, although the volatility can be difficult to stomach. Investing is as much psychology as it is finance but it takes discipline to separate the headlines and the drama from the underlying fundamentals.

The PAIR Team wish you and your families a healthy, happy and prosperous 2012.

*Deborah Leckman, CFA
Senior V.P. TD Waterhouse*



Economics:

An Economic Perspective for Investors

It is timely to assess what economic conditions in 2012 may have in store for investors. Regrettably, our crystal ball is remarkably cracked and cloudy. The outlook is fraught with risks. There are three possible scenarios that could play out, and they fall into the categories of the good, the bad and the ugly.

Let's get the ugly out of the way first. Under this scenario Europe loses control over its fiscal crisis. Over the course of 2011, the political system in Europe had enormous difficulty containing the escalating crisis. There are four core challenges. Greece must default on its debt in a controlled manner. Contagion to other countries must be contained. The banking system in Europe must be recapitalized. Finally, progress must be made toward a fiscal union. If the European leaders can manage these initiatives, the crisis will be resolved. If they lose control and several countries default on their debts, the fallout would likely be bank failures in Europe that could, in turn, create a 2008-style financial crisis. In this environment, equities and commodities would plunge, bonds would rally, and the U.S. dollar would strengthen.

The "good" scenario is where global politicians show decisive leadership and overcome their fiscal challenges. Europe defuses its crisis, and the U.S. provides fiscal support to their economy in the near term, while also laying out a medium-term plan to eliminate the deficit. Were this to happen, it would unleash strong economic growth. Corporations currently have vast amounts of cash on their balance sheets, which is a reflection of valid worries about the future. If confidence improved, they would have an enormous capacity to hire and invest. This would, in turn, lead to robust consumer spending. The outcome would create double-digit gains in equities, a rally in commodities, and modestly higher interest rates.

In between these two extremes is the scenario that TD Economics believes

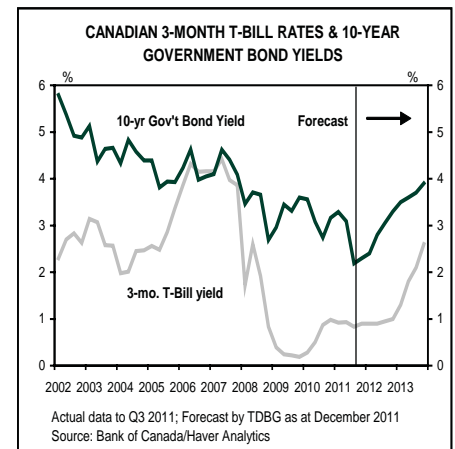
is the most likely. It is the "muddling through" outcome. It is far from ugly but still has some bad elements. Faced with the possibility of a financial catastrophe, it is likely that the European leaders will take action to contain their fiscal crisis, but the resolution will be messy and protracted, hence the "bad" dimension. Due to fiscal austerity and continued weakness in European banking, the European economy experiences a significant recession. The European contraction weighs down on already slowing economic growth in emerging market countries. In the United States, limited additional fiscal support is provided, but the approach of the November 2012 Presidential election means that Washington continues to be dominated by gridlock. The result is a U.S. economy delivering sub-par economic growth slightly below 2%. The Canadian economy is constrained by this external environment to a growth rate similar to that in the United States. This maintains a slow growth, low inflation environment for an extended period of time. The European Central Bank would lower interest rates and likely provide quantitative easing. The Bank of Canada and the U.S. Federal Reserve would keep rates on hold in 2013, and the Fed likely introduces QE3. Bond yields fluctuate at close to their current very low levels. Equities and commodity prices would probably dip on news of a slowing global economy, but the downside should be limited. Then as progress is made on addressing the European fiscal crisis, they would rally again.

What are the key messages for investors?

One should expect heightened financial volatility, but investors should try not to overreact. While it is natural to focus on what could go wrong, investors should acknowledge that there are both upside and downside risks, which implies staying invested and riding out the fluctuations. The most likely scenario is that the global economy will muddle through, generating moderate

GLOBAL ECONOMIC OUTLOOK					
Annual per cent change unless otherwise indicated					
Real GDP	2007 Share* (%)	Forecast			
		2010	2011	2012	2013
World	99.1	4.5	3.3	2.5	3.3
North America	25.5	3.1	1.9	1.9	2.5
United States	21.4	2.9	1.7	1.8	2.3
Canada	2.0	3.2	2.3	1.7	2.4
Mexico	2.1	5.5	3.6	3.8	4.1
European Union (EU-27)	23.7	1.8	1.7	-1.5	1.5
Euro-zone (EU-16)	16.1	1.7	1.5	-1.6	1.4
Germany	4.4	3.5	3.0	-1.2	2.3
France	3.2	1.4	1.6	-1.4	1.3
Italy	2.8	1.2	0.8	-1.7	1.2
United Kingdom	3.3	1.5	1.1	0.9	1.7
Asia	35.5	7.3	5.3	5.4	5.3
Japan	6.6	4.0	-0.5	2.6	1.7
Asian NIC's	3.7	8.3	4.5	4.6	4.6
Developing Asia	20.6	9.0	7.8	6.7	6.9
ASEAN-4	3.1	6.9	4.8	4.6	4.9
China	10.9	10.3	9.1	7.8	8.0
India	4.6	8.7	7.6	7.0	7.2
Central/South America	6.1	5.6	4.2	4.1	4.1
Argentina	0.8	8.1	7.3	5.0	4.0
Brazil	2.8	7.5	3.9	4.6	4.7
Other Developing	8.4	4.3	2.7	2.6	2.5

*Regional wts. do not sum to 100% because some countries omitted
Source: International Monetary Fund, national statistics agencies



returns for balanced portfolios, but one should watch for signs that one of the more extreme scenarios is playing out. In terms of asset classes, cash should return less than inflation. Bonds are likely to preserve, but not create wealth. Low interest rates argue for investing in equities, and dividends will continue to look attractive, but the returns could fluctuate considerably.

Craig Alexander
Senior V.P. & Chief Economist
TD Economics

Fixed Income:

2012: Uncertainty

When it comes to debt dynamics, there are no easy solutions. Market observers and participants are compelled to, if exasperatingly, follow European Union developments. Europe is in the midst of an epic sovereign debt/banking crisis that, at the least, has now captured the financial world's full attention, if not holding its capital markets and economies hostage. Rescue talk is abundant, but firm plans remain elusive.

With government leaders having demonstrated little ability to contain Europe's crisis, the prevailing body of thought, for the most part, is calling on a move towards a tighter fiscal union, the European Central Bank (ECB) to go fully-fledged into directly supporting the afflicted sovereign debt markets, with additional support from at least the European Financial Stability Facility. With the debt/banking contagion having spread recently into Italy, Spain and even France – the crisis has gotten worse, not better. Time is not on the side of political leaders, as fiscally profligate nations reach their tipping point when credit markets decide.

Meanwhile, financial markets are being left to their own devices to figure out if meaningful progress is being made to resolve Europe's debt/banking crisis, often not a good thing as it promotes the volatile risk-on/risk-off trading patterns resulting from the release of news headlines (dubbed headline risk by financial markets).

What is certain and reasonably certain?

What is certain is the past. A quick review shows that bond investors have had a good year in terms of performance in 2011, as Canadian and U.S. government interest rates plunged to record-low levels. As of November 30, 2011, the Canadian Overall DEX Universe Bond Index showed a year-to-date return of 7.86%. Looking beneath the surface, investors may find it surprising that government bonds, with

a return of 8.26%, had outperformed corporate bonds, with a return of 6.76%. This was mainly attributable to wider credit spreads, as corporate bonds are heavily influenced by their underlying stock price performance.

What is reasonably certain is that the financial crisis that began in 2008, and the accompanying deleveraging (paying down debt) process, will not be resolved any time soon. This means that near record-low interest rates are likely to persist for longer. The U.S. central bank established a record-low target range of zero to 0.25% for its benchmark Federal Funds rate on December 16, 2008 and has recently reaffirmed its commitment to keep that rate at "exceptionally low" levels for "at least through mid-2013," a remarkable period of close to five years. The Bank of Canada has maintained its target for its benchmark overnight rate at just 1.00% since September 8, 2010 and its most recent statement remained sanguine, reiterating its view that the global economy has slowed markedly and that the "combination of ongoing deleveraging by banks and households, increased fiscal austerity and declining business and consumer confidence is expected to restrain growth across the advanced economies." TD Economics expects tightening of monetary policy to begin in March 2013, and the overnight rate is only expected to increase to 2.50% by the end of 2013.

Investing for Uncertainty

Investing involves a leap of faith – there are no absolute guarantees. Very few investments have proven to be safe since the financial crisis started in 2008, with the exception of gold and debt securities from nations that are considered to be above reproach. That relatively short list includes Canada, Germany and the U.S. The difference between investing and gambling is better odds: best exemplified by a comparison of short-term debt yields. U.S. and German 3-month Treasury bill yields remain either at zero or at negative yields (as

of December 2, 2011). This is a sign of stress within the financial system as negative yields means investors are willing to pay the governments to keep their money in T-bills, rather than keeping the money in a bank deposit and receiving interest. At the other end of the risk spectrum are 9-month Greek government bonds, which are yielding 266%. The yield implies that the credit market believes that Greece will default and that investors will be able to recover only 34% of their initial investment.

So how do you invest for uncertainty? With as much certainty as needed to reach your comfort level. When investing becomes too emotional, it should prompt an asset allocation review, which is all about finding the right balance between an individual's own comfort level for risk and having enough risk to generate returns to meet long-term goals. Bond investors have had very few sleepless nights over the past 30 years as the investments provided a high level of safety along with solid returns. However, with interest rates hovering near record low levels, low-risk debt instruments (high interest savings accounts, Guaranteed Investment Certificates and shorter-term government guaranteed bonds) will still provide comfort through capital preservation, but only generate returns of 1-3%. But once an adequate safety foundation is established (ask yourself how much of the portfolio that you cannot afford to lose even a dollar under the worst-case scenario), it is much easier to build the other parts of your portfolio with riskier investments to generate higher returns. Income should take predominance in this highly uncertain investing environment and it is important to diversify your income streams. This may entail the use of annuities, corporate bonds, high yield bond funds, preferred shares and strong dividend paying stocks.

*Sheldon Dong, CFA
V.P. Fixed Income Strategy*

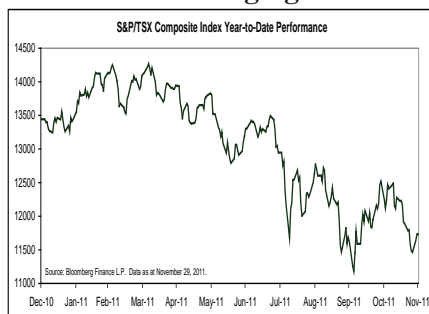
Canadian Equities:

2012 Themes

Many Canadian equity investors will likely be happy to close the books on 2011. This is not surprising with the S&P/TSX Composite Index (S&P/TSX) down 9% year to date (price return, as at November 30, 2011) following 11 months characterized by volatility and a heightened level of uncertainty. To put it simply, it has been a risk-off year, which for a resource-heavy index such as the S&P/TSX, has proven to be frustrating for investors.

As 2011 comes to a close and we look ahead to the New Year, we believe many of the past year's dominant themes will continue to dominate the Canadian equity market in 2012. Below we provide our take on the year ahead and 12 Canadian equity ideas for 2012.

Chart 1: S&P/TSX Composite Index – A Challenging Year



Wild Cards – Europe and Politics

We have said it before and will say it again: the largest risk facing the equity markets remains Europe. The two-

year old European sovereign debt issue and the authorities' ability to arrive at a credible solution to the problem will be a key determinant of the direction of the markets. The primary concern for Canadian investors is the potential for financial market contagion and the ripple effects.

The uprisings in the Middle East and North Africa in the spring of 2011 reminded investors of the potential for geopolitical risks to surface at any time. While the political wrangling over debt and deficits in Europe and the U.S. will continue to capture headlines (and drive markets), investors also need to keep an eye on the escalating tensions with Iran.

Slowing Global Economic Growth

The U.S., the world's largest economy and Canada's largest trading partner, has been showing signs of economic resilience. While growth south of the border has been slow, the data has generally been stronger than anticipated. The current view is that the U.S. can avoid a recession but that economic growth in 2012 will be tepid. Emerging markets, in particular China, remain in focus as they have been the engines of global growth. Chinese authorities spent 2011 trying to cool inflation and navigate a soft landing. While the jury is still out, the cut to interest rates at the end of November provides a signal that inflation may have peaked and China is moving to a more accommodative monetary

policy. Although growth in China is expected to be slower (TD Economics is forecasting GDP growth of roughly 8% for 2012 and 2013 vs. 9% in 2011), it should continue to outpace that of the Western world by a wide margin. Despite an upside surprise in Canada's Q3/11 GDP, the outlook for the Canadian economy is largely influenced by external factors and the global headwinds continue to challenge Canadian economic growth. Overall expectations are for positive albeit muted growth in Canadian GDP in 2012.

Interest Rates Lower for Longer

Expectations for modest growth combined with the high degree of uncertainty point to interest rates remaining lower for longer. The Bank of Canada is not expected to increase short term rates until 2013. Longer-term government bond yields could creep higher in 2012 as the outlook improves, however rates are likely to remain low relative to historical standards and are unlikely to threaten economic growth or equity valuations.

Corporate Fundamentals Solid

Corporations remain flush with cash and are well positioned for potential dividend increases, share buybacks, or mergers and acquisitions. Corporate earnings have been solid, with S&P/TSX earnings on track to grow by 16% in 2011. Looking out to 2012, according to Thomson Reuters the

Chart 2: Valuations Are Reasonable

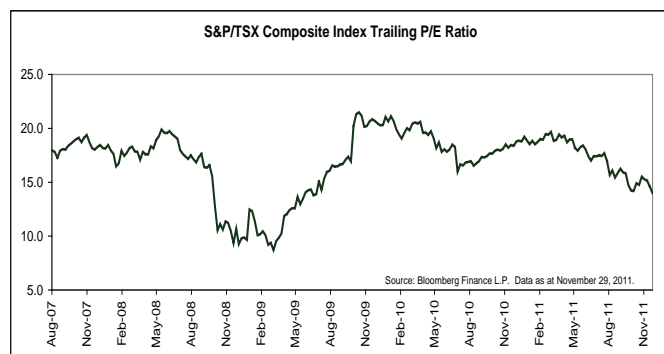
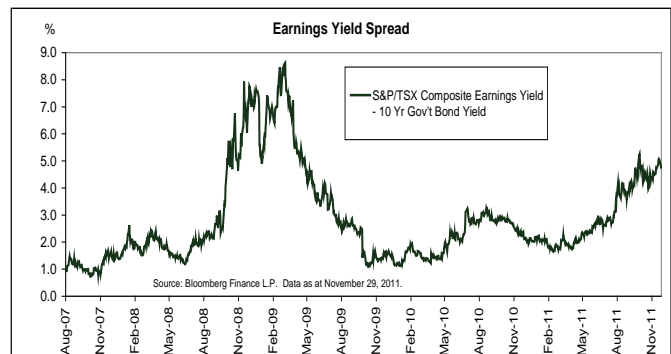


Chart 3: Stocks Attractive Relative to Bonds



Canadian Equities:

2012 Themes (Continued)

consensus view is for earnings of \$1013, which represents 22% growth over 2011. With slowing economic growth and difficult comparisons, we believe that expectations for 2012 earnings growth should be tempered somewhat. Canadian equity valuations are reasonable, in particular when compared to bonds (Charts 2 & 3). As has been the case for most of 2011, the corporate fundamentals are likely to continue to be overshadowed by events in Europe and the U.S.

Invest in Dividend Payers

Investors tend to award a premium valuation to companies with solid earnings visibility and demonstrated growth in a low-growth environment. Persistently low interest rates are likely to continue to push yield-hungry investors towards dividends as source of income. This suggests to us that our long-held preference for high quality (strong balance sheets, strong management), large cap, dividend-paying stocks will continue to be rewarded.

Gold – Still Need the Insurance

We have advocated including a 5-10% allocation to gold in portfolios as means of protecting against potential shocks, and we see no reason to change this recommendation. The potential for policy mistakes in Europe and the U.S. remain. The political gridlock that dominated in 2011 has undermined investors' confidence in fiat currencies and they have turned to gold as store of value. Gold acts as a hedge against both inflation and deflation. Continued loose monetary policy could fuel inflation down the road. If there is a recession, we would expect a deflationary environment. Finally, the fundamentals for gold equities remain positive as the strong commodity price allows the producers to generate substantial free cash flows, despite cost inflation. Despite their solid fundamentals,

gold equities have lagged the price movement in the commodity. Many of the gold producers, in particular the senior producers, have been increasing their dividends as a means to recapture investors' attention. We believe that the valuations should expand over time as investors recognize their strong earnings and cash flow capabilities in a strong gold price environment.

Canadian Equity Ideas for 2012

Overall, we remain of the view that the equity market is likely to remain volatile over the near term as European authorities work towards a resolution to the region's debt crisis. If the European leaders can arrive at a credible solution, it could provide a catalyst for a rally. Recognizing the potential for two different outcomes we have developed a list of Canadian equity ideas that provides a balance between both cyclical and defensive stocks (see Table 1). Consistent with our views that high quality, large cap, dividend paying stocks with visible earnings growth should reward investors, we have focused on stocks with these characteristics. In our view these companies have excellent business models, defensible franchises, management with a history of strong execution, and well-funded balance sheets.

If the macro backdrop improves and warrants a shift to a pro-cyclical stance in portfolios, the sectors that would typically be emphasized include energy, materials, industrials, information technology, consumer discretionary and financials. From our list, the stocks we would emphasize to implement a more cyclical position in portfolios include ARC Resources Ltd. (ARX-T), Baytex Energy Corp. (BTE-T), and Teck Resources Ltd. (TCK.b-T). The more defensive sectors such as telecommunications, utilities, and consumer staples would be emphasized

in a risk-off environment; these sectors would likely underperform on a relative basis if the macro outlook improves and the tone shifts back to risk-on. From our list the names that we would consider to be defensive include Telus Corp. (T.a-T), RioCan Real Estate Investment Trust (REI.un-T), H&R Real Estate Investment Trust (HR.un-T), and Fortis Inc. (FTS-T).

The remaining companies on the list we consider to be core holdings in a Canadian equity portfolio, which we believe have the potential to grow in a strong economic environment, and to be resilient in a challenging one.

Table 1: 12 Stock Picks for 2012

Company	Symbol	Price	Dvd Yield
Fortis Inc.	FTS	\$33.51	3.50%
ARC Resources Ltd.	ARX	\$25.58	4.70%
Baytex Energy Corp.	BTE	\$52.50	4.50%
Bank of Nova Scotia	BNS	\$51.55	4.10%
RioCan REIT	REI.un	\$25.51	5.40%
H&R REIT	HR.un	\$23.30	4.70%
Telus Corp.	T.a	\$52.37	4.40%
Toronto-Dominion Bank	TD	\$73.50	3.80%
Canadian National Railway	CNR	\$78.87	1.70%
Goldcorp Inc.	G	\$54.95	0.80%
SNC Lavalin Group Inc.	SNC	\$50.00	1.68%
Teck Resources Ltd.	TCK.b	\$37.35	2.10%

Source: Portfolio Advice & Investment Research, Thomson One
Data as at December 1, 2011

*Martha Hill, CFA
V.P. Canadian Equity
Portfolio Strategist*

*Catherine Carlin, CFA
V.P. Canadian Equity*

U.S. Equities:

The Binary Road Ahead

As equity strategists, we focus our analytical attention on things such as the business cycle, interest rates, corporate profits and market valuations, to name just a few. However, in this interconnected world we live in, ignoring what is happening in say Europe or China, could have adverse consequences to one's investment returns. Put simply: Europe is likely to be the key driver of the North American equity markets in the coming year, with the outcome having a binary impact on investment returns – markets will likely rally if Euro zone lawmakers finally develop a concrete solution to their sovereign debt problems, or decline, if lawmakers are unable to develop a workable solution. In this report, we examine the economic, fundamental and technical outlooks for 2012, while providing our base-case forecast of the binary road ahead.

Economic Outlook

Starting with our economic outlook, we see the global economy delivering subpar growth in 2012, with downside risks to our view, should the European debt crisis escalate. Looking at the main pillars of world economic growth – U.S., Europe and China – we see unique challenges in all of these areas.

With leading indicators weakening in Europe, and consumer confidence being eroded by the ongoing European credit problems, we believe Europe is likely to experience a recession in the coming months. TD Economics is forecasting a decline in growth of -1.6% for the region in 2012, down from a forecasted 1.5% in 2011. In the U.S., with roughly 20% of U.S. exports going to Europe, a slowdown in that region will likely be a headwind to U.S. growth. Couple that with the U.S.' own challenges (i.e., high unemployment, weak housing market, and continued deleveraging), we see a continued muddle through recovery for the world's largest economy, with below-trend economic growth. Historically, the U.S. economy has grown at 3.3% since 1947. However, with our expectation

of continued deleveraging, we see the U.S. economy posting lower growth rates in the years ahead. For 2012, TD Economics is forecasting U.S. economic growth of 1.8%, essentially flat from 2011. Lastly, we see China's economy slowing due to the lagged effects of their aggressive monetary tightening, but still growing a decent clip. TD Economics sees growth of 7.8% in 2012, down from 9.1% in 2011 for China.

Putting it all together, we see a more challenged global economy in 2012, with Europe being the driving force of whether our weaker growth expectation morphs into something worse.

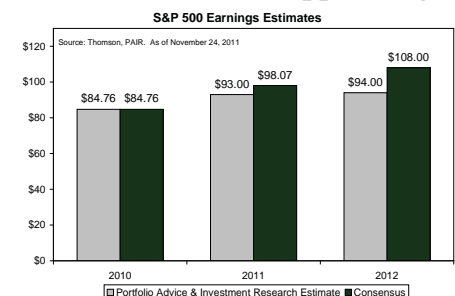
Fundamental Outlook

On fundamentals we focus on three key areas – interest rates, corporate earnings and valuations. Interest rates are expected to remain low and are therefore supportive to stocks. Low interest rates are supportive for stocks in two key ways. First, low interest rates reduce borrowing costs for both corporations and consumers, which generally helps stimulate end demand. Second, low interest rates make stocks look more attractive relative to bonds, thus providing an additional support for stocks.

Corporate earnings have been one of the bright spots in this recovery, with S&P 500 Index (S&P 500) earnings hitting new record highs in 2011. This year S&P 500 earnings are forecasted to hit roughly \$98/share based on consensus estimates, which if realized, would equate to Y/Y growth of roughly 16% (Exhibit 1). While very impressive, stocks trade on future earnings, which based on our analysis point to the potential for slowing U.S. profits in 2012. We estimate that S&P 500 2012 earnings could decline to \$94/share, which is well below current consensus estimates of \$108/share. Our lower EPS estimate is based on a probability-weighted model, with a 30% probability weight that the U.S. economy experiences a recession in 2012. While our forecast may turn out

to be too conservative, we believe the current \$108 consensus estimate is far too high, amid global uncertainties and slowing economic momentum. In fact, recently we've seen forward estimates begin to be revised lower, a trend we expect into 2012.

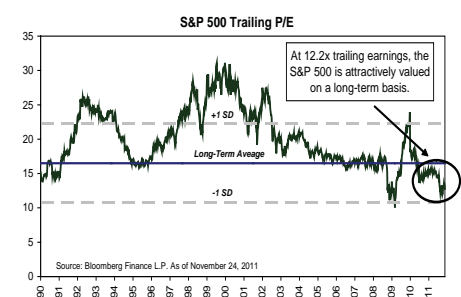
Exhibit 1: Estimates Appear High



Finally, when looking at current market valuations, we do believe the U.S. equity market is attractively valued on a longer term basis. Presently, the S&P 500 is trading at 12.2x trailing earnings (11.5x forward earnings), which is near 1 standard deviation below its long-term average of 16.5x (Exhibit 2). Admittedly, valuations have shown not to be a good predictor of short-term returns, but history does show that investors have been rewarded with decent long-term stock returns at these market multiples. Additionally, the low valuations do help limit potential downside, should Europe's problems escalate.

Putting together our S&P 500 EPS forecast of \$94, with a target P/E multiple range of 13-13.5x, gets us a potential year-end value range of 1,220-1,270 for the S&P 500 in 2012.

Exhibit 2: Valuations Remain Supportive



U.S. Equities:

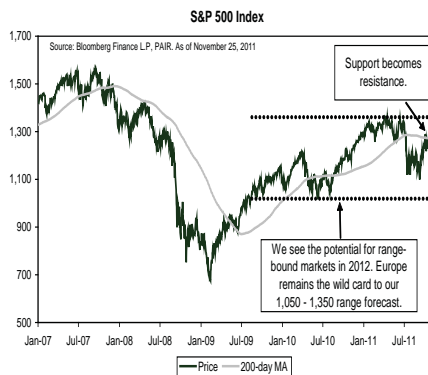
The Binary Road Ahead (Continued)

Technical View

The recent sell-off during the August and September period caused some important technical damage. The S&P 500 remains below its 200-day moving average (MA) and more importantly, on the recent rally in October, the S&P 500 found resistance (marked on the chart) at the 200-day MA, whereas in June it was acting as support (Exhibit 3). From a technical perspective we will maintain a cautious view of the U.S. equity markets until this reverses, and the S&P 500 gets back above its 200-day MA.

For 2012, our technical range forecast for the S&P 500 is 1,050-1,350 (Exhibit 3).

Exhibit 3: Potential Range Bound Market in 2012

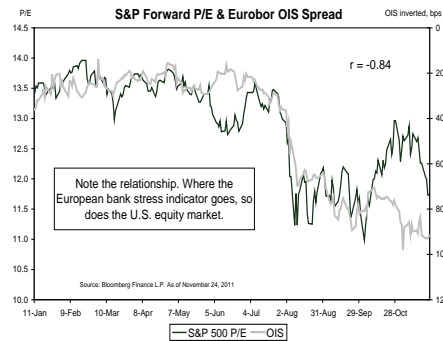


Europe Remains the Largest Risk to Outlook

We say this for the following reason. European sovereign bond yields continue to rise, as concerns mount over possible contagion. This in turn has spread to the interbank lending market in Europe. In Exhibit 4, we overlaid the Euribor OIS spread, which is a measure of stress in the European banking sector, with the S&P 500 forward P/E. The chart captures the clear relationship between the two. As the OIS spread continues to increase (note it's inverted in the chart), the forward P/E for the S&P 500 declines. We also note the correlation between the two is a negative 0.84. All this means is that as European bond yields increase on rising contagion concerns, this puts stress on the European

banking sector, which, in turn, drives the U.S. equity market lower. Essentially, where Europe goes, so does the U.S. stock market for 2012, in our view.

Exhibit 4: Europe Remains the Wildcard



Recommendations

As outlined in this report, we are quite cautious on the markets at present and believe it is best that investors maintain a defensive posture during these uncertain and volatile times. That said, money can still be made in these difficult markets, but requires investors to be more selective in their investments, employing a more nimble investment approach. Below we highlight our investment recommendations for 2012 and provide a list of some of our best ideas for next year:

1. Stay defensive. Overweight the more defensive sectors, including telecom, health care, utilities and consumer staples, while underweighting the cyclical sectors including materials, financials and consumer discretionary.
2. Include gold and/or gold miners in your portfolio. Our wealth asset allocation committee recommends investors hold a 5-10% weight in gold, to protect against tail risk. We would add that from a technical perspective, gold remains in a solid long-term uptrend, being supported by its rising 200-day moving average.
3. Focus on dividend-paying stocks, especially those that have a long-term track record of steadily increasing

their dividends. Our work shows that stocks within the S&P 500 with the highest dividend growth rates over the last five years have on average, performed better than those with low or negative dividend growth rates.

4. For some cyclicality we recommend investors overweight the technology sector in portfolios. The technology sector should be supported by strong capital spending from corporations as they look to increase productivity gains, instead of hiring additional workers. As well, the sector offers some of the highest cash balances and strongest balance sheets in the S&P 500, which can be used for dividend increases, M&A and stock buybacks.
5. Include agriculture and related investments in your portfolio. Secular trends remain supportive of increased food consumption, while U.S. farmers remain flush with cash due to recent strong harvest seasons. Consider fertilizer and seed companies and agriculture-related machinery equipment manufacturers.
6. Finally, we recommend large caps over small caps due to the more challenging economic environment.

Exhibit 5: 2012 U.S. Stock Picks

Company	Symbol	Price	Dvd Yield
Apple Inc	AAPL	\$389.70	0.0%
EMC Corp	EMC	\$23.26	0.0%
General Electric Co	GE	\$16.09	3.7%
Corning Inc	GLW	\$13.22	2.3%
Halliburton Co	HAL	\$36.58	1.0%
AT&T Inc	T	\$28.96	5.9%
Altria Group Inc	MO	\$28.41	5.8%
Annaly Capital Mgmt	NLY	\$16.23	15.5%
Pepsico Inc.	PEP	\$64.28	3.2%
Newmont Mining Corp	NEM	\$67.03	2.1%

Source: Portfolio Advice & Investment Research, Baseline
Data as at December 2, 2011

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Mutual Funds:

U.S. Dollar Monthly Income Funds

A report released in 2009 by the Asia Pacific Foundation of Canada estimated that 2.8 million Canadians live abroad and a large portion of those individuals live in the United States. These figures do not include many Canadian 'snowbirds' who often spend winter months there. Those individuals have a portion of their net worth and regular expenses denominated in U.S. dollars and therefore are subject to exchange rate fluctuations.

In Canada, many mutual fund companies offer U.S. dollar purchase options for a selection of their fixed income, balanced, equity, and sector mutual funds. However, for Canadian investors wishing to invest in U.S. dollar-denominated investment vehicles, there are limited options available. In this article we highlight U.S. Dollar Monthly Income Fund options that currently exist in the Canadian market.

It is important to note that purchasing a mutual fund under a U.S. dollar purchase option is not equivalent to investing in a U.S. dollar-denominated mutual fund.

- **A U.S. dollar purchase option** allows investors to purchase a Canadian dollar-denominated mutual fund with their U.S. currency. This may leave the investor exposed to variances in the exchange rate as the fund's Net Asset Value (NAV) is calculated in Canadian dollars and converted to the U.S. dollar NAV for the purpose of purchases and redemptions.
- **A U.S. dollar-denominated mutual fund** enables investors to directly purchase a pool of U.S. securities with U.S. dollars, therefore avoiding currency conversion.

Increased investor demand for U.S. dollar-denominated products with regular U.S. dollar distributions has led a select number of companies to offer U.S. Monthly Income mutual funds. These funds hold balanced portfolios of U.S. equities and fixed income investments

and strive to make regular distributions. Canadian investors who have regular U.S. dollar expenses and who wish to avoid exchange rate risk may find U.S. Dollar Monthly Income Funds useful.

It should be noted that regular target distributions may be funded by return of capital (ROC) in periods when the fund is not generating sufficient returns to cover the distributions. A higher distribution rate increases the risk that the distributions may be funded by return of capital, especially in a low yield environment. We would caution that distribution yields above 6% may be difficult to sustain indefinitely. Be aware that funds with excessive distributions may incur considerable NAV erosion.

There are currently five key competitors in this space:

BMO U.S. Dollar Monthly Income Fund

- Invested in five equally-weighted asset classes. The short-term income, high yield bond and dividend-paying common equities are sub-advised by Lazard Asset Management. The preferred shares and REITs are managed by Keith Taylor at BMO Asset Management. The Fund has a sizable monthly distribution and the majority of these distributions have come from ROC.

HSBC U.S. Dollar Monthly Income Fund

- Managed in-house by the team at HSBC Global Asset Management and has a neutral asset allocation of 70% Fixed Income/ 30% Equity. The fixed income portion of the Fund will generally be invested in investment-grade securities and the Fund may invest up to 30% of its equity assets in securities based outside the U.S.

RBC U.S. Dollar Income Fund

- Managed by Frank Gambino and Brad Willock at RBC Global Asset Management. The Fund employs a

tactical asset allocation strategy and its neutral positioning is 60% Fixed Income/ 40% Equity. The Fund may invest up to 10% in global high yield or emerging market bonds.

Scotia U.S. Dollar Balanced Fund

- Managed by David L. Fingold and Michael McHugh at Goodman & Company Investment Counsel. The Fund will make tactical asset allocation decisions and has a neutral position of 60% Fixed Income/ 40% Equity. The Fund may invest up to 10% of assets in non-U.S. listed securities. The equity portion of the Fund is appealing given Fingold's respectable track record in managing U.S. equities. Note that distributions are made quarterly.

TD U.S. Monthly Income Fund

- Managed by David Sykes, Glenn Davis and Geoff Wilson at TD Asset Management. The Fund has a neutral asset allocation of 50% Fixed Income/ 50% Equity, subject to tactical movements, and may hold positions in asset-backed securities, mortgage-backed securities, high yield, preferred shares, and REITs. The Fund may invest up to 30% of its assets in U.S. dollar-denominated securities based outside the U.S. The Fund is expected to have a similar risk profile as the popular TD Monthly Income Fund.

Ultimately, U.S. Monthly Income Funds are an appealing alternative for Canadian investors looking for true U.S. dollar exposure, a balanced asset allocation and regular distributions. Given the notable focus on fixed income across these mandates, we would suggest assessing the capabilities of the fixed income teams on these funds before making an investment decision. Finally, we would reiterate that high distribution yields may be difficult to sustain and are likely to experience NAV erosion.

*Bethanie Pascutto
Analyst, Mutual Funds*

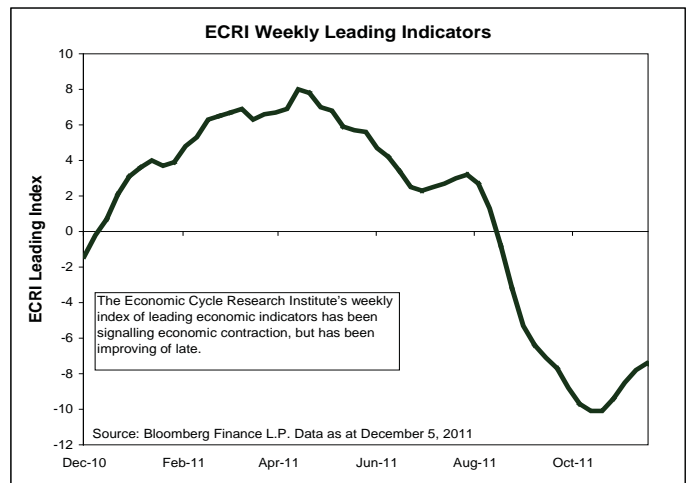
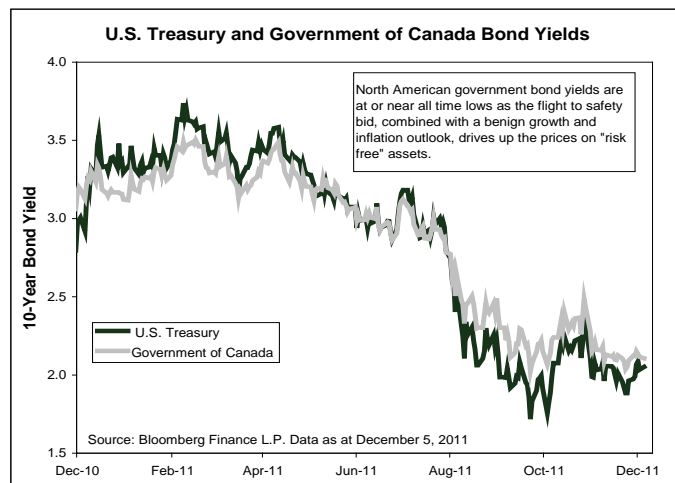
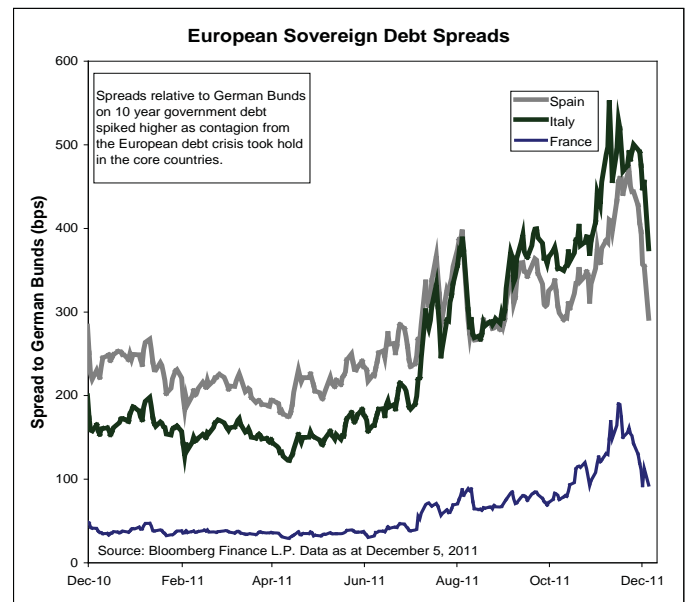
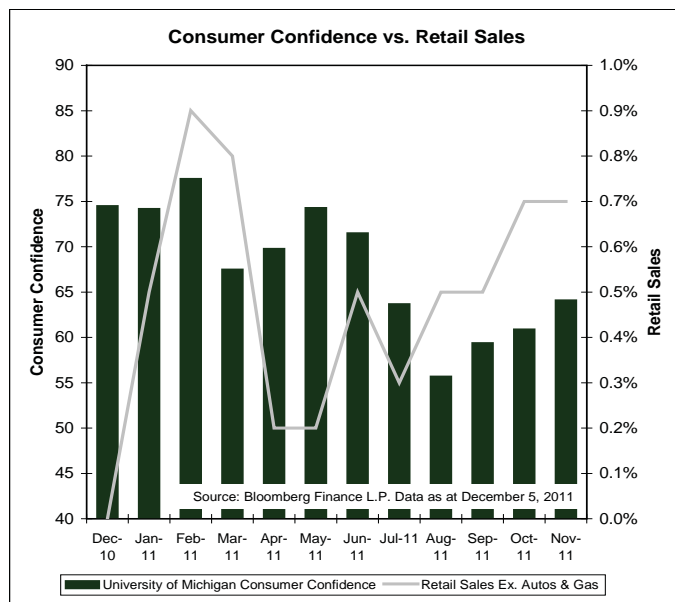
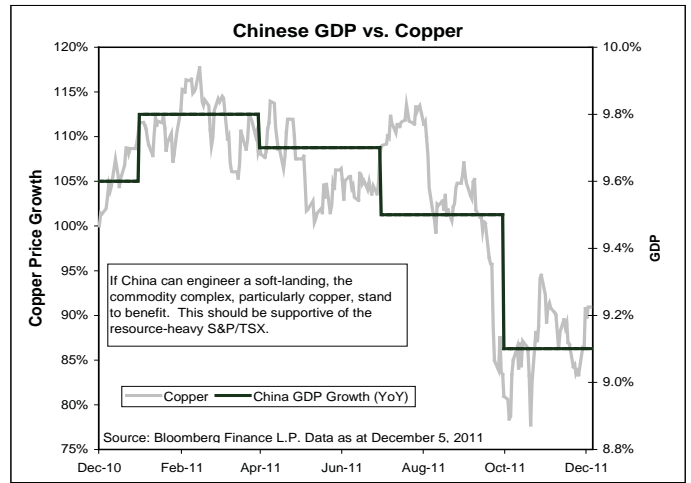
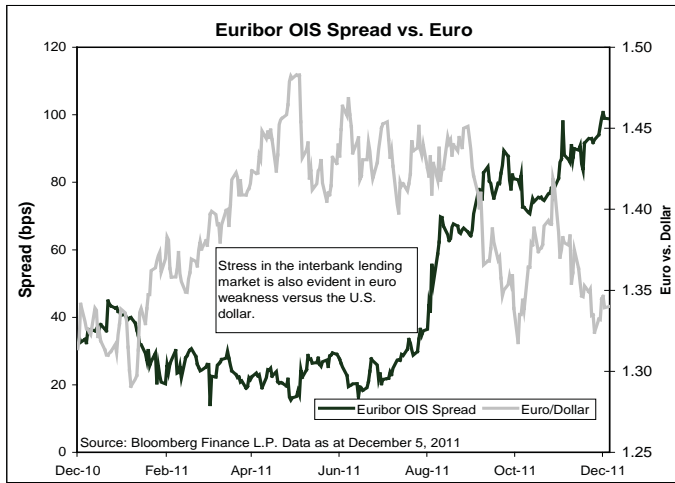
Performance Monitor:

	Index Level	(%) 1 Month	(%) 3 Month	(%) YTD	(%) 1 Year	(%) 3 Year	(%) 5 Year	(%) 10 Year	(%) 20 Year
Canadian Indices (\$CA) Total Return									
S&P/TSX Composite	33,879	-0.21	-3.74	-7.13	-3.33	12.82	1.95	7.61	8.91
S&P/TSX Composite (Price)	12,204	-0.39	-4.42	-9.22	-5.78	9.60	-0.88	5.09	6.52
S&P/TSX 60	1,559	-0.20	-3.81	-7.46	-3.77	10.31	1.57	7.29	9.48
S&P/TSX SmallCap	835	-1.53	-7.98	-14.61	-8.84	25.87	0.77	6.61	-
US Indices (\$US) Total Return									
S&P 500	2,137	-0.22	2.90	1.08	7.83	14.13	-0.18	2.91	8.34
S&P 500 (Price)	1,247	-0.51	2.30	-0.85	5.63	11.64	-2.30	0.91	6.19
Dow Jones Industrial (Price)	12,046	0.76	3.72	4.04	9.45	10.91	-0.29	2.03	7.39
NASDAQ Composite (Price)	2,620	-2.39	1.58	-1.23	4.89	19.50	1.50	3.10	8.38
Russell 2000	3,332	-0.36	1.86	-4.80	2.75	17.56	0.09	6.18	8.91
US Indices (\$CA) Total Return									
S&P 500	2,179	2.40	7.25	3.62	7.13	7.00	-2.40	-1.45	7.77
S&P 500 (Price)	1,272	2.11	6.62	1.65	4.94	4.67	-4.48	-3.37	5.63
Dow Jones Industrial (Price)	12,283	3.41	8.10	6.66	8.73	3.99	-2.52	-2.29	6.82
NASDAQ Composite (Price)	2,672	0.18	5.87	1.26	4.20	12.04	-0.76	-1.26	7.81
Russell 2000	3,398	2.26	6.16	-2.41	2.08	10.23	-2.15	1.69	8.33
MSCI Indices (\$US) Total Return									
World	4,076	-2.38	-1.52	-5.00	2.02	12.96	-1.41	4.22	6.69
EAFE (Europe, Australia, Far East)	4,656	-4.83	-5.55	-10.90	-3.68	10.63	-3.49	5.28	5.26
EM (Emerging Markets)	1,708	-6.66	-9.68	-17.18	-11.26	23.98	3.86	15.21	9.12
MSCI Indices (\$CA) Total Return									
World	4,156	0.18	2.63	-2.61	1.35	5.91	-3.61	-0.19	6.12
EAFE (Europe, Australasia, Far East)	4,748	-2.32	-1.57	-8.66	-4.31	3.73	-5.64	0.82	4.70
EM (Emerging Markets)	1,741	-4.20	-5.87	-15.10	-11.84	16.24	1.54	10.33	8.55
Currency Impact									
Canadian Dollar (\$US/\$CA)	Level	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	20 Year
	98.07	-2.56	-4.05	-2.46	0.66	6.66	2.28	4.42	0.53
Regional Indices (Native Currency) Price Return									
London FTSE 100 (UK)	5,505	-0.70	2.06	-6.69	-0.41	8.69	-1.87	0.57	4.20
Hang Seng (Hong Kong)	17,989	-9.44	-12.40	-21.91	-21.81	9.01	-1.05	4.78	7.61
Nikkei 225 (Japan)	8,435	-6.16	-5.81	-17.54	-15.12	-0.31	-12.32	-2.35	-4.83
Bond Yields									
		3 Month		5 Year		10 Year		30 Year	
Government of Canada Yields		0.80		1.46		2.16		2.69	
US Treasury Yields		0.00		0.95		2.07		3.06	

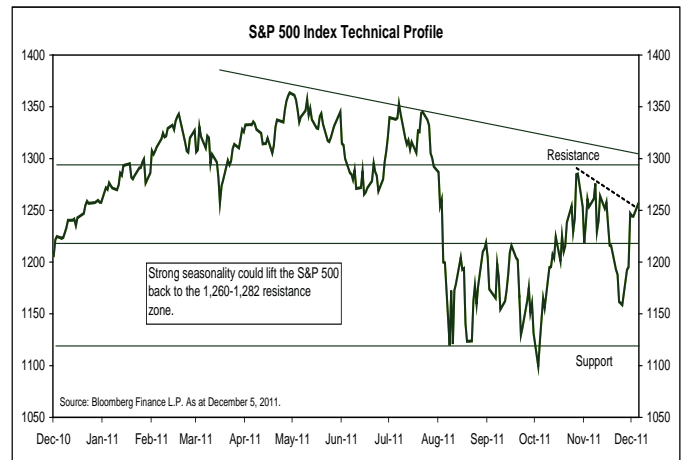
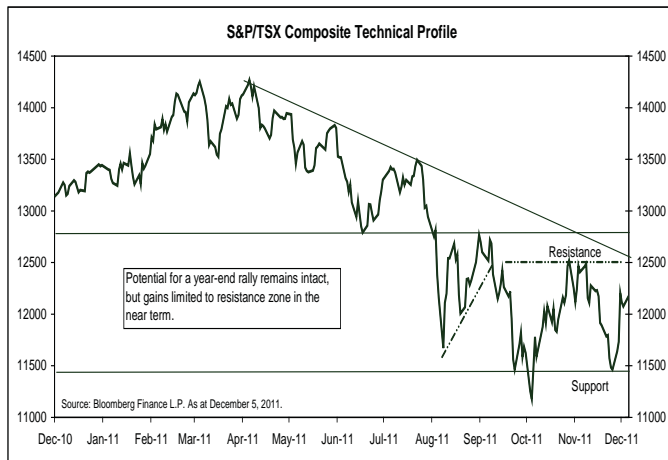
As of November 30, 2011

Sources: TD Securities Inc., Bloomberg Finance L.P.

A Year in Pictures:



A Year in Pictures (Continued):



TD Securities Forecasts for Rates, FX and Commodities

Interest Rate Outlook				
Exchange rate to Canadian dollar	Spot Rate 12/02/2011	2012		2013
		Q1F	Q4F	Q4F
CANADA				
Overnight Target Rate	1.00	1.00	1.00	2.50
3-mth T-Bill Rate	0.85	0.90	1.00	2.60
2-yr Govt. Bond Yield	0.90	1.00	1.40	3.10
5-yr Govt. Bond Yield	1.37	1.55	2.20	3.40
10-yr Govt. Bond Yield	2.12	2.40	3.30	3.90
30-yr Govt. Bond Yield	2.68	3.25	3.75	4.10
U.S.				
Fed Funds Target Rate	0.25	0.25	0.25	1.00
3-mth T-Bill Rate	0.00	0.10	0.10	1.10
2-yr Govt. Bond Yield	0.25	0.30	0.50	1.55
5-yr Govt. Bond Yield	0.92	1.00	1.55	2.10
10-yr Govt. Bond Yield	2.04	2.00	2.75	3.25
30-yr Govt. Bond Yield	3.03	3.25	4.00	4.30

F: Forecast by TD Bank Group as at November 2011; All forecasts are end-of-period; Source: Bloomberg, Bank of Canada, Federal Reserve

Foreign Exchange Outlook					
Exchange rate to Canadian dollar	Spot Price 12/02/2011	2012		2013	
		Q1F	Q4F	Q4F	
U.S. dollar	USD per CAD	0.98	0.92	1.05	1.03
Japanese yen	JPY per CAD	76.50	72.00	89.00	93.00
Euro	CAD per EUR	1.36	1.39	1.29	1.34
U.K. pound	CAD per GBP	1.59	1.58	1.51	1.67
Swiss franc	CHF per CAD	0.90	0.88	0.95	0.93
Australian dollar	AUD per CAD	0.96	0.89	1.05	1.07

F: Forecast by TD Bank Financial Group as at November 2011; All forecasts are end-of-period; Source: Federal Reserve, Bloomberg, TDBG

Commodity Price Outlook						
Commodity	52-Week High	52-Week Low	Spot Price 12/02/2011	2012 Q1F	2012 Q4F	2013 Avg.
Crude Oil (WTI, \$US/bbl)	114.00	76.00	100.96	90.00	93.00	100.00
Natural Gas (\$US/MMBtu)	4.92	2.95	3.36	3.85	4.15	4.50
Gold (\$US/troy oz.)	1900.00	1314.00	1746.75	1875.00	2100.00	1750.00
Silver (US\$/troy oz.)	48.44	26.73	32.59	37.00	41.50	30.00
Copper (cents/lb)	462.00	305.00	358.00	365.00	400.00	360.00

F: Forecast by TD Bank Group as at November 2011; All forecasts are period averages; Source: Bloomberg, USDA (Haver)

Appendix A: Important Information

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BUY: The stock's total return is expected to exceed a minimum of 15%, on a risk-adjusted basis, over the next 12 months.

SPECULATIVE BUY: The stock's total return is expected to exceed 30% over the next 12 months; however, there is material event risk associated with the investment that could result in significant loss.

HOLD: The stock's total return is expected to be between 0% and 15%, on a risk-adjusted basis, over the next 12 months.

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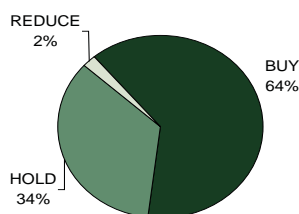
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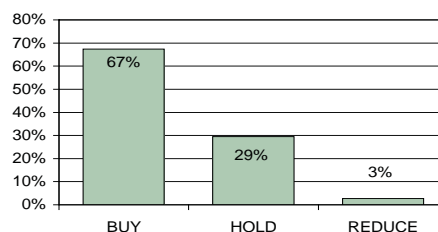
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Current as of December 2, 2011

* Percentage of subject companies under each rating category—BUY (covering Action List BUY, BUY and Spec. BUY ratings), HOLD and REDUCE (covering TENDER and REDUCE ratings).

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