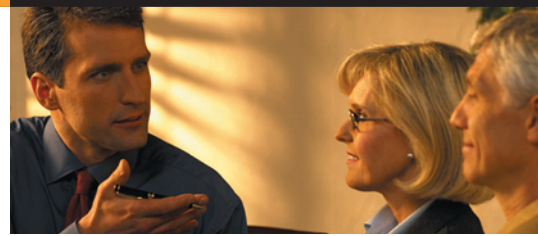


Staying on Track

It's important to keep on course through market volatility



When it comes to investing, it's sometimes difficult to avoid the temptation to make hasty decisions during volatile markets. Most often these decisions are linked not to intellectual or financial concerns, but rather to emotional and behavioural ones. Of course, everyone feels emotions—they're only human. But what we need to ask is whether we can resist acting on these emotions. Indeed, buying and selling at the wrong times can have a truly detrimental effect on your investments and can hinder you from achieving long-term investment success. Working with your financial advisor can help. Once he or she has analyzed your situation and helped you implement an appropriate investment program, it's important to stick with it, even if your emotions sometimes prompt you to do otherwise.

Develop an Investment Policy Statement

To minimize the potential to react in a knee-jerk fashion to market volatility, it's important to understand the markets effectively. This process can begin by meeting with your financial advisor and developing an investment policy statement (IPS). The IPS clearly documents your investment objectives and your corresponding investment portfolio. It helps you understand how the investment plan has been constructed to help achieve your goals, and outlines why that plan

should be followed—even when markets experience volatility.

An IPS also gives you something concrete to review with your financial advisor on a regular basis. Any changes to your goals, and to the corresponding portfolio and investment plan, should be updated in your IPS whenever appropriate. When the urge strikes to react emotionally to up and down markets, reviewing your IPS can help remind you that your long-term portfolio and investment plan were developed to accommodate market volatility. It can also act as a reminder that your portfolio has been properly diversified and has the right asset allocations to potentially achieve your long-term goals. After all, any deviation from your current portfolio would mean the plan is no longer well tuned to meet your long-term objectives.

As long as your investment portfolio is properly diversified, and properly aligned to your long-term goals, there should be very few times when it will need to be altered. That said, however, if your risk tolerance has changed, you can look into making portfolio adjustments and meet with your financial advisor to update your IPS accordingly. These changes, though, should be well planned to avoid impulsive alterations based solely on market volatility. So, before adjusting a portfolio based on a new risk tolerance, it's a good idea to make sure the change is based on factors other than current market conditions.

Staying invested works

There's one easy way to capture every single upswing in the markets—stay invested all the time. But staying the course isn't always easy because it also means sitting through declines from time to time. Although this can sometimes be trying, even for the most seasoned investors, it's crucial to remember that moving in and out of the markets or a carefully structured mix of mutual funds can prove to be a very expensive mistake.

How expensive? Let's take a look at the 2008 Qualitative Analysis of Investor Behavior, published by Dalbar, Inc., for the 20 years ending December 31, 2007. It indicates that the average equity mutual

How an advisor can help

Good communication is essential when you're investing. Sometimes it helps to simply be reminded that everything is under control, regardless of a temporary decline in the market value of your portfolio. Staying in touch with your financial advisor on a regular basis can help. At times, it's normal to get anxious during periods of market volatility, but it's important not to panic. Working with your financial advisor to set up an investment policy statement (IPS) can be an important step in helping you achieve your potential long-term investment goals.



fund investor achieved an annualized rate of return of 4.48 percent, compared with the S&P 500 Index annualized rate of return of 11.81 percent over the same period. What's the story behind this staggering underperformance? Often, market timing is to blame.

Market timing is essentially an attempt to make investment decisions based on predictions about future market direction. "Buy low, sell high." Good idea. But the problem is that it's a lot easier to spot the highs and lows after they've occurred. Still, the concept of market timing is seductive. After all, it might prove profitable if an investor could get in and out of the market at exactly the right time. The catch is that market timing is difficult, if not impossible, to predict. No one—not even top professionals—can consistently predict market direction.

In addition, getting out of the market in troubled times may mean missing potential market gains. And this is the fundamental problem with trying to time the market. It's not just a matter of getting out at the right time; the investor also has to get back in at the right time. So, the bottom line is that if an investor really wants to participate in all the market upswings, he or she simply

must stay invested. According to Dalbar, Inc., mutual fund investors who buy and hold their investments typically earn higher potential returns over time than those who attempt to time the market.

Emotions—your investments' biggest enemy

There's no question that investing can be associated with strong emotions and, all too often, some investors are tempted to give in to them and abandon their long-term strategies. They may want to grab onto a hot trend in an up market, or hide out in a GIC in a down market. But, as discussed above, portfolio returns are far more dependent on investor behaviour than individual investment performance.

Granted, controlling one's emotions isn't always easy, especially when media broadcasts are full of negative stories. It's sometimes hard to see the investment opportunities that lie behind a barrage of bad news. It might also help to get a historical perspective of stock market performance from your financial advisor showing that volatility—even extreme volatility—is a normal part of investing. In the long run, market value has historically moved up.

There's no question that market volatility can make anyone anxious. But stepping back, looking at the big picture and remaining focused on your long-term goals while keeping your emotions in check, and achieving diversification through a diversified mix of mutual funds is one way for you to reach your potential investment objectives.

For more information, speak to your Financial Advisor today.

Bottom Line

Volatile markets sometimes test the resolve and stamina of even experienced investment professionals:

- Use investment policy statements to remind yourself of the importance of remaining committed to a comprehensive plan designed to achieve your long-term goals.
- It's important to understand the perils associated with trying to time the markets and the rewards of staying invested.
- If you're concerned about market volatility, speak to your Financial Advisor.

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