Investment

How to Build a Better Portfolio
Principles of Successful Investing

The world of investing can seem very complex with constantly changing market conditions, a wealth of media information, and an increasing range of investment choices. But, the principles of successful investing are quite simple. By consistently following the investment basics in this guide, you can achieve greater peace of mind now, and be well on your way toward reaching your future long-term goals.

FOR SUCCESSFUL INVESTING, STAY WITH THE BASICS

Whether you are a new investor or an old pro, it's always good practice to focus on the basics of investing. Here are five tried and true principles to successfully build an investment portfolio.

FIVE INVESTMENT BASICS TO BUILD A BETTER PORTFOLIO:

1. Set investment goals and realistic expectations
2. Diversify your investments to reduce risk
3. Rebalance and review your portfolio at least annually
4. Maintain discipline to stay focused on the long term
5. Consider costs: it's not what you earn - it's what you keep

Understanding these investing basics will steer you through temporary market volatility and give you the confidence to reach your long-term goals. Your advisor can help you put these investment basics into practice and keep you focused on your long-term plan.

RBC Asset Management®

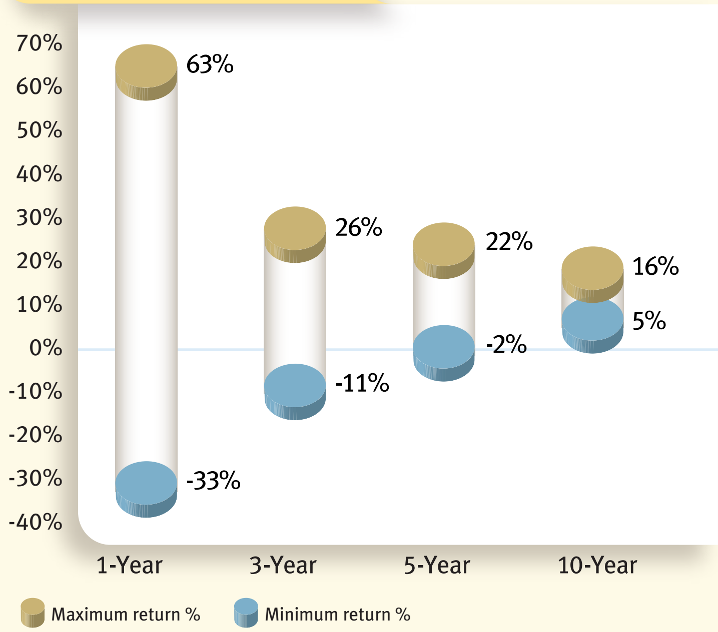
1 SET INVESTMENT GOALS AND REALISTIC EXPECTATIONS

What's a typical rate of return from the equity markets? By the end of the bull market of the 1990s, equity investors enjoyed one-year returns of 30%. Even the most knowledgeable investors had forgotten that 10% returns are closer to the norm.

In contrast, by the early spring of 2009, many investors believed they would never see positive returns again. Investors' expectations often swing like a pendulum, becoming overly optimistic in up-markets and overly fearful in down markets. To be successful, it's critical to find middle ground.

The good news is that the long-term trend for equity markets has historically always been up. As the chart on the right indicates, annual returns can swing widely in a given year, as shown by the 63.0% return as of August 2000, and the -33.0% return in 2008. However, volatility decreases over time; meaning the longer you hold an investment, the more likely you are to achieve a rate of return similar to its long-term average. The average annual return from Canadian equities over the past 20-year period – including the recent bear market – was a positive 10%.

Time is on your side



Equities represented by S&P/TSX Composite Total Return Index.
One-, three-, five-, and ten-year rolling returns based on the 20-year period ending December 31, 2008.

With interest rates at all-time lows - and forecast to stay at this level for the next year - leaving your investments in "safe" securities (e.g. GICs, money market funds, T-Bills) will not allow your money to adequately grow. In fact, you could lose purchasing power if inflation creeps above the current interest rate, meaning a negative real rate of return. To achieve the long-term growth needed to reach your financial goals – retirement, your next trip, or your child's education – you'll need to have a portion of your investment in equities. While every investor needs some exposure to equities, what differs for each person is the *amount* of their portfolio in equity investments.

A regular review keeps you on track

By meeting with your advisor at least once a year, you'll be able to make sure your portfolio continues to meet your goals. If your goals or personal circumstances change at any time, you should revisit your plan and make needed adjustments. If you feel worried about your investments, your advisor can provide ideas to help you stay the course or make the necessary decisions.

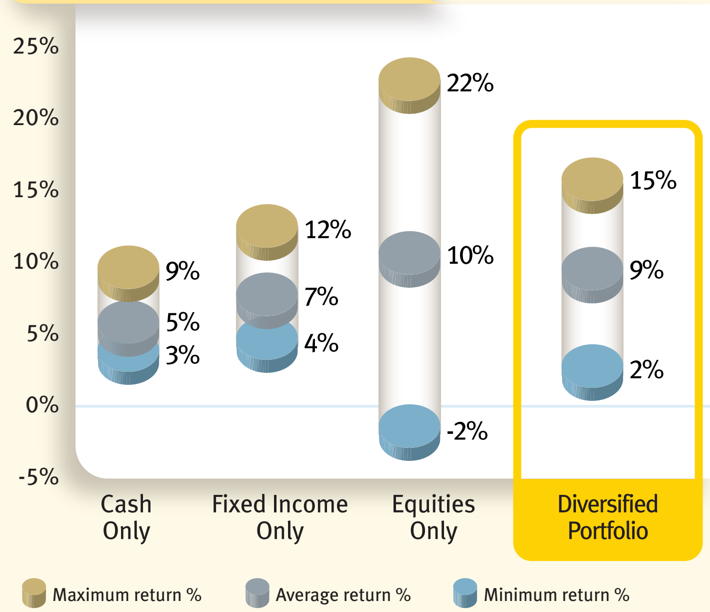
2 DIVERSIFY YOUR INVESTMENTS TO REDUCE RISK

Diversification simply means spreading your portfolio across a variety of assets. Financial markets do not move in concert with one another. Assets that increase in value can help compensate for others that may be standing still or decreasing. This is how diversification helps to reduce risk and smooth out returns.

Effective diversification starts with exposure to the three main asset classes: cash, fixed income, and equities. The specific weighting of each of these three asset classes in your portfolio will depend on your "investor profile", which is determined by your time horizon, comfort with volatility, and investment objectives.

The chart below demonstrates that by combining all three asset classes, you can retain some of the growth potential of equities, yet also enjoy the increased stability provided by cash and fixed-income investments.

The benefits of a diversified portfolio



Source: Diversified Portfolio represented by 5% Cash, 40% Fixed Income and 55% Equities; Cash represented by DEX 30-day T-Bill Index; Fixed Income represented by DEX Universe Bond Total Return Index; Equities represented by S&P/TSX Composite Total Return Index: five-year rolling returns for a 20-year period ending December 31, 2008.

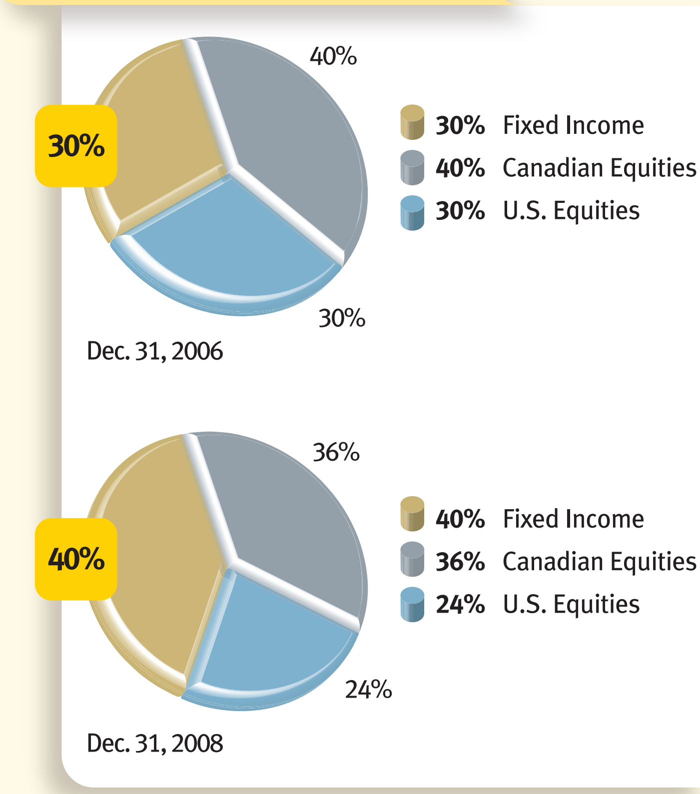
Remember, at a given time, any one asset class, region, sector, or style may be leading the market while others lag. But in a diversified portfolio, a decline in one investment is typically offset by growth in other assets. By determining your investor profile, your advisor can help you choose the right asset mix for you.

3 REBALANCE AND REVIEW YOUR PORTFOLIO AT LEAST ANNUALLY

The right asset mix is important for investment success, but so is maintaining it over time. Due to market activity, assets grow at different rates, and the weightings of each asset class in your portfolio may shift with time.

As seen in the pie charts below, if the shifts are significant, your asset mix may no longer reflect your needs or your investor profile. This can lead to a very different allocation (and investment experience) than you had originally intended.

Asset mix can drift over time



Source: S&P/TSX Composite Total Return Index, DEX Universe Overall Bond Total Return Index and S&P 500 Total Return Index (US$)

Rebalancing regularly is part of a disciplined approach to investing. Left untouched, the altered asset mix could leave you exposed to increased risk or missed opportunities. Working with your advisor, you can bring your portfolio back into alignment with your investor profile.

4 MAINTAIN DISCIPLINE TO STAY FOCUSED ON THE LONG TERM

Once your investment strategy is established, you need the discipline to stick with it.

Reacting to short-term market events by making dramatic portfolio changes away from your investor profile makes it difficult to stay on course to achieve your investment goals.

Opportunities often follow market downturns

	Return (%)	Return in following year (%)	Average return for next 5 years (%)
1974 (Oil embargo)	-25.0	+18.5	+22.3
1981 (Double-digit inflation)	-10.2	+5.5	+13.7
1990 (Gulf war)	-14.8	+12.0	+10.8
2002 (Tech wreck)	-12.4	+26.7	+18.3
2008 (Current crisis to Dec. 31, 2008)	-33.0	?	?

Based on returns of the S&P/TSX Composite Total Return Index

No one can precisely forecast market tops or bottoms, and trying to do so is extremely risky for two key reasons. First, reacting to a market decline by selling an investment guarantees a loss that before only existed on paper. Second, being out of the market can prevent you from participating in any gains when the market bounces back. As the chart above shows, major declines have generally been followed by major recoveries.

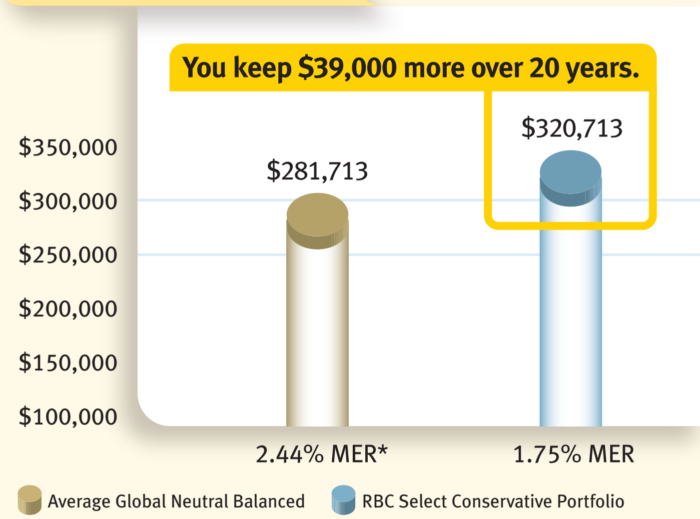
While many investors feel they just have to do something during a market downturn, history shows us that the disciplined, patient investor will often be the one rewarded when markets return to their upward path.

5 CONSIDER COSTS: IT'S NOT WHAT YOU EARN – IT'S WHAT YOU KEEP

The less you pay for your investments, the more you keep, making the cost of investing something investors should always look to minimize. In today's low-return environment, higher fees will have a material impact on conservative portfolios in particular, as the return potential is generally lower given the higher proportion of fixed income and GICs. Over time, minimizing costs can have a significant and positive impact on the growth of your portfolio.

The less you pay, the more you keep

(Growth of $100,000 investment for 20 years)



*Calculation is for illustration purposes only. Assumes a 7.75% annual return before MER. Based on Morningstar's category average MER for Global Netural Balanced and MER of RBC Select Conservative Portfolio, Series A.

Build a better portfolio

Speak to your advisor about building a better portfolio with these basics of investing. He or she will help you determine your investor profile, including your investment goals, time horizon, and risk tolerance. This will act as the foundation for your diversified portfolio, personalized to your needs. Your advisor will also work with you to understand, anticipate, and overcome the unique investment challenges that you will face over time, no matter what they might be.

RBC Asset Management®

Please consult your advisor and read the prospectus before investing. There may be commissions, trailing commissions, management fees and expenses associated with mutual fund investments. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated. RBC Funds are offered by RBC Asset Management Inc. and distributed through authorized dealers.

07642 (06-2009)