



Coping with Market Volatility

Eight reminders to help 401(k) investors

Recent turmoil in the financial markets may be causing you to wonder about the security of your retirement savings. And it is only natural to feel nervous when you see your 401(k) balances declining. But while you may be tempted to make an emotional decision to stop potential losses, it is equally important for you to think rationally as you react to the current market volatility. Remember: most 401(k) plan participants are investing for long-term, not immediate, returns. So consider your goals and time horizon carefully before making any changes to your investment selections.

1) EXPECT OCCASIONAL VOLATILITY

Periodic market volatility is a fact of life. For example, in October 1987 the stock market declined more than 22 percent in one day. (That would be equivalent to approximately 3000 points today.) Yet over the following years, the markets rebounded and rose to even higher levels. Even though this historical performance is not a guarantee of future returns, what is clear is: investment decisions should take into account your personal situation and goals, including expected retirement date — not just short-term market changes.

2) KEEP LONG-TERM INVESTMENT STRATEGIES IN MIND

Savings in a 401(k) plan can be used to provide retirement income, the amount of which depends on the performance of the investments within your 401(k) account. A focus on proper asset allocation, diversification of investments, the possibility of compounding returns, and a long-term investment strategy have historically been more successful than trying to profit from short-term market fluctuations.

3) MAINTAIN DIVERSIFICATION

In times like these, reviewing your fund choices to ensure that you are diversified across and within asset classes, market sectors and industries is important and may lower your 401(k)'s potential risk while maintaining its expected long-term return. Keep in mind, however, that diversification does not ensure profit, or guarantee against loss.



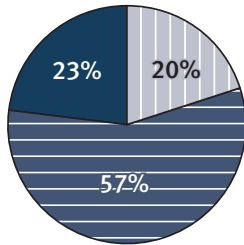
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4) PAY ATTENTION TO ASSET ALLOCATION

A Nobel Prize winning study revealed that asset allocation — the percentage of your 401(k) that you allocate to various asset classes like growth stocks, value stocks, bonds and cash — plays a greater role in investment performance than the actual securities selected or the timing of their purchase or sale.* In fact, asset allocation is responsible for more than 90% of variations in portfolio performance. Consider the following examples:

Asset Allocation Example A For Investors Who:

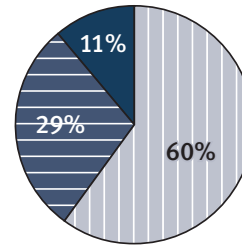
- Seek to maximize long term expected returns and do not depend on this portfolio to fulfill short term cash requirements.
- Are willing and able to tolerate short term losses.
- Have a medium to long investment time horizon.



■ Fixed Income
■ US Equity
■ International Equity*

Asset Allocation Example B For Investors Who:

- Seek a combination of conservative expected returns and current income.
- Are willing and able to tolerate moderate levels of short term losses.
- Have a medium investment time horizon.



■ Fixed Income
■ US Equity
■ International Equity*

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5) CHECK THAT YOUR ASSET ALLOCATION IS STILL RIGHT FOR YOU

Any growth or decline within asset classes may cause your asset allocation ratios to shift. That's why it is important to monitor your asset allocation periodically and rebalance your 401(k) as needed. Rebalancing requires you to shift funds from one asset class to another to reestablish the allocation ratios you determined appropriate for your investment portfolio.

6) UNDERSTAND YOUR RISK TOLERANCE

It is important to know your risk tolerance before making decisions about investments during volatile markets. Different investors react differently to the same market movements because of their different comfort levels with risk. Are you comfortable taking bigger risks in exchange for potentially bigger rewards? Or would you rather "play it safe" with your money?

7) COMPARE YOUR ASSET ALLOCATION TO YOUR RISK TOLERANCE

In general, the higher your risk tolerance, the more comfortable you should feel about owning equities. The lower your risk tolerance, the more comfortable you should be with bonds or cash-equivalent investments. Even if your time horizon is far enough out to warrant an aggressive growth asset allocation, you still need to make sure you are comfortable with the short-term ups and downs you will encounter.

8) TAKE ADVANTAGE OF DOLLAR COST AVERAGING

Dollar cost averaging is simply the practice of investing a predetermined amount of money at a regular interval, regardless of market conditions. The amount you invest is constant, so you buy more shares when the price is low, and fewer when the price is high. When you do this, the average cost of your shares is typically lower than the average market price per share during the period in which you are investing.