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The wealth formula

Wealth = Time × Money × Rate of return

This simple yet proven wealth formula can help you refocus your attention on what matters most for long-term investment success and help you stick to the investment plan you created with your advisor. This article invites you to gain control of your situation by managing the most powerful elements of investing.

Investing can often seem complicated and beyond your control, but it doesn't have to be that way. A close examination of the elements that help determine long-term investment success can help provide clarity to your unique situation. So take a moment and ask yourself: What can I control?

Wealth

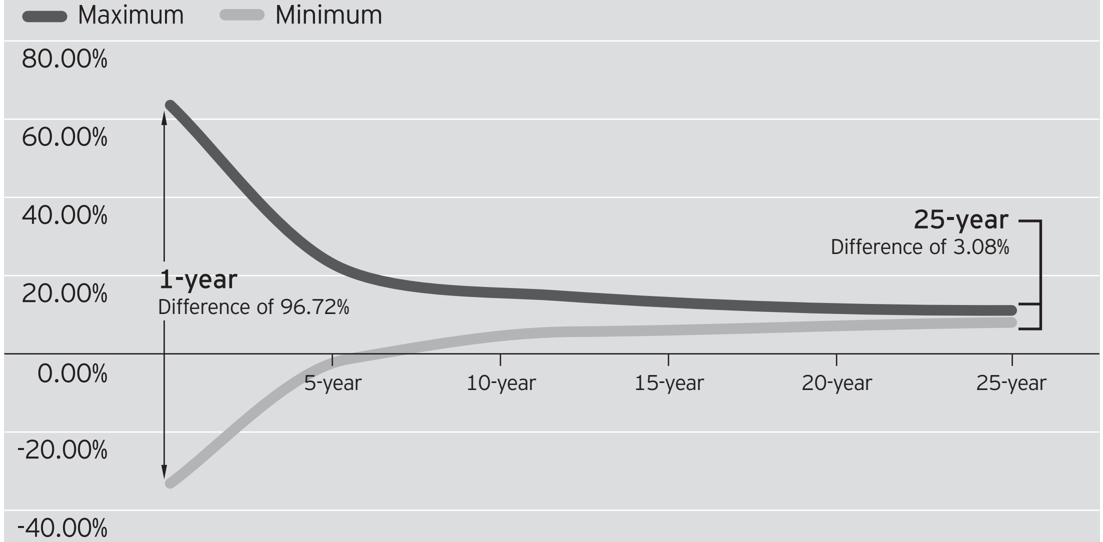
Wealth means something different to every investor, and we all have the ability to define what wealth means. It may be "quantitative" (e.g., leaving $100,000 to your favourite charity). Or it may be "qualitative," such as having enough money to retire comfortably or paying for your grandchildren's post-secondary education. The point is there isn't a single definition of wealth. Wealth is in the eye of the investor, and with a disciplined investment plan that focuses on the elements you can control, it can be yours.

Time

There is a trusted investment adage that says wealth comes from "time in the market, not timing the market." The graph on the following page helps explain why. An investment's unstable changes in value (volatility) tend to flatten out over time, every year approaching zero. This tendency benefits investors because the markets have historically delivered a positive return over the long term. Although there may be bumps along the way, the road to investment success is relatively smooth if you stay committed.

Dispersion is used to measure the volatility of investment returns. Returns that have wide dispersions are more risky because they have a higher probability of closing dramatically lower than the mean. On the other hand, returns with wide dispersions potentially can rise above the mean.

Volatility expressed as dispersion (1-year through 25-year)

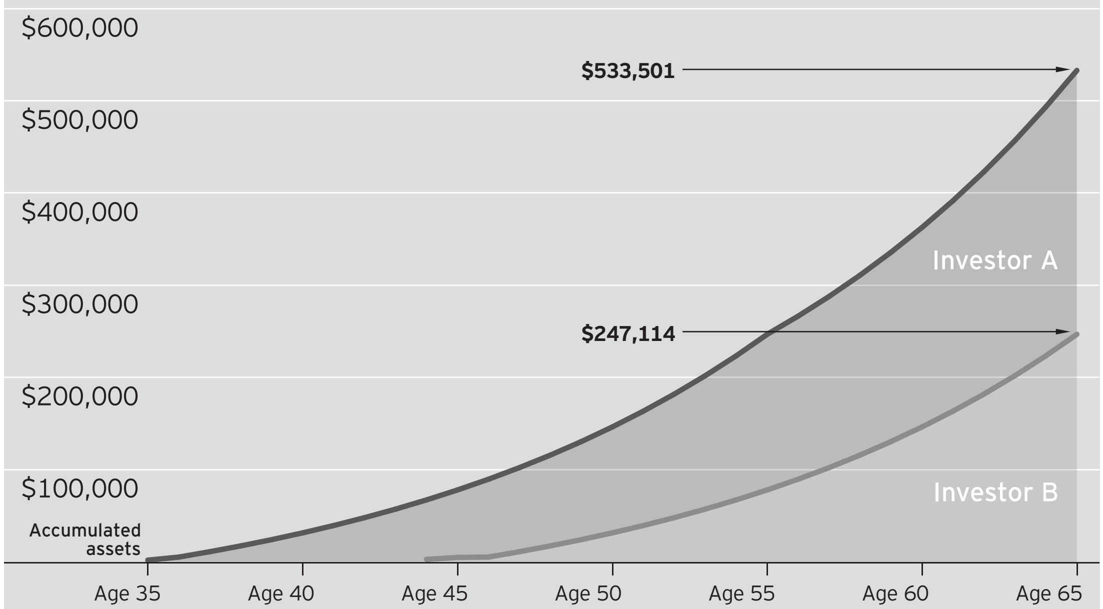


Note: S&P/TSX Composite Index as at December 31, 2008. Rolling 1-month returns beginning December 31, 1982.
Source: Zephyr StyleADVISOR **For illustrative purposes only.**

As you can see, volatility drastically decreases over time. For one-year performance, the Index swung between a high of 63.42% and a low of -33.30%. That's a staggering 96.72% difference in returns. Compare that to the 25-year performance, where the Index's maximum return of 10.93% and the minimum return of 7.85% indicates a difference of only 3.08%. Staying invested over time tends to provide you with steadier long-term returns.

Starting to invest as soon as possible is also important to meeting your financial goals. In the graph below, two investors are saving for retirement by investing $5,000 per year for 20 years and assuming an average 8% annual total return. The one notable exception is when each starts and stops investing. Investor A begins at 35 and ends at 55, while Investor B begins at 45 and ends at 65. Notice the vast difference between the amounts these investors will retire with. By starting 10 years earlier, Investor A is able to retire with $286,387 more than Investor B.

The power of compounded annual returns

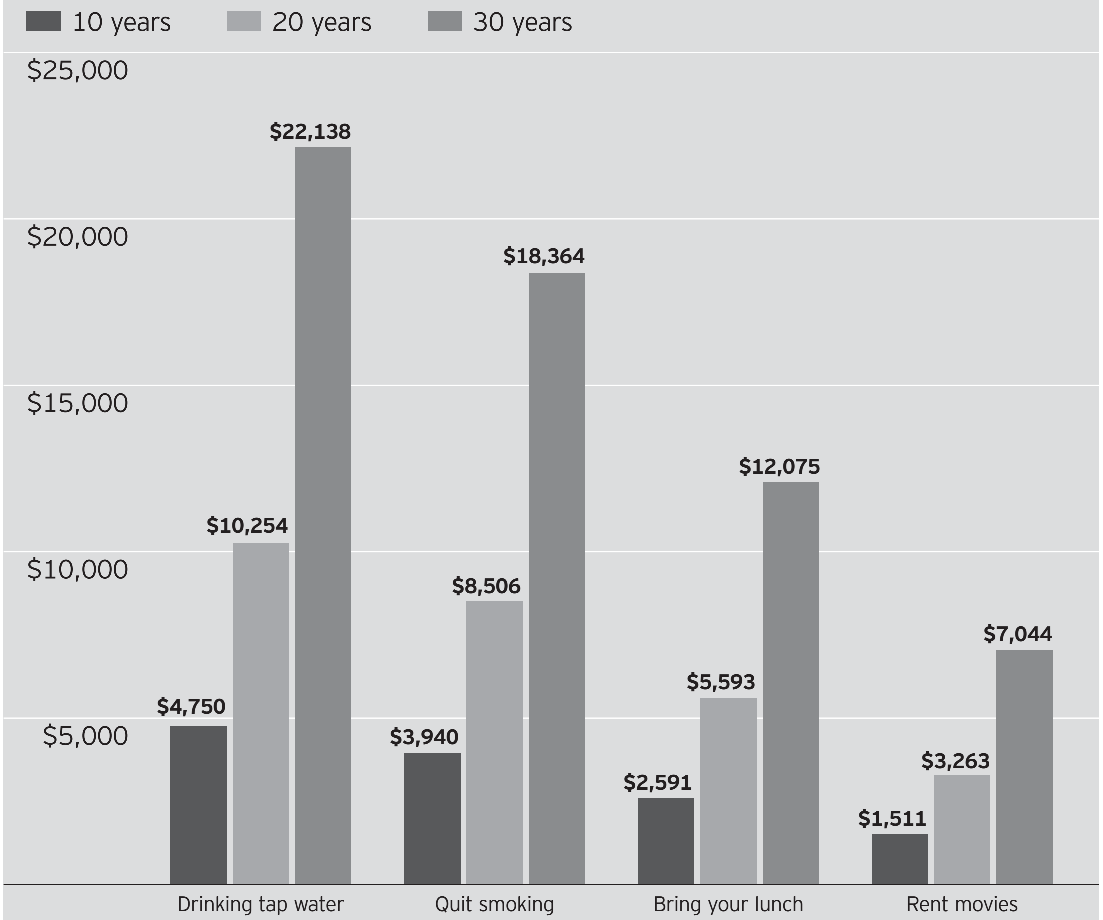


Note: Returns assume an 8% compounded annual return and do not consider applicable taxes upon redemption.
For illustrative purposes only.

Money

In budgeting, there's an old saying that goes "pay yourself first." That typically means investing to help you reach your financial goals. Although it may seem difficult to find enough money to invest, it's easier than you think. The graph below shows what could happen if, for just one year, you gave up bottled water, quit smoking, brought your lunch to work every other day, or avoided going to the movies. If, at the end of that year, you invested that money – earning 8.0% average total return – your small changes could grow to big savings.

Over time, small savings can add up



Note: Returns assume an 8% compounded annual return and do not consider applicable taxes upon redemption.
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Return

Return is the one element of the wealth formula that you cannot control. Sometimes it will be less than you expected, sometimes it will be more. One lesson we learned from the economic downturn of 2008 was even a conservative balanced portfolio can take a negative turn sometimes. The table on the following page clearly illustrates the disparate returns across years and types of investment. It would have been extremely difficult to choose the top-performing (and avoid the bottom-performing) investments year after year.

Investors who focus solely on their rate of return may be inclined to make irrational decisions to meet potentially unrealistic expectations. One such irrational decision would be to chase the previous year's top-performing investments. So how can you manage something that seems beyond your control? By effectively managing your risk exposure. And one way to do that is by spreading your risk exposure across different types of investments through diversification.

Calendar year returns since 1989

Best performer   Worst performer

	Small-cap Canadian equities[1]	Canadian equities[2]	Canadian bonds[3]	International equities[4]	Cash[5]	Large-cap U.S. equities[6]
1989	15.66%	21.37%	12.81%	7.28%	12.36%	27.81%
1990	-21.18%	-14.80%	7.54%	-23.31%	13.48%	-2.93%
1991	11.59%	12.02%	22.14%	11.70%	9.83%	29.97%
1992	9.66%	-1.43%	9.84%	-3.49%	7.08%	18.25%
1993	48.26%	32.80%	18.14%	38.22%	5.51%	14.78%
1994	-8.60%	-0.63%	4.31%	14.18%	5.35%	7.34%
1995	13.88%	14.83%	20.67%	8.13%	7.39%	33.77%
1996	28.67%	28.35%	12.26%	6.58%	5.02%	23.57%
1997	6.97%	14.98%	9.63%	6.26%	3.14%	39.24%
1998	-17.90%	-1.58%	9.18%	28.80%	4.79%	38.01%
1999	20.29%	31.71%	-1.14%	19.96%	4.66%	14.36%
2000	7.31%	7.41%	10.25%	-11.17%	5.49%	-5.93%
2001	3.44%	-12.57%	8.08%	-16.51%	4.72%	-6.35%
2002	-0.93%	-12.44%	8.73%	-16.81%	2.52%	-22.90%
2003	42.74%	26.72%	6.69%	13.36%	2.91%	5.26%
2004	14.12%	14.48%	7.15%	11.49%	2.30%	2.81%
2005	19.68%	24.13%	6.46%	10.69%	2.58%	2.29%
2006	16.64%	17.26%	4.06%	25.86%	3.97%	15.35%
2007	2.01%	9.83%	3.68%	-5.72%	4.43%	-10.53%
2008	-46.61%	-33.00%	6.41%	-29.81%	3.33%	-21.19%

Source: Zephyr StyleADVISOR

[1] Small-cap Canadian equities: BMO Small Cap Index
[2] Canadian equities: S&P/TSX Composite Index
[3] Canadian bonds: DEX Universe Bond Index
[4] International equities: MSCI EAFE Index
[5] Cash: DEX 91-Day Treasury Bill Index
[6] Large-cap U.S. equities: S&P 500 Total Return Index

Please note that an investment cannot be made directly in an index. **For illustrative purposes only.**

Whether you consider your risk tolerance numerically or simply as that which allows you to sleep at night, broadening your focus to include risk management, not just rate of return, is one way to help you stick to your plan.

Wealth = Time × Money × Rate of return

A brief examination of these four elements of the wealth formula can help clarify the seemingly opaque aspects of investing and get you focused on what matters most: sticking to the investment plan you created with your advisor and effectively managing the elements of investing that are within your control, time and money.

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

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