

# Russell Update

SEPTEMBER 2008

## Hesitation in U.S. Capitol Leads to Global Markets Sell-Off

Global markets experienced unprecedented volatility yesterday as plans for the proposed US\$700 billion rescue package in the U.S. did not garner enough votes in the House of Representatives.

The markets had started Monday with a nervous undertone but went into a complete tailspin around 1:45pm (EST) as word spread that the vote had not passed. The Dow dropped nearly 400 points in a matter of minutes upon the release of the news and ended down almost 780 points or 7.0% for the day. The broad market Russell 1000 Index fared much worse, down 8.7%. Canada's S&P/TSX Composite Index was also hard hit, down over 900 points in late afternoon trading but pared some of those losses towards the close, giving back 6.9% for the day.

Liquidity, or lack there of, is the main reason for nervousness in the markets. The rescue package had been thought of as the "white-knight" that could un-freeze the credit markets and allow financial firms, which otherwise have tremendous value, from failing due to lack of access to short term credit.

### ***Bail-out could still pass***

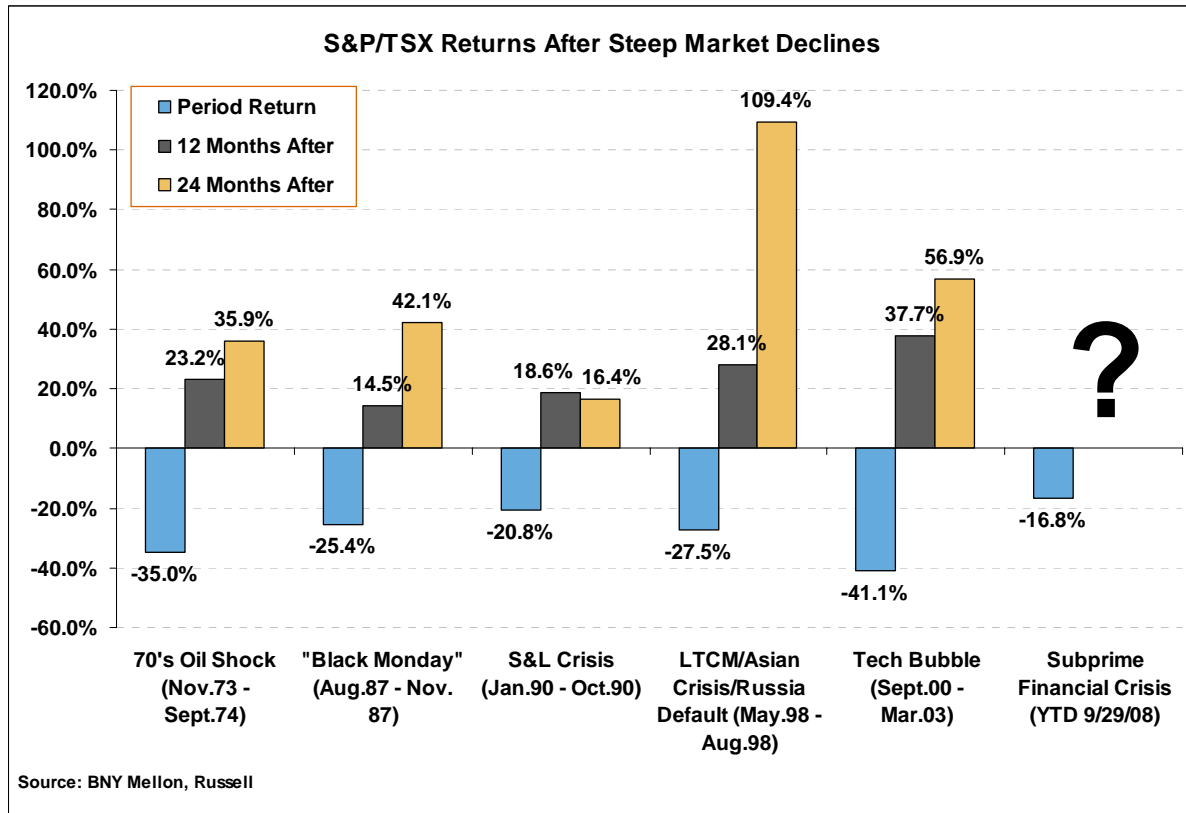
While the passage of the bill did not occur, market reaction was more akin to the legislation being a closed case scenario – which is not the case. Key members from both the Republicans and Democrats will need to iron out the key differences, which would allow for the eventual passage of the bill. So while the interim period can be an anxious one, investors need to keep in mind the legislation is not all together "dead".

### ***Markets have historically recovered from crisis***

When a financial crisis strikes, it almost always seems as if "it is different this time." While the implications thus far on global markets and economies have been unsettling, what have not changed are the probabilities of markets to perform over the long term. The history of financial markets is riddled with crisis and uncertainty. The Great Depression, world wars, oil shocks (past and present), the U.S. Savings and Loan crisis, Long Term Capital Management, the Asian financial crisis, the Dot.Com collapse and September 11 – to name a few. The one common theme for all these and other crises has been the certainty of market recovery over time.

While today's investment climate indeed is unique to circumstances of today, as Figure 1 confirms, it does not take away from the opportunity it poses over the longer term. In markets such as these, we encourage investors to exercise calm, not panic and continue to remain disciplined and focused to their long-term investment goals.

**Figure 1: Post Crisis Market Returns**



**Staying on Track**

At a time when there is so much uncertainty in the market place, a long-term investment plan featuring the hallmarks of asset allocation and diversification are more important than ever. These are themes that Russell has continually championed. Historically, long-term investors have been rewarded for their patience and discipline. Work with your advisor to make sure your portfolio stays on track towards long term gains.

For more articles on how investors can handle the market volatility, please contact your client representative at 1-888-509-1792 or [canada@russell.com](mailto:canada@russell.com).

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