

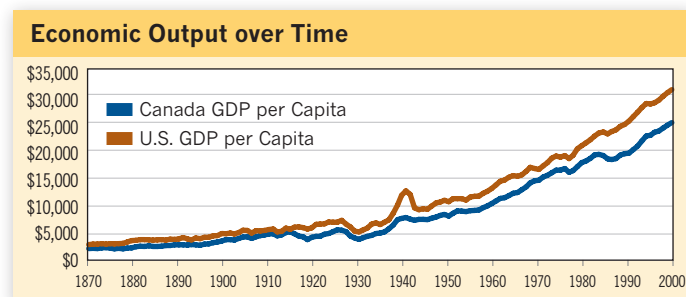
ARE YOU MISSING THE BIG PICTURE?

We all know it's easy to miss the big picture when you're caught up in the details. It's certainly true when it comes to investing. Many investors get focused on day-to-day events, forgetting the long-term trends. And in many cases, investors who make their Registered Retirement Savings Plan (RRSP) and Tax-Free Savings Account (TFSA) contributions don't follow up to be sure that these accounts are working effectively as part of their overall portfolio. A contribution is a good first step but not enough. You also need a long-term plan that helps you ignore short-term market fluctuations to help you toward your long-term goals.

The Canadian and U.S. economies are emerging from severe recessions. Economic growth tends to be bumpy, not smooth, and there are always headwinds to overcome, but it doesn't usually falter. Today's environment of low interest rates, generally improving economic indicators and increasing earnings remains positive for the economy and for stocks, in our view.

Stock Markets and Economies Generally Rise over Time

It's easy to forget the long-term picture. Over time, the economy has grown reasonably steadily despite periodic recessions. The following chart shows the increase in overall economic output per person in Canada and in the U.S.



Source: Maddison, Historical Statistics for the World Economy

The long-term growth of the economy supports growing companies, rising earnings and generally higher stock prices. That's part of why the S&P/TSX Composite (TSX) has tended to rise over time. In fact, Canadian stock prices rise more often than they fall, shown in the table below.

TSX Price Appreciation 1919 - 2009	
	% of time positive
1-year period	64%
5-year period	84%
10-year period	90%

Source: TSX, Edward Jones calculations. The S&P/TSX Composite is an unmanaged index and is unavailable for direct investment. Past performance does not guarantee future results.

If you reinvest dividends, the percent of time with positive returns is even higher. There are similar results for the U.S. and other major stock markets. But you have to be invested in stocks to benefit from this tendency for stock markets to rise. The advantage of a buy-and-hold approach is that you're always invested. If you're trying to time the market, you're likely to miss at least some of the gains.

A World of Worries

Since 1870 (when the GDP chart begins), there have been 13 global financial crises and many more recessions. Following each financial crisis, the financial system took time to recover, and pockets of weakness appeared periodically. One of these is the recent concern about the size of government deficits and borrowing, most recently in Greece and other European countries. While we can't predict how various countries will solve their spending and budget dilemmas, we know that such problems are typical after a severe downturn, and that the solutions are likely to take time.

In the past, most countries facing high deficits and debt levels used "belt tightening" to reduce their deficits over several years. The impact of the spending reductions and tax increases was a drag on overall economic growth, but the economies continued to grow. While the possibility of defaults or other extreme events cannot be ruled out, in our view they're less likely than long but gradual adjustments.

In many cases, market worries create investment opportunities for those who see the bigger picture and can take a long-term approach. We think that's the situation today. In addition to quality Canadian stocks and mutual funds, consider adding international equity funds. As shown in the table below, Canadian stocks have performed better than U.S. stocks and overseas stocks during the past decade, following the three prior decades when U.S. or overseas stocks performed better.

Domestic and Foreign Returns Vary over Time			
	S&P/TSX	S&P 500	MSCI World ex-U.S.
1970s	10.4%	6.8%	11.8%
1980s	12.2	17.5	21.4
1990s	10.6	20.8	9.8
2000s	5.6	-4.1	-1.2

Source: Ibbotson/Bloomberg. All data in Canadian dollars as of 12/31/2009. S&P/TSX, S&P 500 and MSCI World ex-U.S. composites are all unmanaged indexes that are unavailable for direct investment.

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Looking at individual years instead of decades, Canadian stocks have performed better than U.S. and overseas stocks in only 12 of the last 40 years, again suggesting that we should not expect one area of the world to consistently perform the best. Historically, adding to areas that recently underperformed was a smart move, since you rebalanced your portfolio and added investments that tended to perform better. We suggest foreign investments should be 25%–35% of a portfolio for most investors and recommend considering the following funds if you need to add international investments.

Global Equity Funds (U.S. and overseas)

- AGF Global Equity Class
- Trimark Fund

International Equity Funds

- AIM International Growth
- Templeton International Stock

Ignore Short-term Fluctuations

Stock market declines like the one that started in mid-January are common, they start and stop without warning, and they are opportunities for long-term investors to buy stocks at lower prices. The TSX, the S&P 500 and other markets fell more than 5% during the first decline of 2010. Such declines are not unusual. Historically, the Canadian market falls by 5% around once a year, as shown in the following table.

Declines Are Normal			
1/2/1948 - 12/31/2009	Dip (5% or more)	Correction (10% or more)	Bear (20% or more)
Number	47	28	10
Per Year	About 1	1 every 2 years	1 every 6 or 7 years

Source: Ned Davis Research, MSCI Canada Index, 12/31/2009. MSCI Canada index is an unmanaged index that is unavailable for direct investment.

During the last bull market, from 2002–2008, there were 13 dips of 5% or more, and three corrections of 10% or more. This was one of the longer bull markets, as the TSX rose 165% over 2,079 days without a decline of more than 20%. Predicting short-term market declines is nearly impossible, so investors need to be ready for them and use them to add stocks if appropriate.

Build on Your RRSP and TFSA Contributions

Have you reviewed with your Edward Jones advisor how your RRSP fits into your overall investment portfolio? Making a contribution alone is not enough — you need to consider the bigger picture. If your contributions are invested appropriately and fit with your other investments, they'll improve your overall prospects. If you haven't already, we'd recommend:

- Reviewing your current situation with your Edward Jones advisor to identify any changes
- Discussing your long-term financial goals and their timing.
- Revising your overall strategy if needed
- Ensuring your RRSP investments are appropriately invested and fit into your overall strategy

Your comprehensive strategy needs to encompass all of your long-term financial goals, including your retirement,

education savings, plans for your estate and protection of your assets and income. Everyone has concerns about how to accomplish all of these goals, and you probably have specific issues you'd like to address as well.

If you made your 2009 RRSP contribution in February but didn't review your overall strategy, schedule a meeting with your Edward Jones advisor to get some advice. The details are important, but you have to keep the bigger picture in mind, too.

Actions for Investors

Too many investors lose sight of the bigger picture because their short-term concerns distract them. It's essential to consider the following when investing:

- **Despite periodic recessions and financial crises, economies tend to grow, not contract.** That's one of the main reasons that stock markets mostly go up over time.
- **By ignoring short-term market fluctuations and staying invested in stocks and equity mutual funds, you're still invested when the market rises.** Adding stocks and equity mutual funds during those declines can enhance your long-term returns, and in our view, the opportunity in foreign investments is one to consider.
- **Most investors need a comprehensive strategy to reach their long-term financial goals.** It includes making your RRSP and TFSA contributions, which are part of a broader investment strategy based on your tolerance for risk as well as your income needs so you can stay invested over time. A strategy tailored to your situation will help address your current concerns as well as all of your long-term financial needs.

Talk with your Edward Jones advisor today about your long-term financial goals and any steps you need to take to get there.

Diversification does not guarantee a profit or protect against loss.

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