

Perspectives on 2008 Markets

What can History Teach Us?

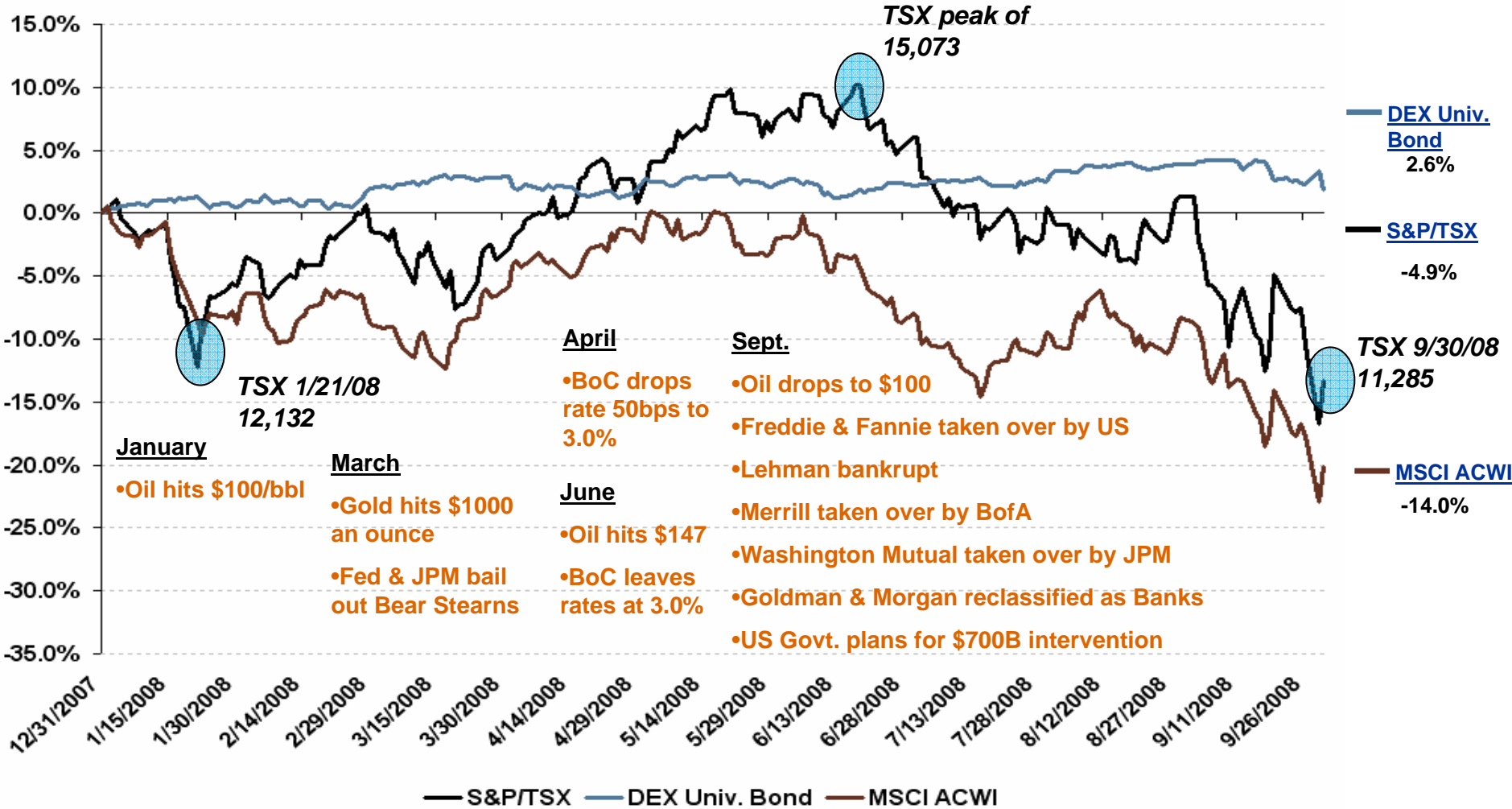
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“Bull markets are born on pessimism, grown on skepticism, mature on optimism and die on euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.”

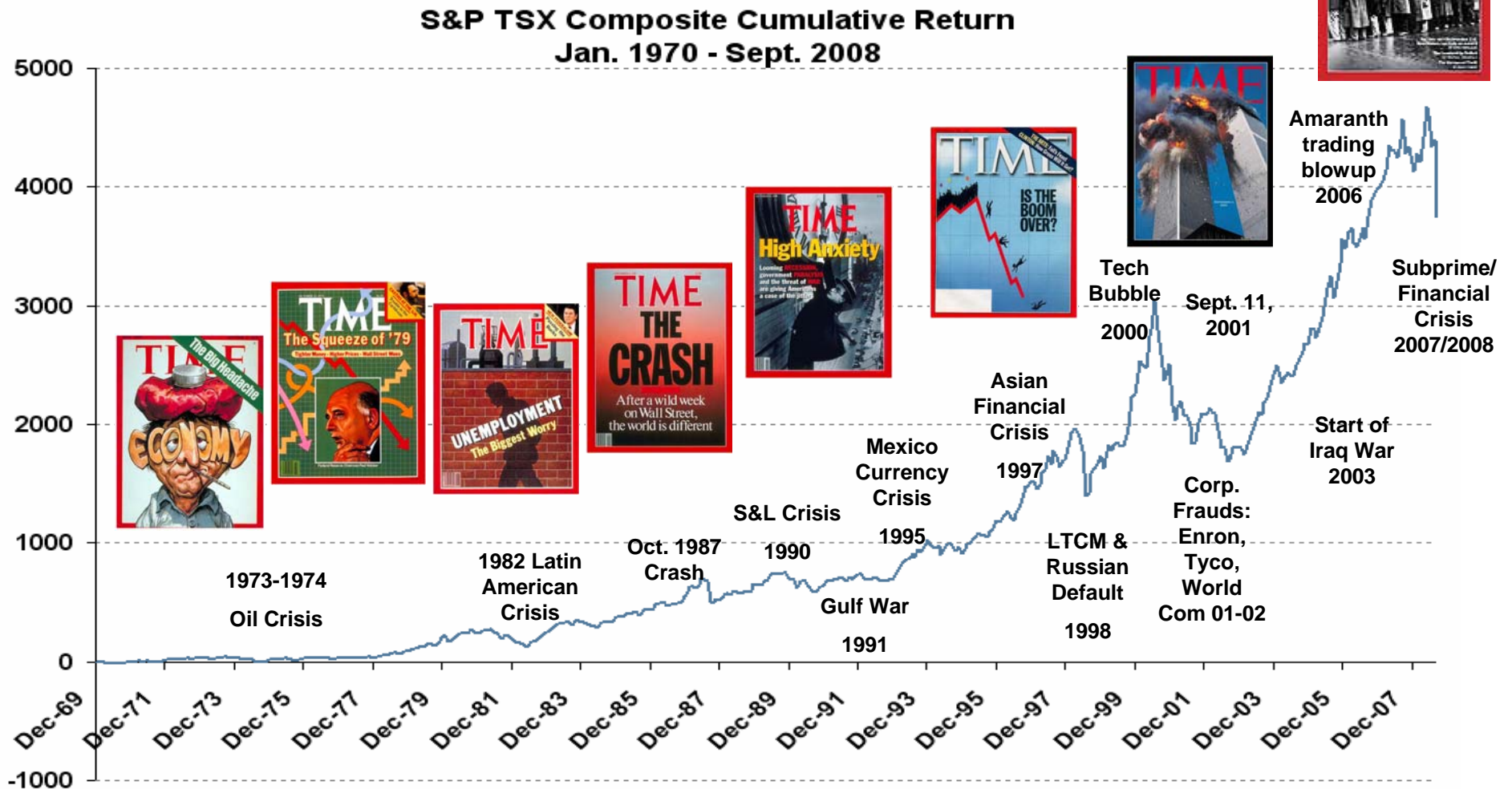
*Sir John Templeton. London Financial Times online
Neil Hume Published: July 11 2008 20:11*

2008: A rollercoaster year filled with uncertainty



Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results. (Jan. 1, 2008 – Sept. 19, 2008, cumulative returns \$CAD)
 Source: Russell Investments, Factset, MSCI

Déjà vu? A history of *uncertain times*



Source: BNY Mellon, Russell

Déjà vu? A history of *uncertain times*



March 5th 1984

DOW JONES = 1165.20
 DOW JONES 10 years later = 3832.30
 \$1,000 invested in the Dow Jones on the day this issue hit the stands would have been worth \$3,229 ten years later.
 (more than tripling in 10 years)



December 3rd 1984

DOW JONES = 1182.42
 DOW JONES 10 years later = 3745.62
 \$1,000 invested in the Dow Jones on the day this issue hit the stands would have been worth \$3,168 ten years later.
 (more than tripling in 10 years)



September 28th 1992

DOW JONES = 3276.26
 DOW JONES 10 years later = 7701.45
 \$1,000 invested in the Dow Jones on the day this issue hit the stands would have been worth \$2,351
 (more than doubling in 10 years)

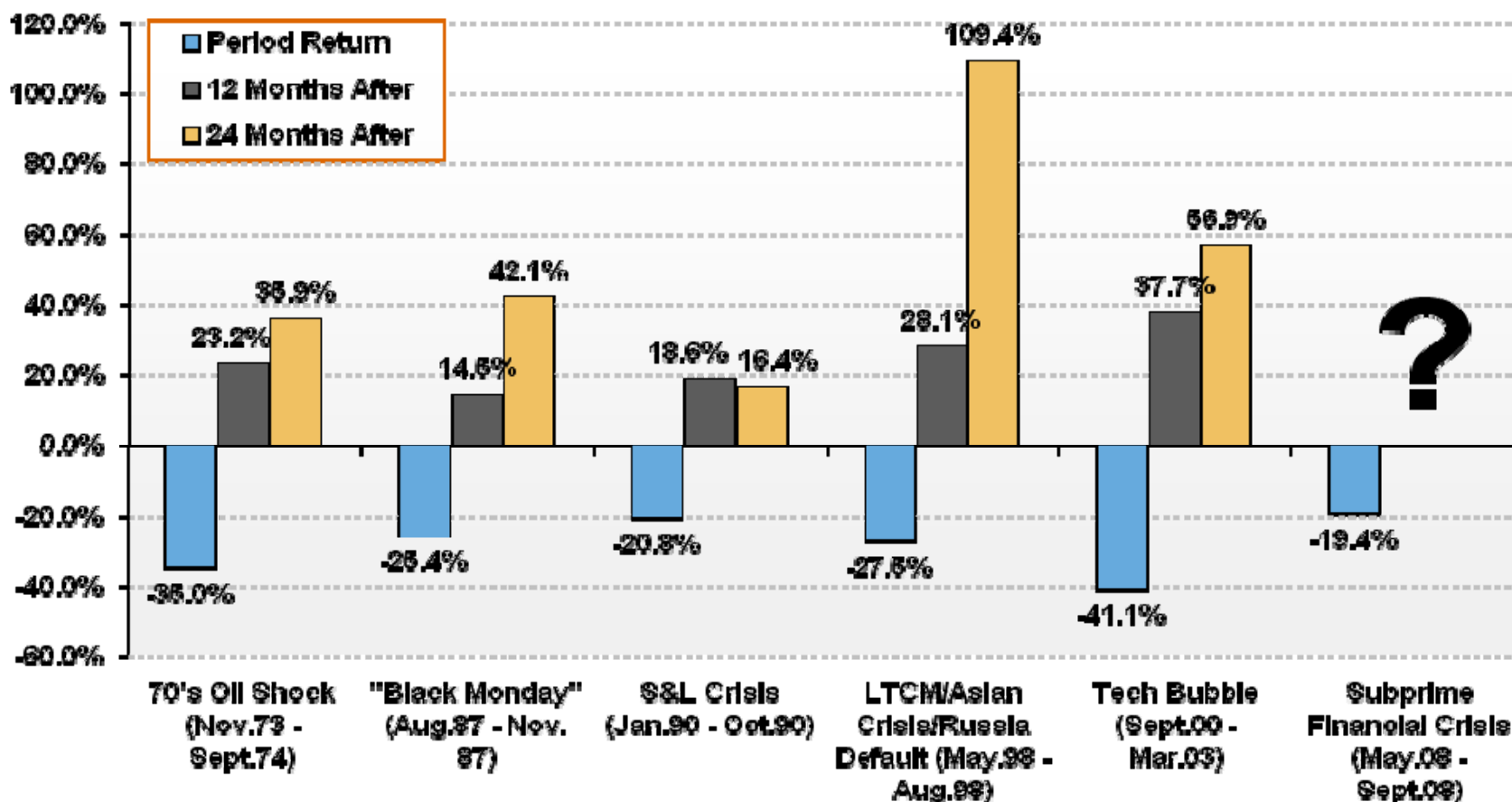


September 14th 1998

DOW JONES = 7945.35
 DOW JONES 10 years later = ???
 DOW JONES on Aug 8th 2008 = 11,734

Position Your Portfolio Today for the Rebound

S&P/TSX Returns After Steep Market Declines



Source: BNY Mellon, Russell

Scary & Challenging Markets: The Last 77 Years



Years	Downturn Duration	Context
1929—1932	4 Years	Great Depression
1939—1941	3 Years	World War II
1973—1974	2 Years	Recession and Oil Crisis
2000—2002	3 Years	Internet Bubble

Historical Reference Points (*S&P 500* negative two or more consecutive years*)

Source: Standard & Poor's

* The S&P index debuted in 1923 but wasn't expanded to 500 companies until 1957.



Recession and Oil Crisis (1973—1974)

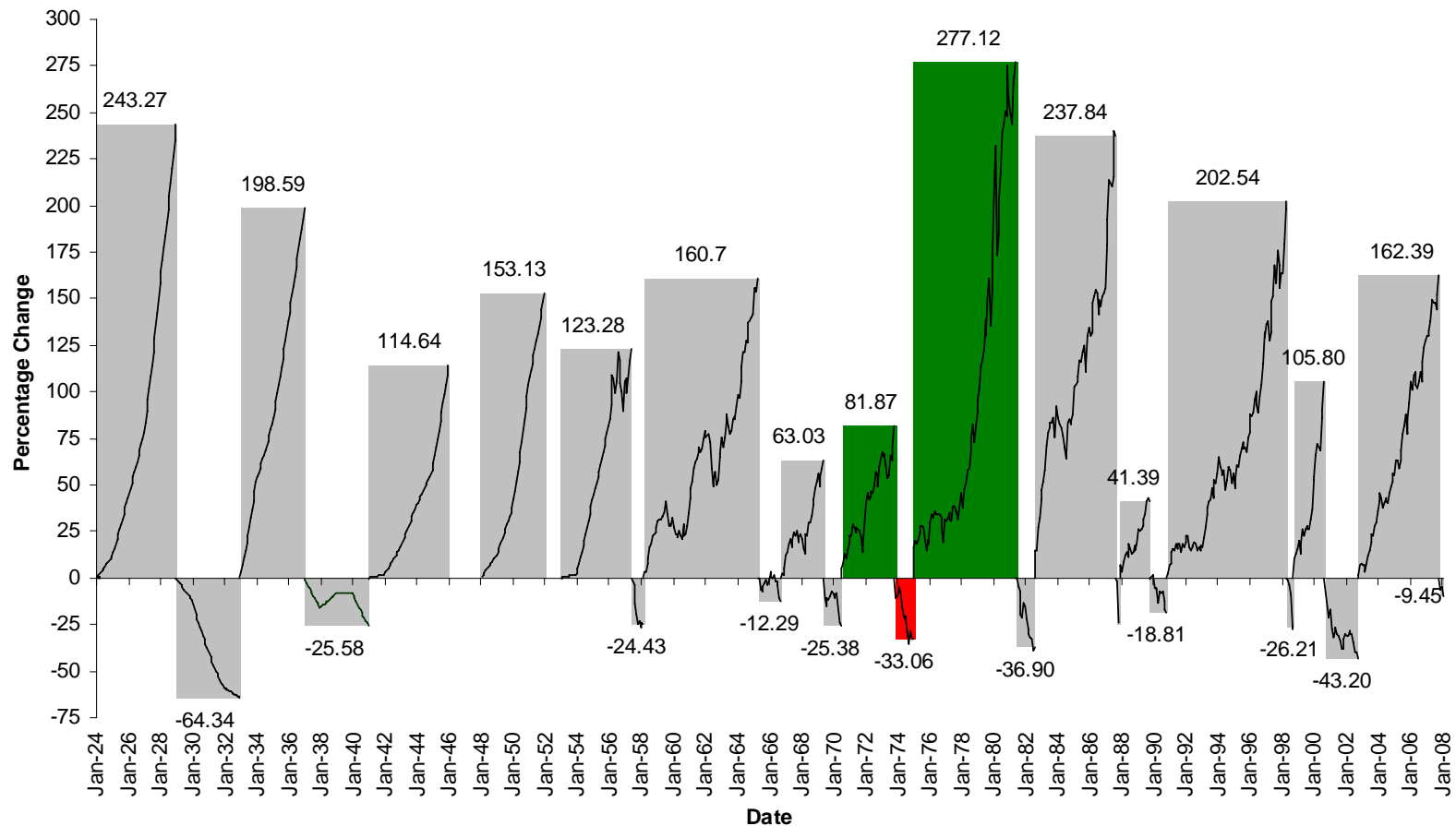
- Price of crude oil rose from about \$16 to about \$40 per barrel
- Unemployment rate reaches 9%
- Inflation rate in 1974 was over 12%

Source: BLS, Ibbotson Associates.

The Patient Investor: Recession and Oil Crisis



Canadian Stocks - Bull vs. Bear Markets - Duration and Magnitude
January 1924 to January 31, 2008



Source: Russell Investments Canada Limited



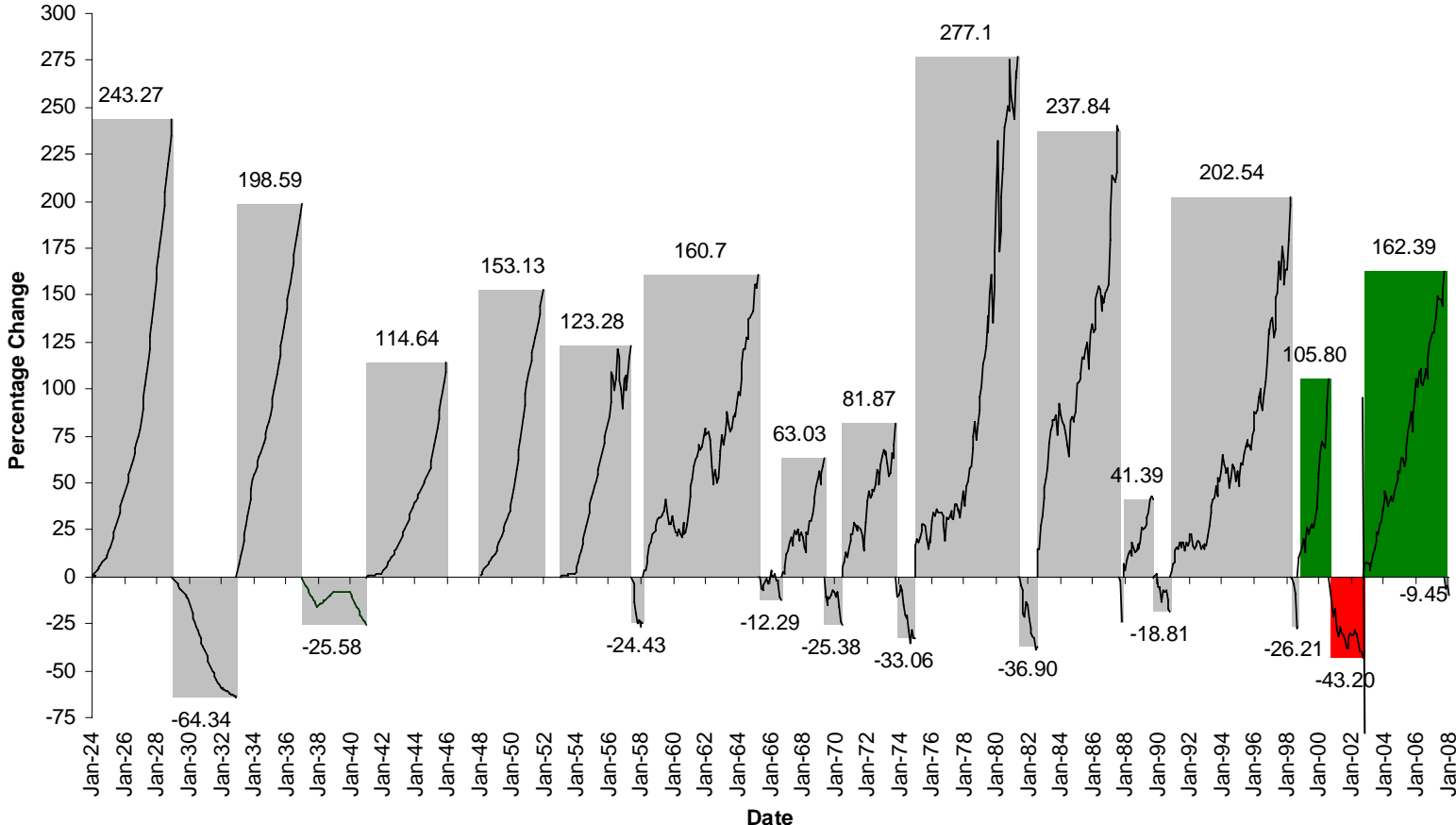
The Internet Bubble (2000–2002)

- By March 2000, tech sector was over 27% of S&P 500
- NASDAQ plummeted almost 80% from all-time high
- \$5 trillion in S&P 500 market cap vaporized
- Nortel Networks grows to 33% of Canadian S&P TSX
- US economy goes into recession

Source: Factset

The Patient Investor: Internet Bubble

Canadian Stocks - Bull vs. Bear Markets - Duration and Magnitude
January 1924 to January 31, 2008



Source: Russell Investments Canada Limited

Timing is Not Possible, so Getting In Near the Bottom may be the best you can do.

One Year Recovery Period from the Bottom

■ Great Depression

- 6 months before bottom: 48%
- At Bottom: 138%
- 6 months after the bottom: 50%

■ World War II

- 6 months before bottom: 43%
- At Bottom: 64%
- 6 months after the bottom: 27%

■ Oil Crisis

- 6 months before bottom: 16%
- At Bottom: 44%
- 6 months after the bottom: 8%

Timing is Not Possible, so Getting In Near the Bottom may be the best you can do.



Five Year Recovery Period from Bottom

■ Great Depression

- 6 months before bottom: 127%
- At Bottom: 364%
- 6 months after the bottom: 192%

■ World War II

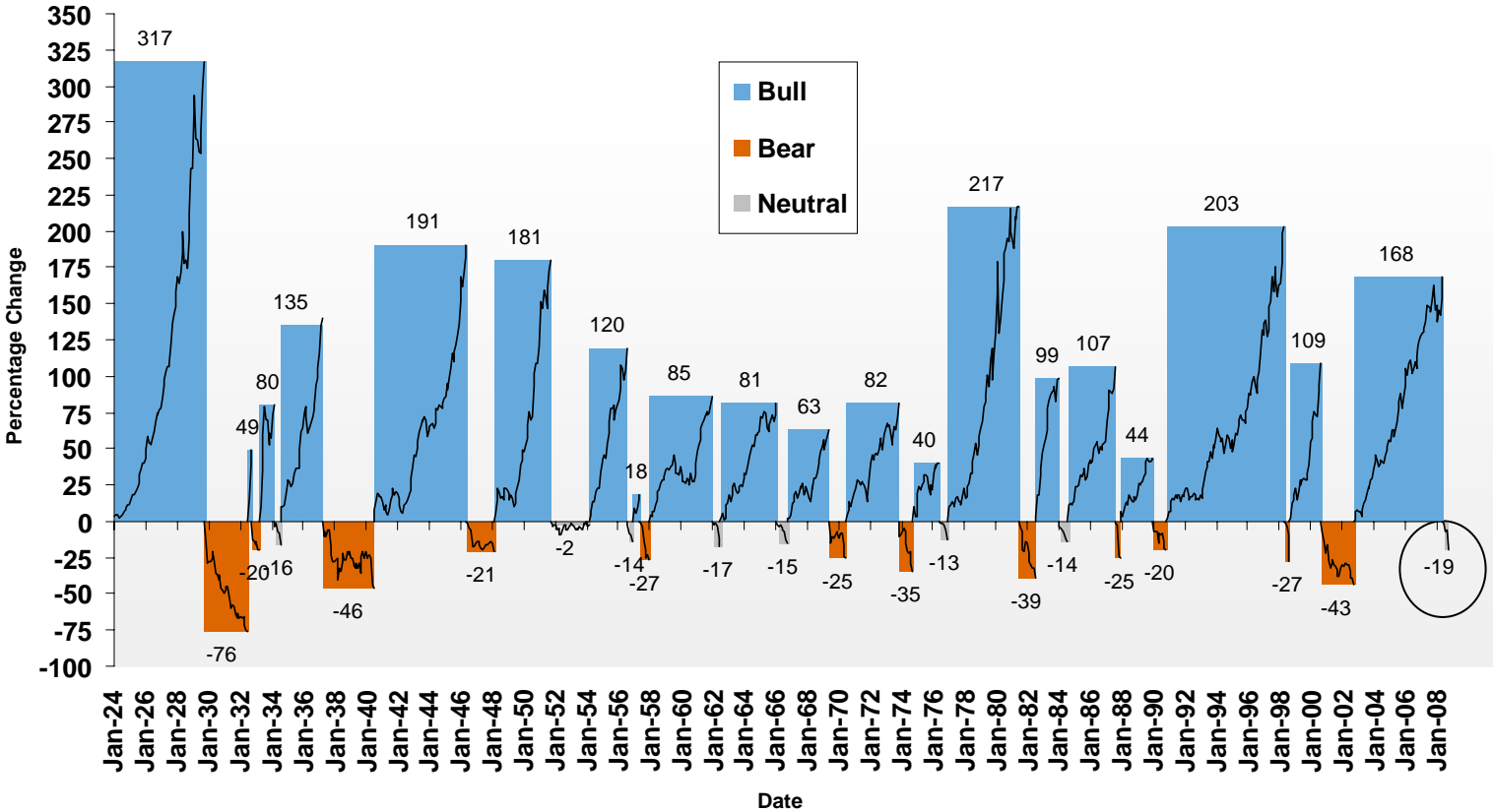
- 6 months before bottom: 98%
- At Bottom: 148%
- 6 months after the bottom: 91%

■ Oil Crisis

- 6 months before bottom: 51%
- At Bottom: 123%
- 6 months after the bottom: 66%

Maintain a Long Term Perspective: Canadian Stock Markets Go Up More than Down

Canadian Stocks - Bull vs. Bear Markets - Duration and Magnitude
January 1924 to September 2008

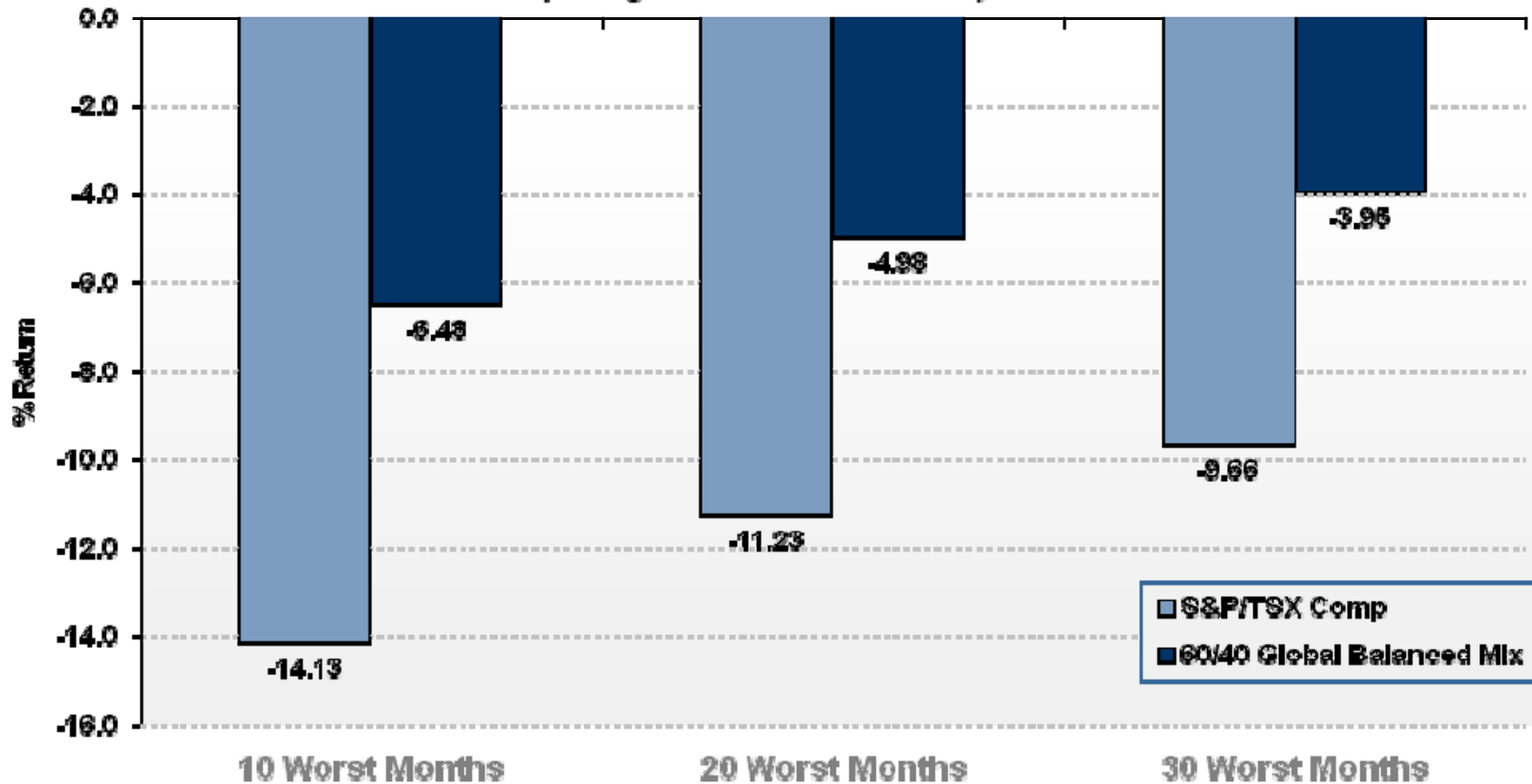


Source: TSX, Russell

Balanced investing in uncertain times

Protection when needed the most — Russell Investments global balanced funds

Downside Protection with Global Balanced Approach
(Average Return of Worst Months)

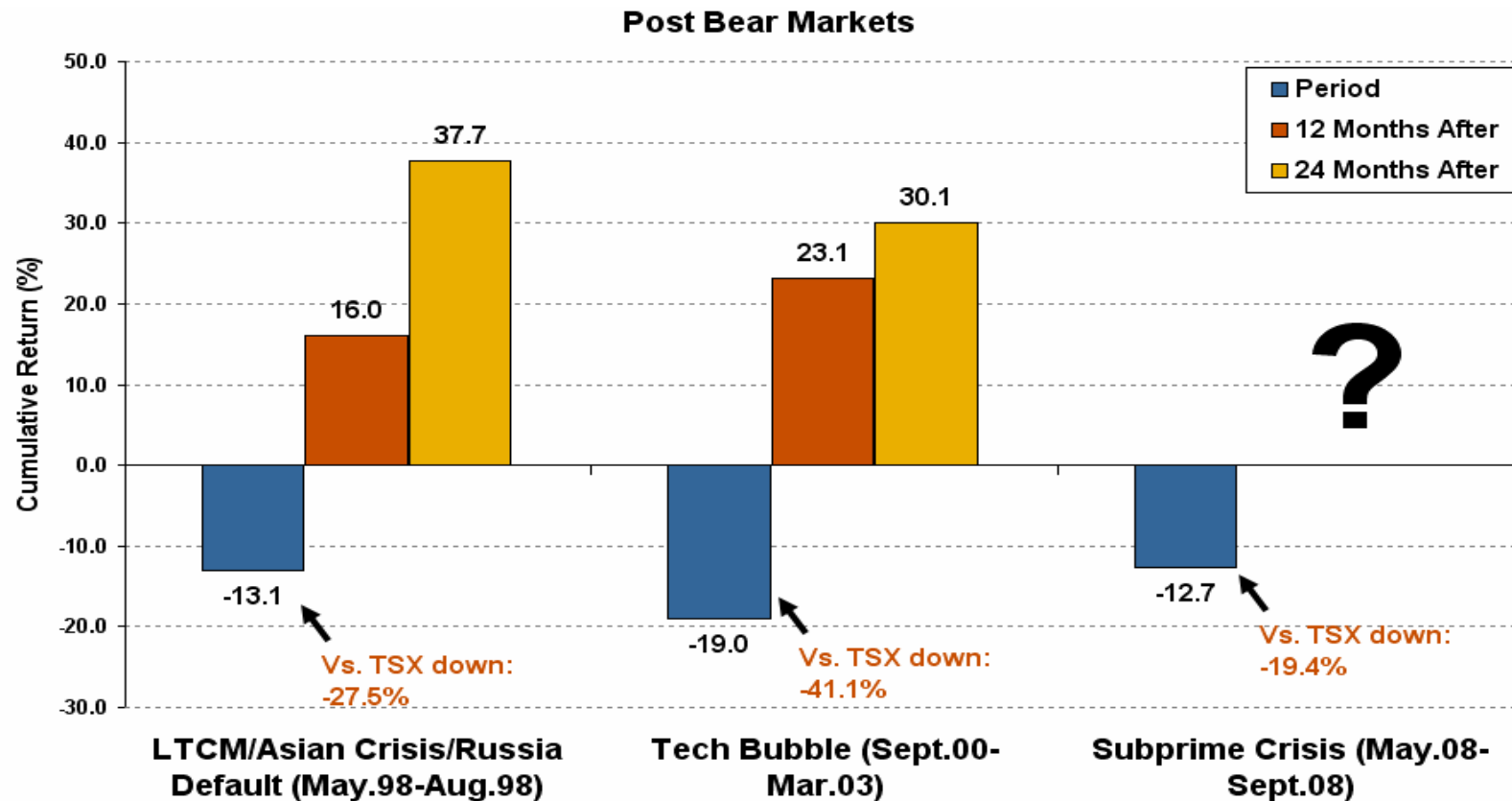


Source: BNY Mellon, Russell
(*Worst months based on returns of S&P/TSX Comp. as of Sept. 09)

Protection during steep declines & benefits of the eventual rebound



Sovereign Moderate Portfolio



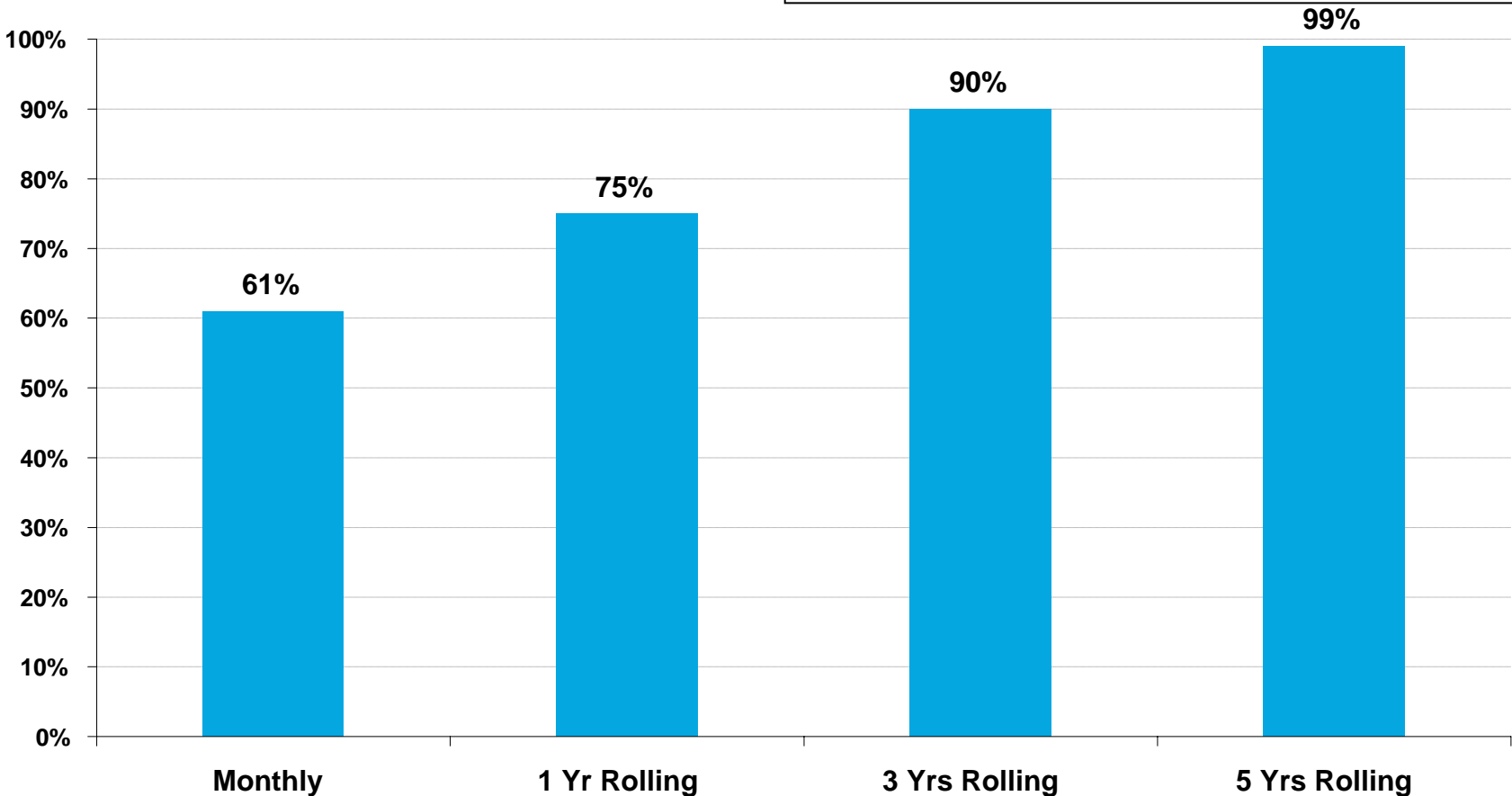
Source: BNY Mellon, Russell

Downside protection

Sovereign Moderate Portfolio

**% of times Sovereign Moderate Portfolio Positive
Feb. 1993 - Sept. 2008**

**Provides for capital preservation &
capital appreciation over time**



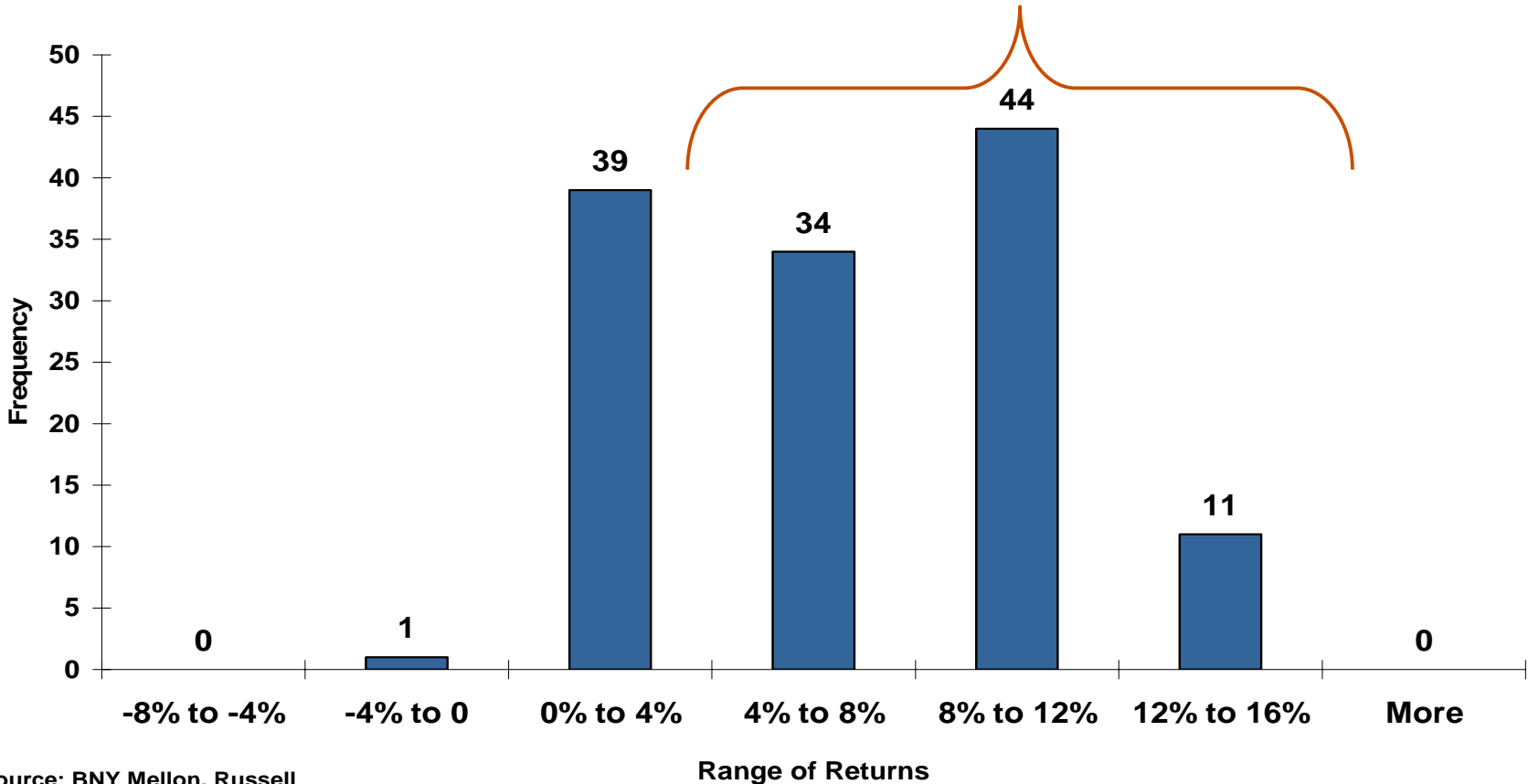
Source: BNY Mellon, Russell

Consistent positive outcomes

Sovereign Moderate Portfolio

Range of Returns (5 Yrs Rolling)
Feb. 1993 - Sept. 2008

70% of instances returned
above 4%

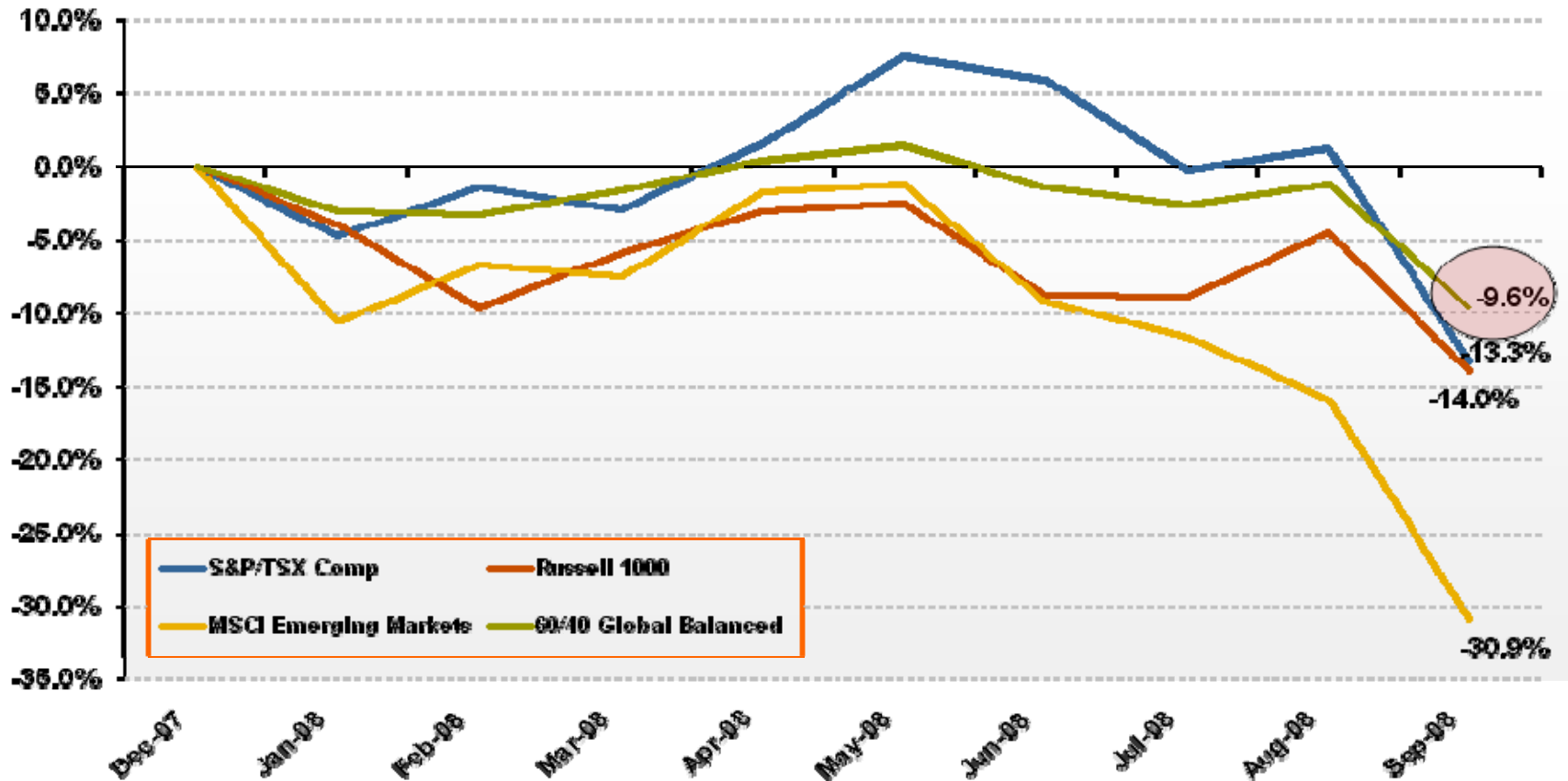


Source: BNY Mellon, Russell

Don't confuse your portfolio with the market



Dont Confuse Your Portfolio With the "Market"
YTD Returns as of September 30, 2008

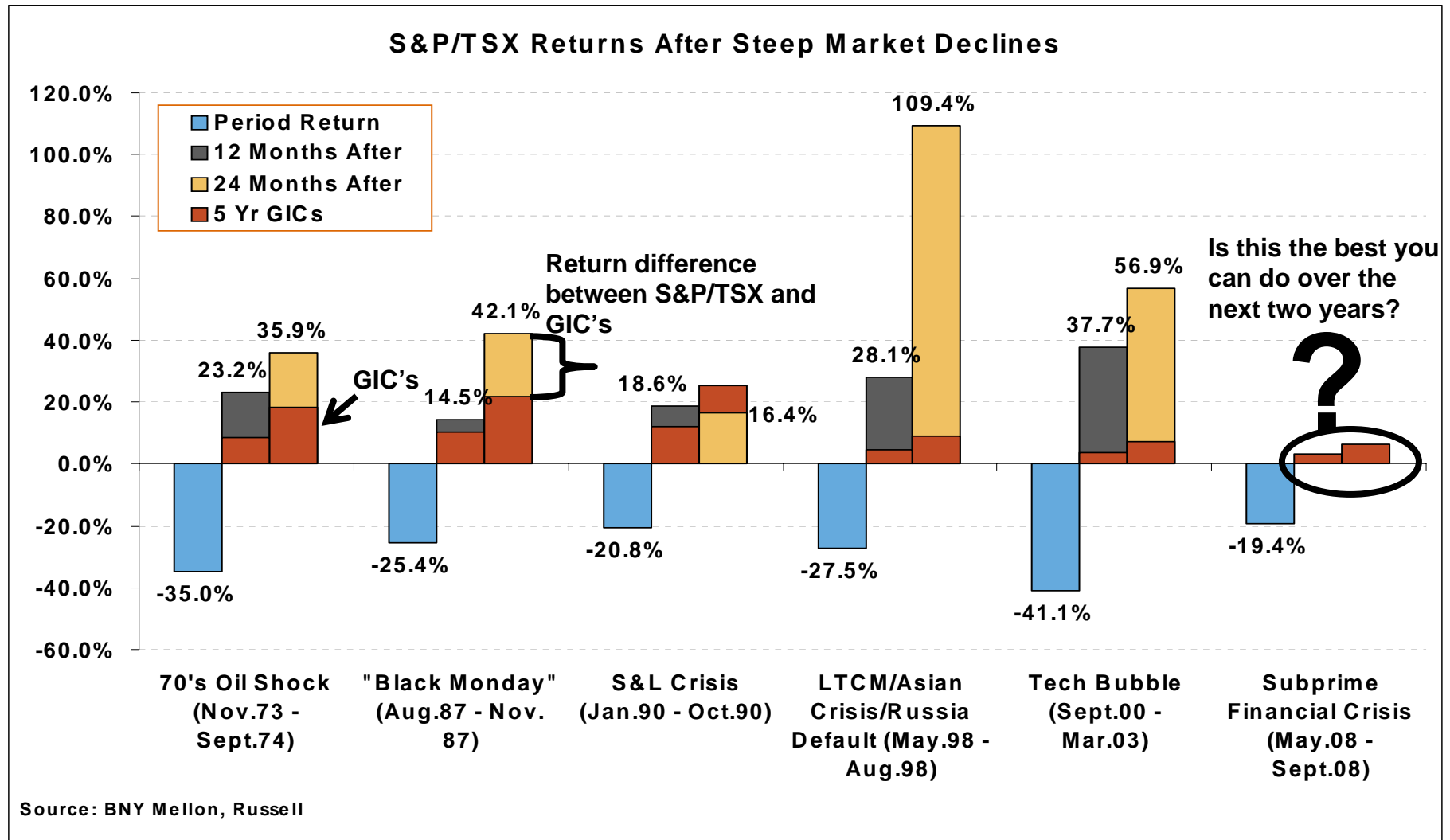


Source: BNY Mellon, Russell



GIC's and Historical Market Returns

GIC's alluring, but do you want to lock in low returns for 2-5 years?

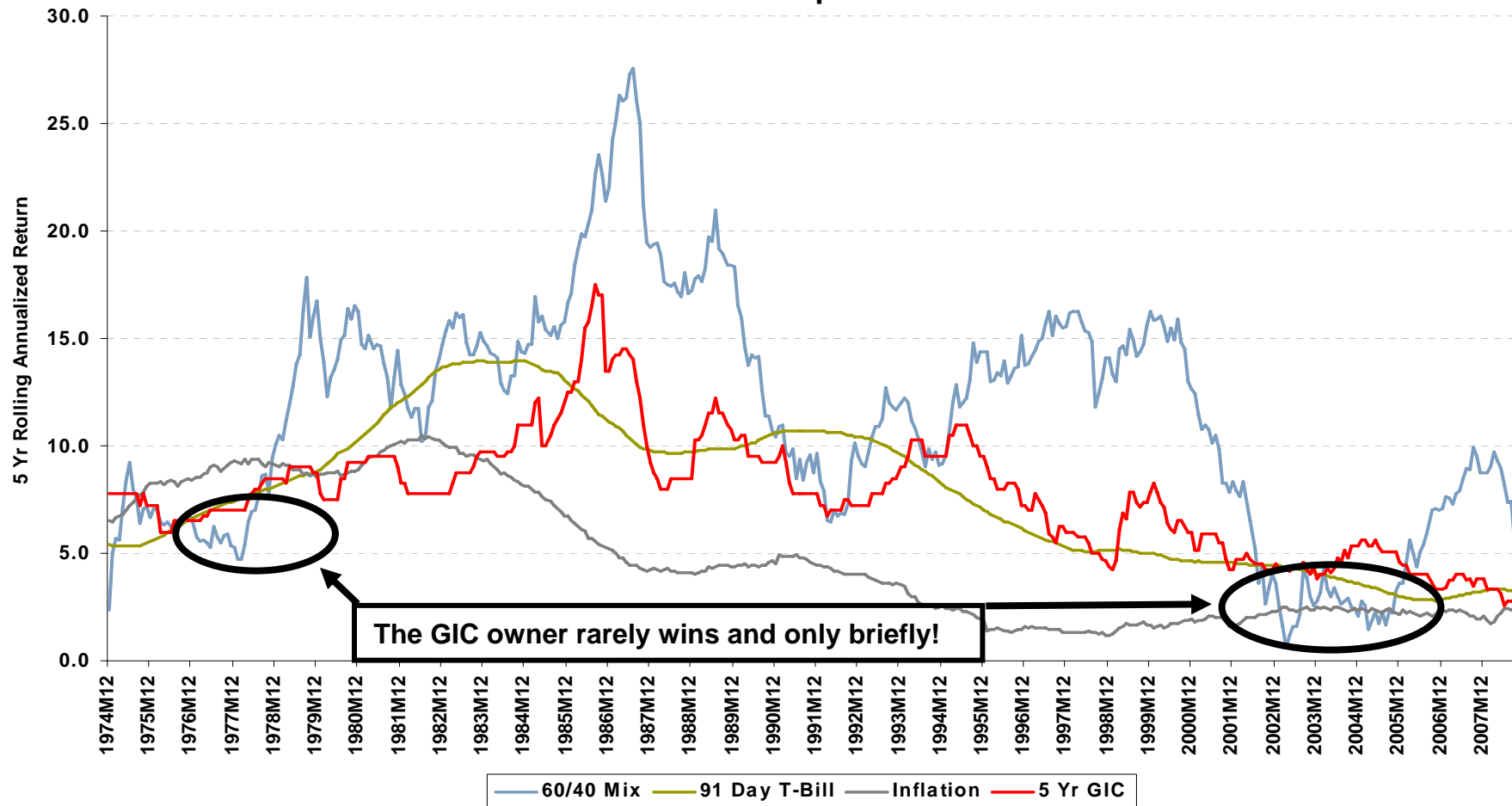


GIC's versus balanced funds and inflation: who wins?



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**60/40 Mix - 5 Yr Rolling Annualized Return
December 1974 - September 2008**

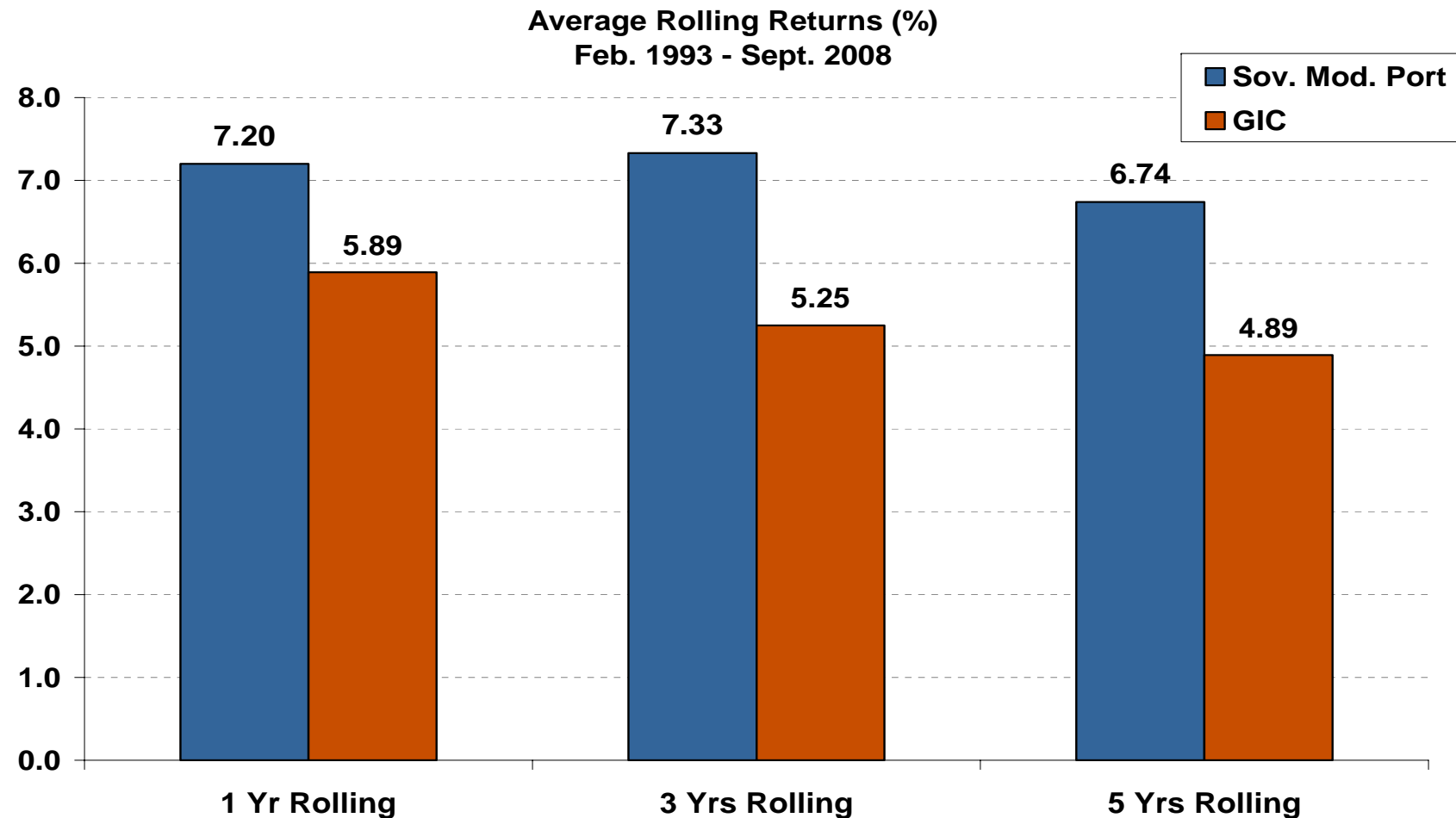


Source: BNY Mellon, Russell

Long-term investors have fared better in balanced funds, historically



Sovereign Moderate Portfolio versus GIC's

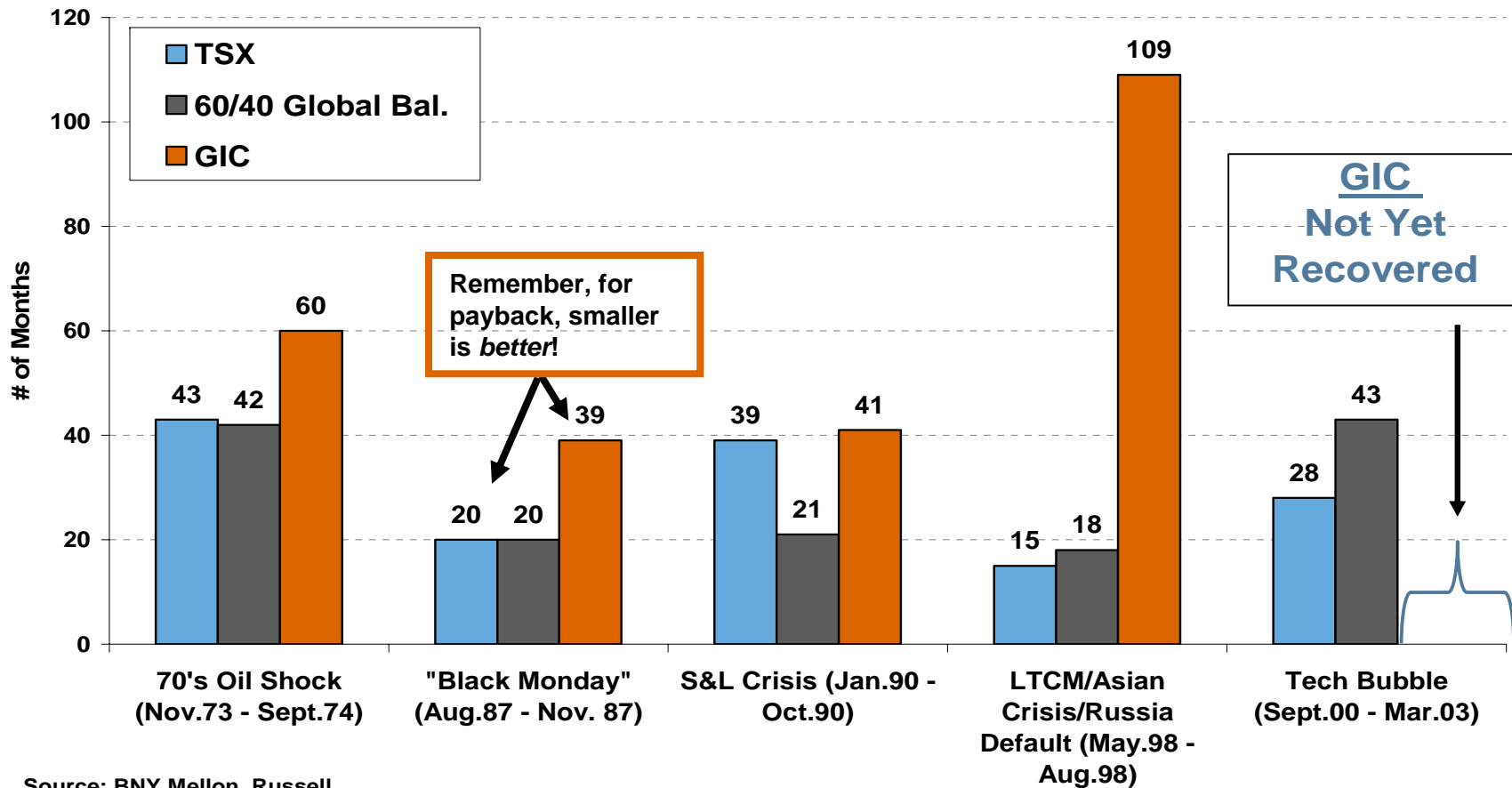


Source: BNY Mellon, Russell

How Long Can You Wait to Recoup Losses?

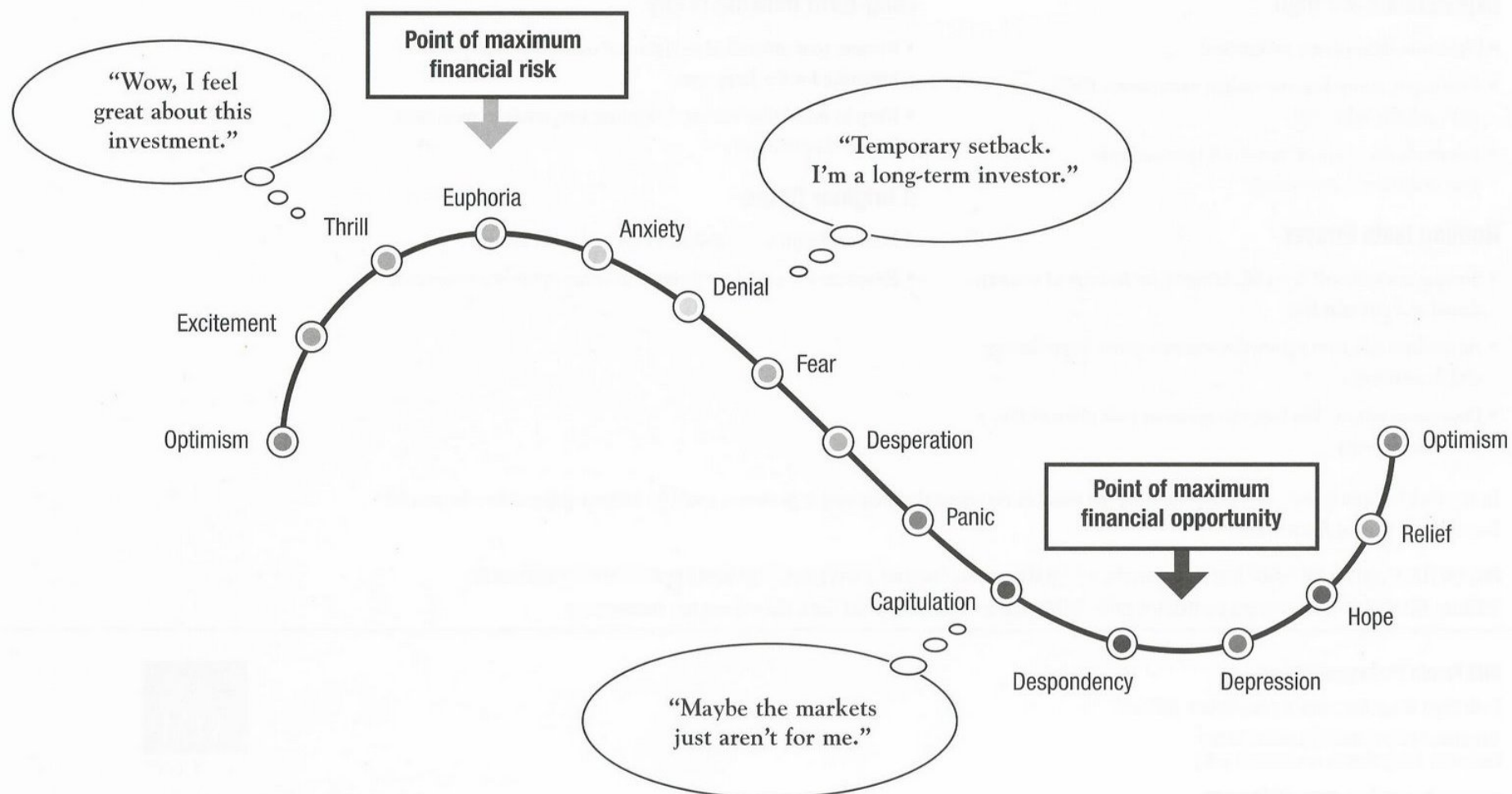


Post Bear Market Payback Periods
 (# of months to recoup equity losses)



Source: BNY Mellon, Russell

The cycle of market emotions



What are long-term investors doing now?

- **Not selling their equities or risky investments (why realize the losses when the odds are against that being a value added strategy?)**
- **Staying with their long term investment program**
- **Waiting for history to repeat itself, yet again**
- **And sometimes... looking for good quality investments to put more money to work in the markets gradually**

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