

Five strategies to limit the effects of market volatility

We are currently experiencing a period of high volatility, where stock markets are fluctuating widely over a short period of time.

The short-term impact of this situation on investment portfolios can be troubling. Please remember, however, that it is very risky and possibly extremely costly to make hasty emotional decisions without benefiting from an overview of the situation.

In this environment of high volatility, certain investment strategies can also prove very useful, as they can mitigate the effects of fluctuations on your portfolio and help you meet your investment objectives regardless of the market situation.

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1. Keep your investor profile and objectives in mind

Your investment needs are dependent on various factors, such as your risk tolerance, investment horizon and savings objectives. Your investor profile is based on these factors and gives you an optimal return potential for your risk tolerance.

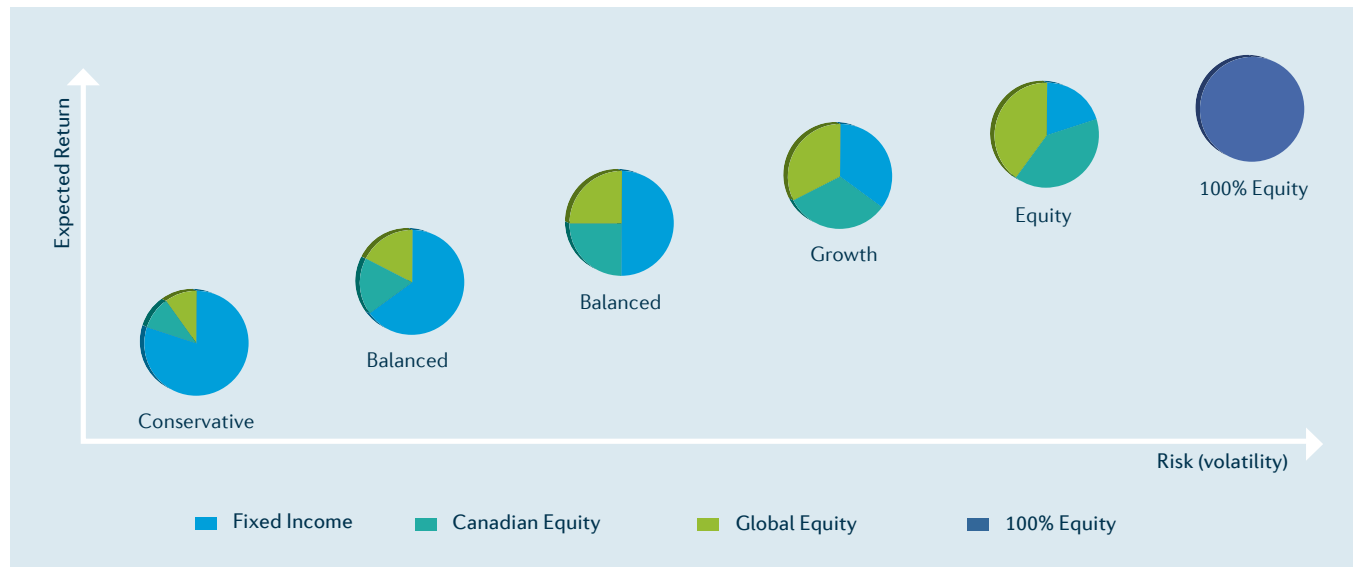
Risk and returns are very closely tied. If you want to obtain high returns, you should expect higher fluctuations in your portfolio.

If concerns about current market fluctuations are keeping you up at night, don't hesitate to contact your advisor, to review

your investment profile, as making changes to your portfolio without taking your profile into account could compromise your long-term objectives.

We recommend that your investor profile be reviewed annually. The review is intended to optimize asset allocation in your portfolio so as to get the best possible return according to your risk tolerance and investment horizon.

There are six different investor profiles, each representing different investment needs.



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2. Diversify

Diversification is a strategy that is recommended by many experts, whose purpose is to reduce your portfolio's risk while optimizing its return potential.

For example, a portfolio containing only stocks will likely perform poorly in a generalized market downturn. Integrating other types of securities into the portfolio, such as bonds and term deposits, will increase its overall performance.

The table below lists the annual performance of the major asset classes since 1994. Data are ranked in decreasing order, so that the most high-performing asset class for each year is at the top of the table. These data show that the performance of the

various asset classes varies from year to year; a class that ranks first one year could end up being last the next. Adopting a sound diversification strategy is therefore a good way to protect your portfolio from market fluctuations.

A sound diversification strategy involves investing in various asset classes, regions, economic sectors and portfolio management styles. Your investor profile will determine the right weighting of each type of investment in your portfolio. Also available are turnkey solutions, for which our portfolio managers work to establish ideal targets within each investor profile.

1994-2010 – Annual return in percentage by asset category

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
14.23	33.90	28.35	39.10	37.70	57.23	10.24	8.08	8.73	27.83	16.78	31.17	32.08	18.55	6.41	51.59	17.61
11.86	20.67	23.40	21.35	33.95	31.71	7.41	4.72	2.52	26.72	14.48	24.13	26.37	9.83	3.33	35.05	12.67
7.40	17.96	14.56	14.98	29.16	20.28	5.49	3.63	-6.97	13.84	11.91	11.16	20.19	4.43	-21.20	11.91	8.89
5.35	14.53	12.26	9.63	9.18	18.44	-5.50	-6.40	-12.44	9.41	7.15	7.27	17.26	3.68	-25.37	10.39	6.74
-0.18	8.41	6.93	6.56	4.79	14.20	-9.89	-11.28	-16.53	6.69	6.85	6.46	15.35	-5.32	-28.78	9.17	5.93
-1.81	7.39	6.56	3.15	-1.58	4.66	-10.95	-12.57	-20.37	5.26	2.81	2.58	4.06	-7.08	-33.00	5.40	2.13
-4.31	-7.83	5.02	-7.69	-19.86	-1.14	-28.19	-16.51	-22.70	2.91	2.30	2.29	3.98	-10.53	-41.44	0.62	0.54

<ul style="list-style-type: none"> Canadian Stocks International Stocks U.S. Stocks Canadian Bonds Global Stocks 91-day T-Bill Emerging markets 	<ul style="list-style-type: none"> INDEX S&P/TSX Composite MSCI Europe, Asia, and Far East (EAFE) in CAD S&P 500 in CAD TSX DEX Universe Bond MSCI World in CAD TSX DEX Canadian 91-Day T-Bill MSCI Emerging Markets in CAD
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Note: The returns shown are based on past annual returns and are not indicative of the performance and future value of these different asset classes.

Source: BLOOMBERG

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3. Think long term

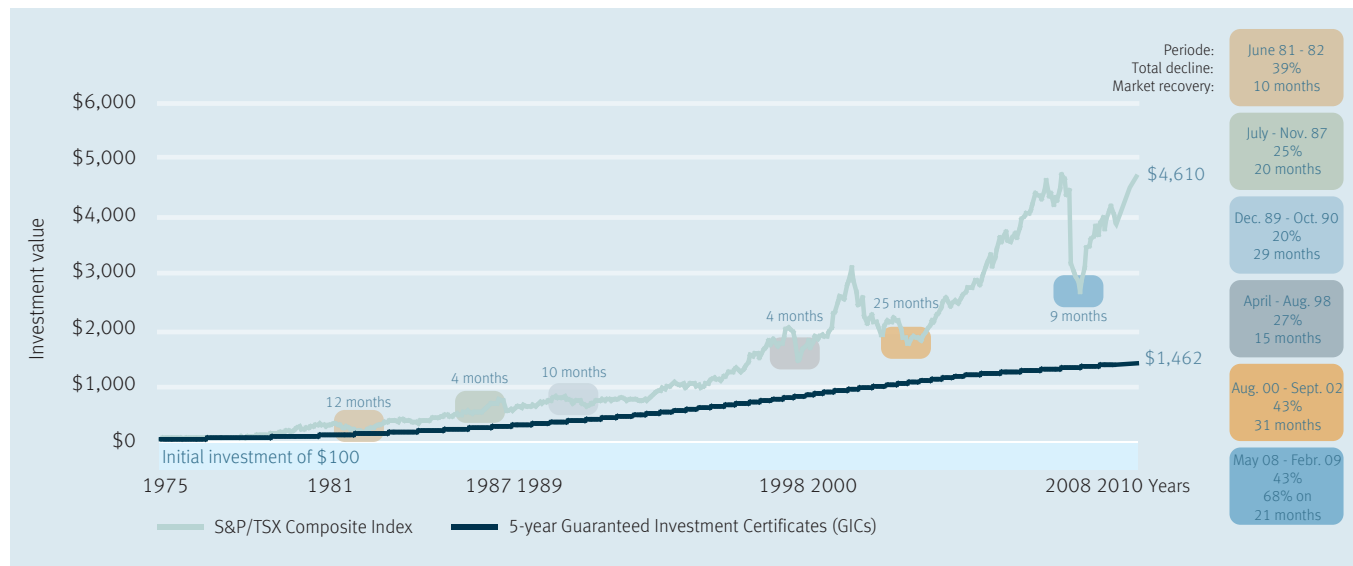
Stock markets frequently undergo periods of high volatility, but they don't usually last long. Markets have been unstable before: just think of the extreme market lows resulting from the Gulf War (1990), the dot-com bubble (2000) and the 2008 financial crisis. Although these events caused markets to drop, they gradually bounced back.

Stock markets tend to rise over the long term despite their major fluctuations. As an example, imagine that a person remained invested throughout the major ups and downs in the Canadian market over the past thirty years. By holding her

investment throughout this period, her portfolio would have produced a great return, despite various significant market lows (see graph below).

Over the long term, the impact of market fluctuations on a portfolio fades and their significance becomes relative. In fact, market downturns can represent excellent investment opportunities. It is best to adopt a long-term investment strategy and not allow yourself to react emotionally to the ups and downs of the market.

Canadian Market Fluctuations, from 1975 to 2010



Source: BLOOMBERG Total return of S&P/TSX Composite Index from January 1, 1975 to November 30, 2010. On May 1, 2002, the TSE 300 Composite Index was replaced with the S&P/TSX Composite Index.

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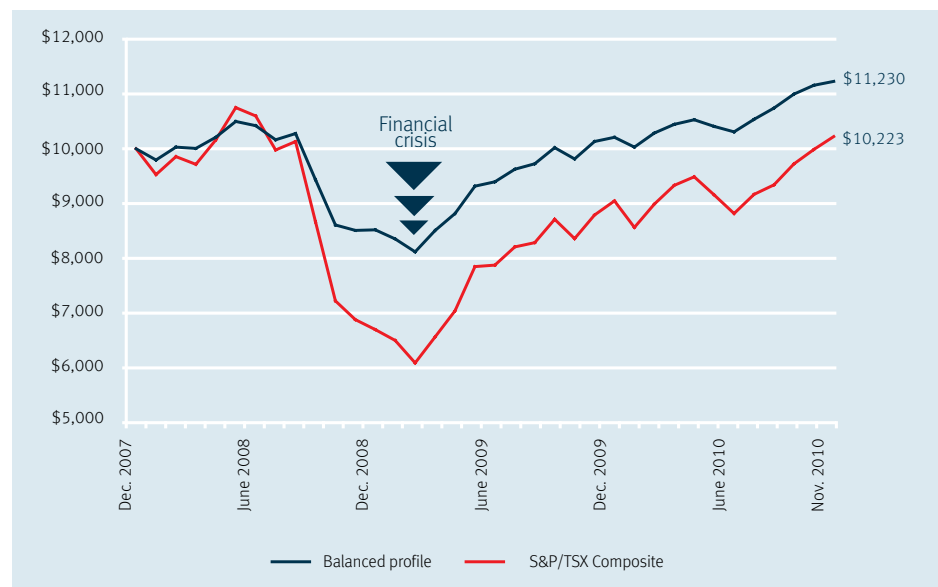
4. Don't let emotions take over your portfolio

Investors' natural reaction is often to flee stock markets when they move into a bearish phase. However, letting your emotions guide you in your investment decisions rarely proves to be a winning strategy.

Markets do not move up in a straight line and fluctuations are a normal part of investing life. But whenever a financial crisis occurs, it may be unwise to cash out of the market. If an investor panics and sells all his stock markets holdings, he dismisses the opportunity to take advantage of a potential market rebound, as the following example illustrates.

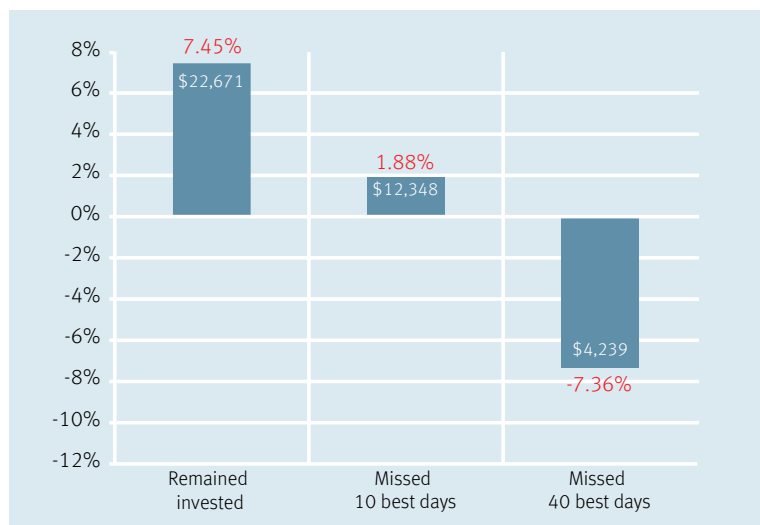
Cashing out of the market at a low point also stops you from taking advantage of great deals to be had. Trying to "time the market" and ride only stock market upturns leads many investors to miss out on some of the best days of market activity, given that no one can predict in advance which days actually represent the best or worst showings.

\$10,000 invested from January 2008 to November 2010



*Balanced profile: 50% S&P/TSX Composite and 50% DEX Universe. Source: PALTrak.

The cost of being out of the markets on their best days (\$10,000 invested in the S&P/TSX Index from November 1999 to November 2010)



Source: BLOOMBERG.

To avoid unnecessarily asking yourself when is the best time to invest, and to reduce the negative impact of volatility on your portfolio, an effective solution exists: systematic investing.

Systematic investing allows you to invest a predetermined amount at regular intervals (every week, month, etc.) regardless of the market situation. By investing in this way, you avoid the temptation of "timing" the market, without missing out on attractive investment opportunities that are available during market lows. This strategy is a great way to reduce investment-related stress.

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5. Monitor your investments and seek help from a specialist: Your advisor

Periods of market volatility remind some investors just how important it is to monitor their portfolio. This should be done regularly however, not just when a market downturn occurs.

Reviewing your investment portfolio allows you to make sure that your strategy is in line with your needs. For example, when looking over your portfolio, you can check whether your asset mix remains properly diversified and balanced as well as confirm your level of comfort with regard to current fluctuations.

Your advisor is a powerful ally to help you accomplish these tasks. In addition to being well-acquainted with your needs and savings objectives, he has all the knowledge and tools to help you manage your investments through any market situation.

Although periods of volatility are hard on your portfolio in the short term, they do not necessarily mean that you have to change your investment strategy. If your holdings remain well-diversified and balanced, and your investment needs have not changed, then the strategy you have established with your advisor should still be valid. Instead of giving in to your fears and transferring your assets into a solution that may compromise your long-term objectives, contact your advisor.

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