

RussellInvestor

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Helping you make informed investment decisions for your future



TURNING UNCERTAINTY *into opportunity*

In times of market volatility, uncertainty often drives investors to bail out of the markets. Remember, paper losses don't become permanent unless you lock them in with a decision to sell.

Make sure your reasons for selling are consistent with your long-term investment objectives - and keep in mind that some of the world's most successful investors often turn uncertainty into opportunity.

A history of MARKET RECOVERIES

There's no doubt that the current market environment is daunting. But over the past 80 years the market has experienced the Great Depression, recessions, wars, the Internet Bubble, the Savings & Loan crash – and stocks have always recovered.

GLOBAL LEADERS IN MULTI-MANAGER INVESTING

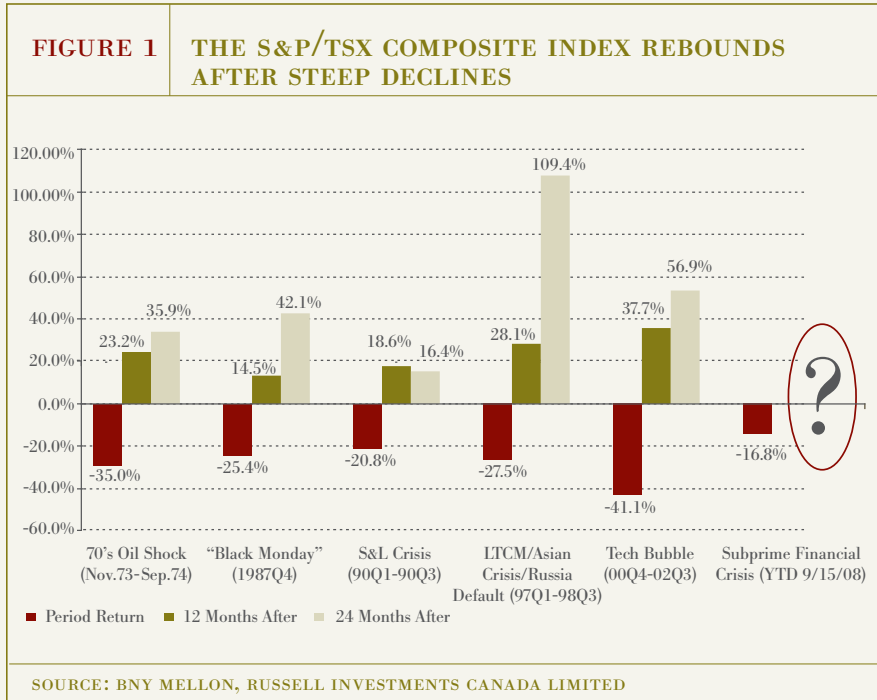


It's important to take a long term perspective and put today's market volatility into historical context. Figure 1 shows the year-to-date returns of the S&P/TSX Composite Index compared to 5 other recent periods of uncertainty and the subsequent 12 and 24 month returns after the crisis subsided.

What's an INVESTOR TO DO?

Using history as our guide, what can we expect over the subsequent 12 and 24 months? Investors who stay the course and adjust their portfolios to profit from uncertainty - rather than running from it - have historically been rewarded in the long run.

Should you choose to stay invested through the market turmoil, you can find solace in the fact that there are still reasons to be hopeful. For instance, oil prices have come down, U.S. mortgage rates have dropped, central banks have actively been involved, and Canadian banks are sound. In the meantime, you can position yourself to take advantage of potential market rebounds by sticking to a three-step plan:



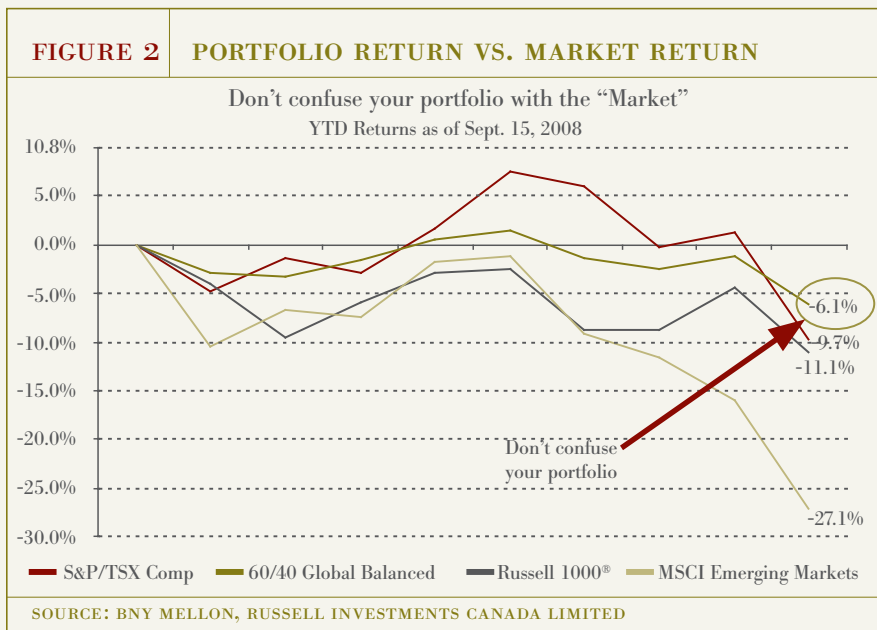
MANAGE EXPECTATIONS

An initial investment plan is the blueprint that is designed for the long-term; it is not designed in response to episodic market movements. Investors that abruptly bail out now, risk not achieving the long-term goals they initially had designed the plan for.

REMAIN DIVERSIFIED

A diversified portfolio across several asset classes and styles of management helps investors insulate themselves from any single stock situation, such as we've recently experienced. A diversified portfolio also positions investors well, regardless of which specific area of the market improves first, and ensures participation in a recovery from the very beginning.

If you are well-diversified, you shouldn't confuse your portfolio performance with the rollercoaster-like returns of the market. Figure 2 shows just how volatile global markets have been so far this year with returns in the emerging markets down as much as 27%, while the S&P/TSX is down nearly 10%. However, if you have been fortunate enough to



diversify your portfolio globally, the returns would prove to be much less dramatic. A global balanced approach would have outperformed emerging, Canadian, and U.S. equity markets.

By examining the allocation of the Russell Moderate Portfolio, which utilizes a 60% equity/40% fixed income approach, we can see how multi-level diversification can minimize the negative impact of any single stock on total portfolio returns.

Figure 3 illustrates this point. U.S. equity represents 13% of the Russell Moderate Portfolio. Goldman Sachs, a U.S. investment bank within the financial sector, represents 1.2% of this pool. So when you isolate Goldman within the context of the total allocation, it only represents 0.156% of the Russell Moderate Portfolio. Therefore, a major decline of a single stock, whether it be Lehman Brothers, Bear Stearns, Merrill Lynch, or AIG, has a minor impact at the total portfolio level.

Figure 4 further highlights the benefits of diversification in down markets. The green bars represent the average return of the worst 10, 20 and 30 months based on the return history of the S&P/TSX index. While all three periods have averaged double-digit declines for the S&P/TSX, an investment in a well-diversified global balanced portfolio would have significantly minimized losses.

REBALANCE

Rebalancing back to the target asset mix ensures that portfolios continuously match the long-term

goals and risk tolerances, as set out in the initial investment plan.

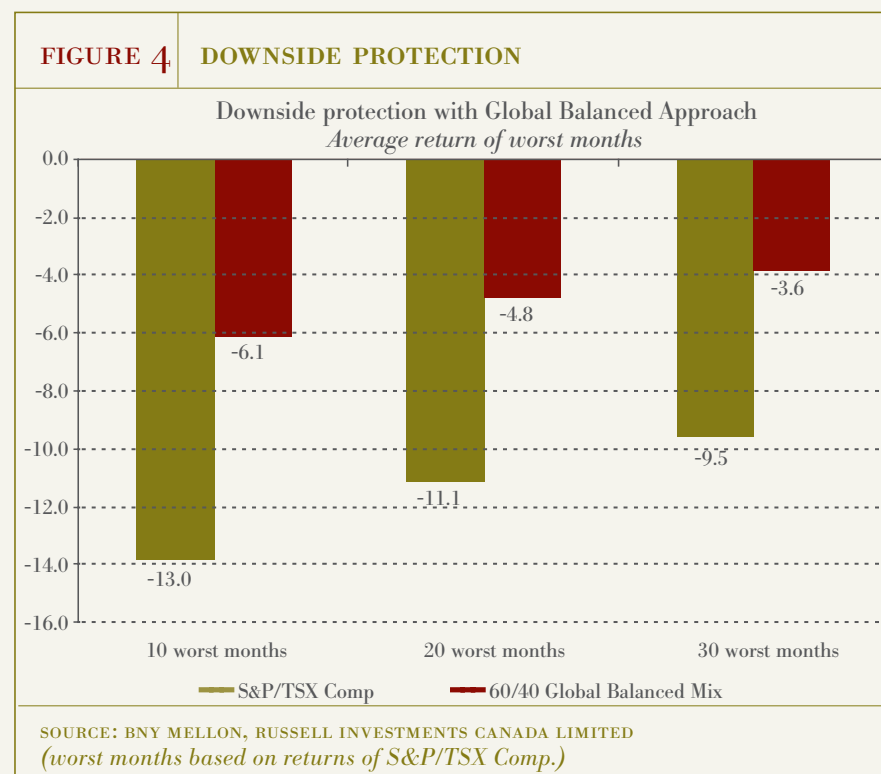
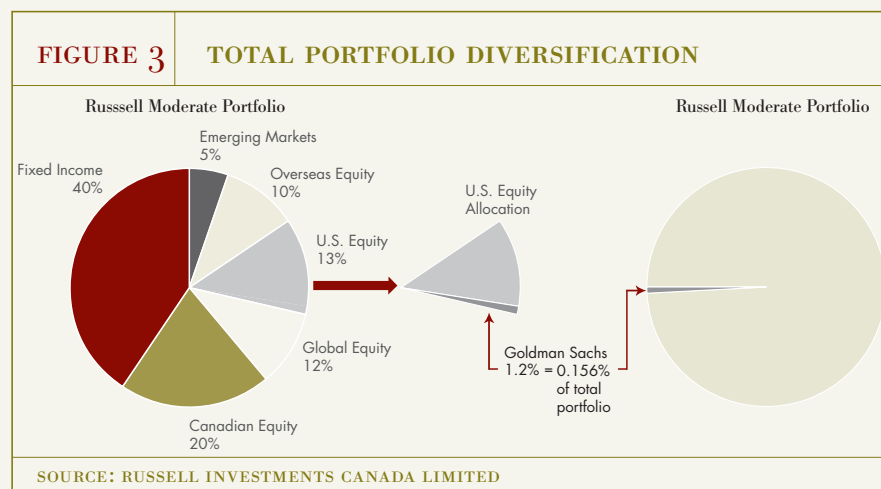
Even if investors don't sell off their equity holdings, they may be reluctant to rebalance back to their strategic asset mix, preferring to let their fixed income allocation drift to become a larger proportion of their overall portfolio. However, this would likely produce a sub-optimal portfolio – one that wouldn't be designed to meet their

long-term goals and objectives within the same time horizon.

Rebalancing adds a measure of investment medicine or discipline to a portfolio and reinforces the investment axiom of buying low, and selling high.

Crisis = OPPORTUNITY

If you're still feeling on edge about recent events, keep in mind that



the word “crisis”, when written in Chinese, is composed of two characters. One represents danger, and the other represents opportunity.

CRISIS:

Historically, financial crises are often accompanied by the failure of a major financial institution, such as the collapse of Long Term Capital Management in 1998.

In the current credit crisis, many investment banks and other financial institutions have been writing down massive amounts of assets on their balance sheets.

OPPORTUNITY:

At the same time, there is also value and opportunity to be found in the markets. In the current environment, skilled managers are able to sift through the wreckage for opportunities as valuations become attractive.

Until the markets turn around, the best thing investors can do is stay properly diversified, avoid panic selling and keep a sense of perspective. The markets will recover; it is just a matter of the level of patience necessary to overcome the uncertainty and take advantage of this opportunity.

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