

"Stay in the game"

In the midst of a market storm, some sound advice from Fidelity's **Senior Vice President, Canadian Equities**

Over the past month, Canadians have witnessed one of the sharpest, most sudden declines ever seen on the TSX. While seasoned stock investors know that the markets have a long history of violent price swings, the average person does not expect to experience such steep price declines across several asset classes at the same time. Nevin Markwart, **Senior Vice President, Canadian Equities**, at Fidelity Investments commented recently that while investors face a storm of volatility, it's important that they keep their cool and "stay in the game."

Q. It's a very challenging time now for investors and their advisors. What do you think are the most important things to remember in the midst of all the volatility and uncertainty?

NEVIN MARKWART: I think in terms of the two F's – familiarity and faith. Being familiar with historical market returns can give us the faith and confidence that continued investment in the stock market can lead to attaining financial goals and dreams over the long term. Confidence, in my view, is the ingredient necessary to keep our clients "in the game."

Here's the premise I present to people: would you be willing to invest in the total return of the S&P/TSX Index, which includes dividends, starting in 1970? You'd have made 38 times your money over that 38-year time period! Is that a good deal? I typically get a response like, "Yes, sign me up. Where do I have to go?" Here's the catch: over that 38-year time period, there were six periods, typically lasting ten months, during which you would have lost a third of your money. So on the way to making 38 times your money in 38 years, you had to be willing to lose a third of it six times. Are you still interested in the deal? That is how the "stock market machine" works.

In my view, everyone investing in the stock market machine should be obliged to read the "owner's manual." The first chapter of this owner's manual would highlight this observation: that stocks have periods when, on average, they go down by a third. We should never be surprised "if" the market declines by a third in a short time period, although we will always be surprised "when" it happens. History tells us that these difficult periods are pretty typical over the longer term, so we should be familiar with their occurrence. It's perfectly normal for investors to feel concerned about recent economic events and to call their advisors. But as investment professionals, our job is to build our clients' confidence so they can "stay in the game." Our goal is to keep people and organizations invested in stocks, because that's where the returns that can help people meet their financial goals and dreams are generated. Looking ahead 15 or 20 years from now, my fear is that we're going to have a lot of 70- to 80-year-olds in Canada and around the world who run out of capital because of the "2008 downturn." But they'll have run out of money because they didn't "stay in the game" back in 2008.

The stock "Owner's manual"
TSX total return January 1970 - September 2008
 3,850% cumulative (9.9% annualized) return



Note: 6 up periods average 58 months and 174% return; 6 down periods (excluding current 2008 period) average 10 months and -31% return. Current down market has lasted 4 months with a -19% return. Source: Datastream.

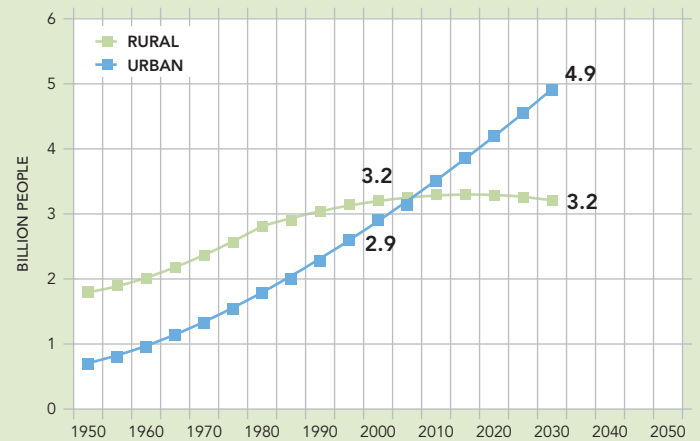
Q. How is Fidelity responding to the volatility?

NEVIN MARKWART: In Fidelity Canadian Asset Allocation Fund, we were early to lower our exposure to equities below the benchmark's level and to raise our cash and bond exposures. We sold nearly \$1 billion of stocks in January and February, and we sold nearly \$1 billion worth of stocks in May and June. It wasn't because we thought equities were going to generate poor returns. In fact, we continue to believe that stocks will generate positive returns. It was our analysis that there was more risk in the system than the capital markets were pricing in at the time. While our previous assessments were correct, the stock market contraction did progress much further than we would have thought. Our analysts are working incredibly hard, looking at every stock, to gain the edge that will allow our portfolios to outperform.

Q. For a long time, you've been an advocate of Fidelity's "Go Canada" strategy – the idea that long-term demographic trends around the world will drive up the demand for commodities and benefit the Canadian economy. Has the financial crisis we're confronting shaken your belief in "Go Canada"?

NEVIN MARKWART: I still believe that is a story people can hang their hats on, not just for one or two years but for the next one or two decades. All through history, more people have lived on farms than in cities. But last year, the lines crossed, with 3.2 billion people on farms and 3.2 billion in cities (see graph). The United Nations predicts that the number of people on farms is going to stay reasonably flat for the next few decades, and then it will likely decline. That means that the birth rates formerly seen on farms will shift to the city, so the number of people in urban centres is going to grow and grow. As

Global population expressed as billions of people



Courtesy of Jurrien Timmer, Director, Market Research, Fidelity Management and Research Company. Data sources: Livestock's Long Shadow: FAO 2006

people move to the cities, we will have to build them homes to live in, factories to work in and bridges and roads and train systems to get them to work. That all requires "the stuff" that Canada has. It's happening in China, India, Brazil and Mexico. I grew up in Saskatchewan, and it's even happening there. I bought a house in Regina with my wife in 2001, and it's tripled in value in seven years. That typically doesn't happen in Regina. But even in Saskatchewan, people are moving from the farm into the city, and they're making the price of stuff go up! Now as I stated earlier, stocks don't go up in a straight line, and the global growth that motivates people to move from farms to cities will have its slowdowns, as we are currently witnessing. But these population trends are something you can have a good deal of confidence in: the trends have been in place for a long, long time. I believe that Canadian investors can sit back and say, "I'm confident that our country is going to do well over the next six, twelve, 18 years. I'm confident in maintaining the equity exposure that my advisor and I have agreed is appropriate for my family."

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