

Russell Insight

8 Good Reasons to Stay Invested

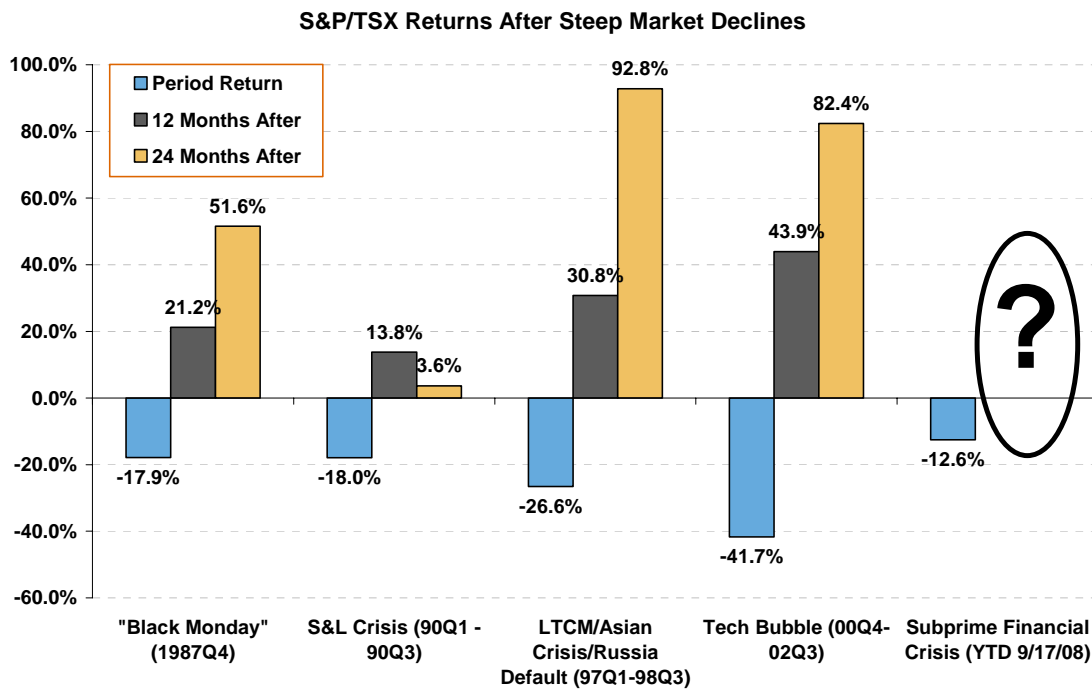
*Kelley Fairbank Director, Strategic Advice
Russell Investments Canada Limited*

Market events such as the current financial crisis are beyond our control, but we can control how we react to them. Here are eight good reasons why staying invested for the long-term is almost always the best reaction.

1. Market timing is rarely successful. Ask the most experienced investors, and most will tell you that trying to time the ups and downs of the market is nearly impossible. This applies to stock markets as well as other markets, such as housing. For example, Alan Greenspan, former Chairman of the US Federal Reserve, told Reuters on October 26, 2006, "Most of the negatives in housing are behind us. The fourth quarter should be reasonably good, certainly better than the third quarter." Yet on September 20th of 2007, he remarked that, "Prices are going to fall much lower yet." Mr. Greenspan's about-face is merely evidence that the market is full of surprises – both positive and negative – and that making predictions is a hazardous game at best.

2. Selling during a correction is betting against the odds. History suggests that periods of sharp declines are often followed by periods of some of the most favourable returns. These graphs show the strong returns of Canadian markets during the 12 and 24-month periods following some of the sharpest declines of the past 20 years. The strong tendency of markets to rebound is evidence that market timing is not only difficult, but in fact unnecessary for investors who simply stay the course. (Figure 1)

Figure 1: Market Recoveries



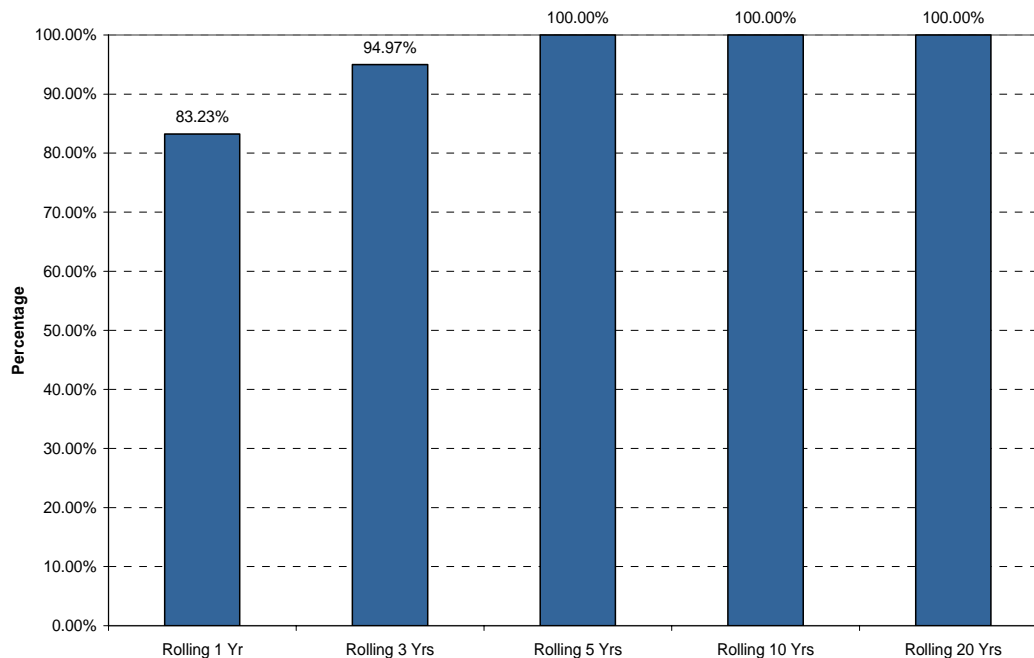
Source: Russell

Source: TSX Group

3. The likelihood of negative long-term equity returns is very low. Based on historical data from Ibbotson, US equities have never produced a negative return over any 10-year period since 1926¹. In addition, stocks have almost always outperformed bonds over any 20-year period. Just as compelling, a balanced portfolio of Canadian stocks and bonds that is rebalanced on a quarterly basis has not produced a negative return over any five-year period since 1980 (Figure 2). The bottom line is that, although there are no guarantees that the future will resemble the past, history has always shown that long-term equity investors are virtually assured of earning positive returns, and of outperforming bonds.

¹ Measured in US Dollars

Figure 2: Percentage of Times Balanced Mix* Produced Positive Return (Jan 1980 – Sept 2007)



*Balanced Mix contains: 30% S&P/TSX, 15% S&P 500, 15% MSCI EAFE, 40% Scotia Capital Universe Bond Index.

4. Current analysis is mixed— Russell’s technical and fundamental long-term forecasting models currently suggest positive returns ahead – not a further market decline. Our analysis further suggests that Canadian stocks are likely to outperform Canadian bonds, and that US stocks are likely to outperform both Canadian stocks and the developed equity markets of Europe, Asia and the Far East.

5. The global economic environment continues to have mixed signals. Many headlines today are focusing on the US investment banking crisis and a global slow down. However, these negatives are being aggressively challenged by the US Government and Federal Reserve via bailouts. This action, along with US market strength outside the financial sector, lower oil prices, and a generally low inflation outlook, provides fundamental support to stock markets. We could see strong stock returns, fairly flat bond returns, and a more stable US dollar as the rest of the world joins the US in an easing interest rate policy environment in the next year.

6. Short-term crisis often means long-term opportunity. While it’s true that markets sometimes get over-exuberant and prices become excessive, the opposite is also true. Short-term periods of crisis can push prices artificially low, creating excellent opportunities to buy at a discount. At Russell, we hire independent investment managers who can take advantage of temporary market mis-pricings to realign our clients’ portfolios. By doing so, it’s often possible to plant the seeds of tremendous long-term profits during periods of uncertainty.

7. Market volatility provides an opportunity to rebalance. If a crisis creates an opportunity, then portfolio rebalancing is perhaps the best way to take advantage of that opportunity. Rebalancing means selling assets that have gained in value and buying assets that have fallen in value in order to maintain the overall diversification strategy of a portfolio. During a market correction, this results in buying more assets that have become discounted – an essential part of the process of buying low and selling high. Systematic portfolio rebalancing is a crucial aspect of Russell’s portfolio approach. In essence, it provides investors with increased exposure to opportunities that are likely to pay off in the long run.

8. Diversification is most effective when markets are uncertain. Investors who hold well-diversified portfolios are able to participate in the growth of the markets with reduced exposure to short-term market corrections. This protection against volatility is one of the best reasons to have a diversified portfolio, and to rebalance the portfolio regularly. For example, the hypothetical investor in this table who takes advantage of multi-asset class, multi-style, multi-manager investing and monthly rebalancing has been able to earn a solid return over the last 10 years – including recent volatility being experienced in September 2008.

Market/Asset Class	MTD September 15, 2008	YTD September 15, 2008	10 years ending September 15, 2008*
S&P TSX	-10.94	-9.78	10.15
MSCI EAFE Index	-8.20	-18.08	2.36
S&P 500 Index	-6.64	-11.20	-0.38
Canadian bond index	0.40	4.26	5.98
Diversified portfolio containing: 30% TSX 15% S&P 500 15% MSCI EAFE 40% Canadian fixed income	-5.35	-5.62	6.03

Where to go from here?

Recent volatility has given us all pause for thought. In some areas, we need to change our assumptions. For example, it is likely wiser to think of a house as a place to live, rather than as a source of extravagant investment returns. But when it comes to our core investments in stocks and bonds, the most prudent course of action remains a steadfast devotion to patient, long-term investing.

Now is the time that the real-world experiences of seasoned investors and the analytical data are unanimous in their conclusions:

- > Implement a portfolio strategy that reflects your long-term needs and goals
- > Gain exposure to investment opportunities around the world
- > Reduce risk through portfolio diversification
- > Leverage professional money management and periodic portfolio rebalancing
- > Avoid the costly temptations of market timing

*10 year period refers to the time period from 10/1/98 – 9/15/08.

For more information please contact us at 1-888-509-1792 or by email at canada@russell.com.

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