

Locked in? Or locked out?

It takes courage to move into equity funds in the earliest stages of a bull market – especially when so many Canadians stand on the sidelines and wait.

No matter what your financial goals are, when equity markets are highly volatile, it's natural to want to protect your savings. During market turmoil, many Canadians switch from investing in equity funds to investing in money market funds and high-interest savings accounts, or locking their money into guaranteed investment certificates (GICs). The challenge is not to play it too safe or you could be locked out of the market rally when stocks rebound.

In fact, historical data on cash flowing in and out of mutual funds shows that in the past, Canadians have sat on the sidelines. As equity markets have risen, they've invested more and more money in money market funds. It hasn't been until the later stages of a bull market (after most of the gains have already been made) that investors have been comfortable putting money into equity funds.

This is unfortunate as equities are typically the growth engine of an investment portfolio. Your advisor will have recommended a percentage of your assets be allocated to equities based on your unique circumstances, financial goals as well as tolerance for risk. By being overly cautious in avoiding market ups and downs, you may in fact be risking your financial goals.

Lessons from recent markets

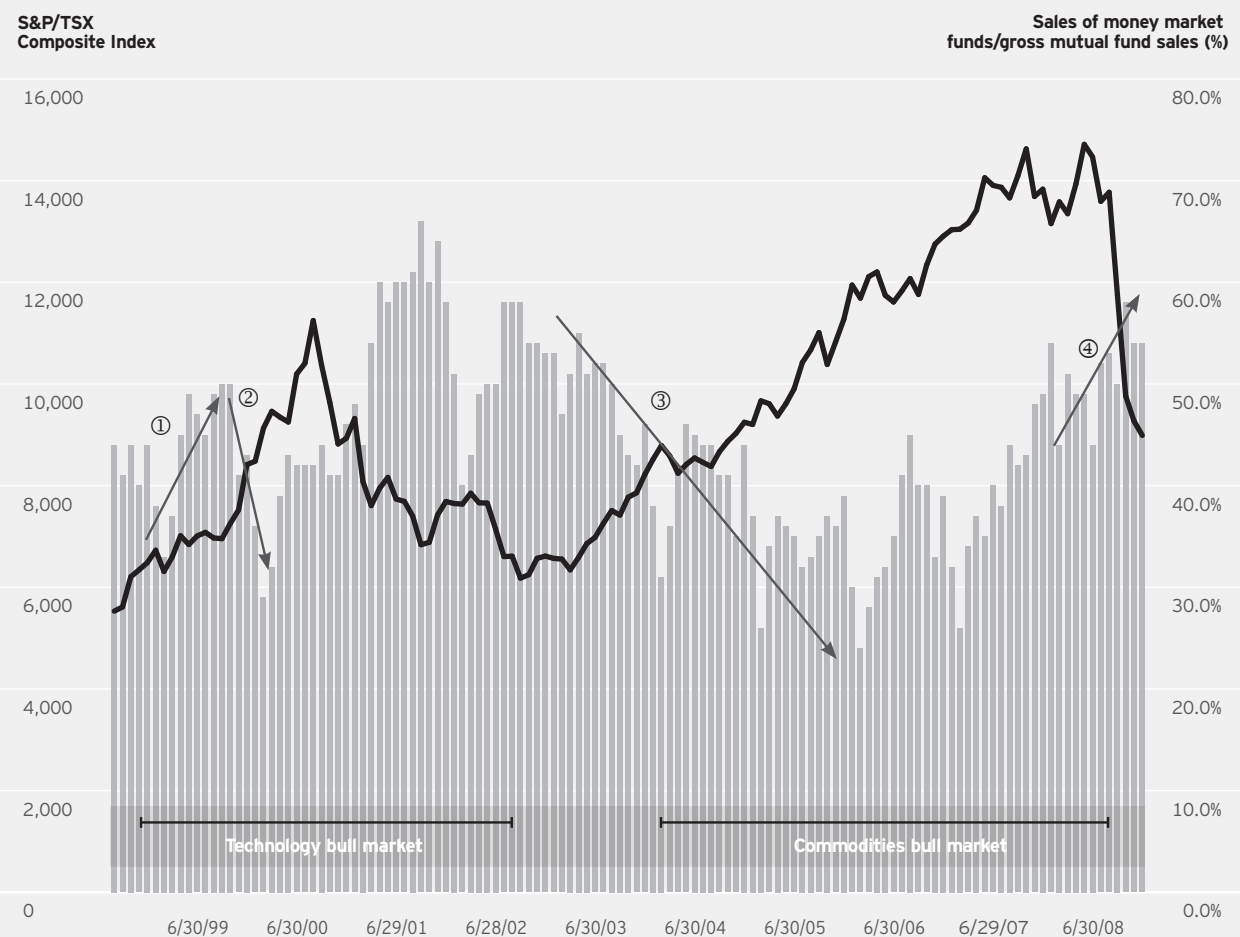
During the early stages of the technology bull market, the S&P/TSX Composite Index rose 53% between August 1998 and January 2000. Meanwhile, as shown on the chart below, Canadians invested more and more in money market funds and didn't begin to favour equity funds until the end of 1999. Unfortunately for these latecomers, the internet/technology party was over a few months later. From September 2000 to September 2002, the S&P/TSX fell by close to 45% or 5,000 points, and didn't rebound to its 2000 highs until the end of 2005.

It was a similar story in 2003 during the first half of the commodities bull market. Investors who had the courage to move out of money market funds early and get into equities did extremely well. But most missed the opportunity. When the market bottomed in September 2002, more than 50% of gross mutual fund sales were still flowing to money market funds. Investors moved into equities only slowly, losing out as the S&P/TSX doubled to 12,200 by June 2006.

More recently, the S&P/TSX climbed to an all-time high in May 2008. Then it tumbled dramatically over the next nine months. And yet, even after a 45% drop, as of February 2009, Canadians continued to favour money market funds over equities. Is this another missed opportunity?

S&P/TSX Composite Index vs. money market funds

— S&P/TSX Composite Index ■ Money market funds



Source: IFIC and Bloomberg

An investment cannot be made directly in an index

- ① Index rises over 50%, but Canadians lose out by favouring money market funds.
- ② End of bull market approaches just as Canadians reduce money market exposure.
- ③ Bottom of bear market in Fall 2002. Canadians slow to react, keeping money in money market funds during early part of bull market.
- ④ After peaking in May 2008, the Index fell 45% – yet Canadians still prefer money market funds. Is history repeating itself?

Profiting from the rebound

History shows that the first few years after a market downturn offer the best opportunities for growth. For example, the three-month return on the S&P 500 Index was -30% following “Black Monday” in 1987. However, as shown in the table below, the markets rebounded strongly, providing a cumulative 87% return over the next five years.

Worst three-month period of each decade has typically been followed by periods of growth						
Month of worst 3-month return	Main driver of decline	3-month return	S&P 500 Index (cumulative return)			
			1 year	3 year	5 year	10 year
November 30, 2008	Credit crisis	-30%	?	?	?	?
October 31, 1990	Persian gulf war	-15%	29%	54%	91%	370%
November 30, 1987	Black Monday	-30%	19%	40%	87%	315%
August 30, 1974	Watergate scandal	-26%	32%	52%	72%	161%
June 29, 1962	Cuban Missile Crisis	-21%	27%	54%	66%	96%
October 31, 1957	Civil rights movement	-14%	25%	30%	38%	129%
October 31, 1940	Blitzkrieg – WWII	-24%	1%	30%	62%	103%
May 31, 1932	Great Depression	-46%	116%	114%	264%	82%

Source: Bloomberg, as at March 31, 2009; returns in US\$

Recovery time: Cash vs. equities

Unexpected volatility can make many people nervous. The question is what to do after a sharp drop in the market. Some people will decide to take a slower route to achieving their financial goals and move their savings to a money market fund or GIC. Others simply ride out the storm. The table below shows different scenarios for how long it will take for an investment to recover its worth. For example, if a fund declines by 25%, and the investment is left in the fund to grow, assuming an 8% annual return it will take less than four years to recover. However, it's a different story if the investment is sold and the proceeds placed in a GIC or money market fund paying only 3% a year. In that case, it will take almost 10 years to recoup the loss.

Years to recoup your loss

		Annual returns							
		3%	4%	5%	6%	7%	8%	9%	10%
Initial decline	-5%	1.74 years	1.31 years	1.05 years	0.88 years	0.76 years	0.67 years	0.60 years	0.54 years
	-10%	3.56 years	2.69 years	2.16 years	1.81 years	1.56 years	1.37 years	1.23 years	1.11 years
	-15%	5.50 years	4.14 years	3.33 years	2.79 years	2.40 years	2.11 years	1.89 years	1.71 years
	-25%	9.73 years	7.33 years	5.90 years	4.94 years	4.25 years	3.74 years	3.34 years	3.02 years
	-30%	12.07 years	9.09 years	7.31 years	6.12 years	5.27 years	4.63 years	4.14 years	3.74 years
	-40%	17.28 years	13.02 years	10.47 years	8.77 years	7.55 years	6.64 years	5.93 years	5.36 years
	-75%	46.90 years	35.35 years	28.41 years	23.79 years	20.49 years	18.01 years	16.09 years	14.55 years

Locked in? Or locked out?

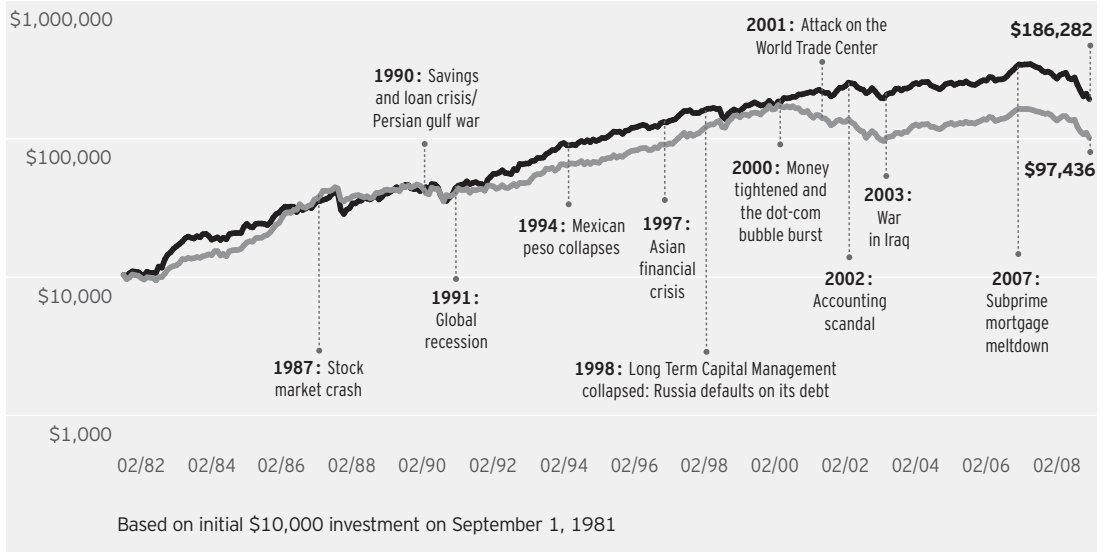
While money market funds are highly flexible, some GICs and savings accounts may require you to lock in your savings for a set period of time. To discourage you from making an early withdrawal, you may be required to pay a penalty if you redeem before this date. This may leave you effectively ‘locked out’ of investing in the equity markets – sometimes for several years.

Invest wisely

Whether you're saving for your first home or for your retirement, it's always important to invest in a fund with a long-term track record of success. Since its inception in 1981, Trimark Fund has survived – and even thrived – in some of the toughest economic conditions in history. The chart below shows 11 different periods when markets declined. After each period, Trimark Fund rebounded to new highs.

Trimark Fund and financial crisis

— Trimark Fund, Series SC — MSCI World Index (C\$)



Dollar-cost averaging is the technique of buying a fixed dollar amount of an investment such as a mutual fund, at regular intervals (e.g., weekly or monthly) regardless of the price. Over time, you can benefit by purchasing more units at lower prices and fewer units at higher prices, and so you can avoid trying to time the market.

The flexibility of dollar-cost averaging

It takes courage to move into equity funds in the earliest stages of a bull market – especially when so many Canadians stand on the sidelines and wait. If you have GICs, high-interest savings accounts or money market funds and your advisor has recommended you switch into equity funds in order to meet your goals, the Invesco Trimark Dollar-Cost Averaging Service can help. Your advisor will set you up with a scheduled plan to move your savings into equity funds at a speed you're comfortable with, by taking advantage of dollar-cost averaging (see sidebar). Instead of missing out on your goals, you'll be taking a disciplined, flexible approach to investing over the long term. Give your advisor a call today.

The information provided is general in nature and may not be relied upon nor considered to be the rendering of tax, legal, accounting or professional advice. Readers should consult with their own accountants, lawyers and/or other professionals for advice on their specific circumstances before taking any action. The information contained herein is from sources believed to be reliable, but accuracy cannot be guaranteed.

Commissions, trailing commissions, management fees and expenses may all be associated with mutual fund investments. The indicated rates of return are the historical annual compounded total returns, including changes in security values and reinvestment of all distributions, and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder, which would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the simplified prospectus before investing. Copies are available from your advisor or from Invesco Trimark.

For more information about this topic, contact your advisor, call us at 1.800.874.6275 or visit our website at www.invescotrimark.com.



* Invesco and all associated trademarks are trademarks of Invesco Holding Company Limited, used under licence. Trimark and all associated trademarks are trademarks of Invesco Trimark Ltd.

© Invesco Trimark Ltd., 2009

IIMMPCE(04/09)