Building Better Portfolios

Principles of Successful Investing

The benefits of diversification

MANAGE RISK AND SMOOTH OUT POTENTIAL RETURNS

MARKETS WILL ALWAYS GO UP AND DOWN, BUT NO ONE LIKES TO SEE THEIR PORTFOLIO FLUCTUATE DRAMATICALLY IN THE SHORT TERM. THAT'S WHY DIVERSIFICATION IS SO IMPORTANT TO HELP PROTECT YOUR PORTFOLIO FROM SHORT-TERM MARKET DECLINES. WITH A DIVERSIFIED PORTFOLIO, YOU CAN STAY INVESTED COMFORTABLY AND ENJOY THE REWARDS OF INVESTING.

RBC

RBC Asset Management®

The **uncertainty** of financial markets

In the world of investing, one thing is sure – markets will go up and down as economies move through different cycles of growth, taking investor emotions along with them. Managing such emotions, at both the peaks of the market and in the valleys, is the hallmark of successful investors.

A diversified portfolio can prepare you for whatever happens in the market by managing risk and smoothing out potential returns. This can help you stay focused on the long-term trends of the market and manage your emotions in the face of short-term market fluctuations.

Diversification means holding different types of investments in your portfolio. The core of diversification is owning the appropriate mix of the basic asset classes: cash, fixed income and equities.

Each investment within a portfolio acts as a building block to create a solid foundation

cash

Cash and cash-equivalent investments provide a stable base for your portfolio, as well as supplying liquidity for you to tap into on short notice.

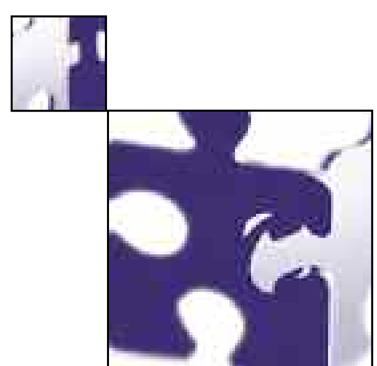
fixed income

Fixed-income investments generate cash flow and can provide stability to help protect your portfolio from volatility.

equities

Equities provide the greatest potential for long-term growth and protection against inflation.

The right mix of investments depends on your time horizon, comfort with volatility and investment objectives. With your advisor, you can create a diversified portfolio that can help you ride out market fluctuations so you can stay focused on the long term, knowing that your money is working for you.



Prepare yourself with a well-diversified portfolio

No one can reliably predict how a particular asset class will perform in any given year as markets and economies move through different cycles. A well-diversified portfolio contains a mix of all three asset classes (cash, fixed income and equities) so that a decline in one can be offset by growth in the others.

The chart below shows the relative performance of these asset classes over a 10-year period. In some years, such as 1999 at the height of the bull market, equities outperformed fixed income and cash. In the next three years, fixed income was the top performer due to declining interest rates, while equities experienced a bear market in 2001 and 2002.

Different economic conditions cause each asset class to perform differently. By balancing a mix of asset classes in a diversified portfolio, you are able to participate in the gains of the best-performing assets while being cushioned from the declines in others.

Focusing on the long term is also important. As the chart indicates, equities were not the top asset class every year, but still provided the highest average annual return over the 10-year period.

Diversification and maintaining a long-term view are two ways to prepare yourself, no matter what happens in the markets.

Asset classes do not move together

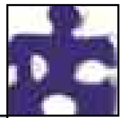
NO SINGLE ASSET CLASS LEADS THE MARKET YEAR AFTER YEAR. BY INCLUDING ALL THREE IN YOUR PORTFOLIO, YOU CAN PARTICIPATE IN MARKET GAINS WHILE BEING CUSHIONED FROM DECLINES.

Highest Returns

% = Annual Return	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Canadian Equities	37.7%	31.7%	10.3%	8.0%	8.7%	26.7%	14.5%	24.1%	26.8%	9.8%
U.S. Equities	28.9%	20.0%	7.4%	4.7%	2.4%	13.9%	12.4%	10.4%	17.3%	4.3%
International Equities	9.1%	14.1%	5.5%	-6.5%	-12.4%	6.6%	7.1%	6.5%	15.7%	3.8%
Fixed Income	4.8%	4.7%	-5.5%	-12.6%	-16.3%	5.3%	3.3%	2.6%	4.0%	-5.3%
Cash	-1.6%	-1.1%	-10.6%	-16.3%	-22.7%	2.7%	2.2%	1.6%	3.9%	-10.5%

Lowest Returns

Canadian equities – S&P/TSX Composite Total Return Index • U.S. equities – S&P 500 Total Return Index • International equities – MSCI EAFE Total Return Index • Fixed income – S&P/TSX Broad Canadian Bond Market Index • Cash – Scotia Capital Markets 30-Day T-Bill Index. All returns in Canadian dollars.

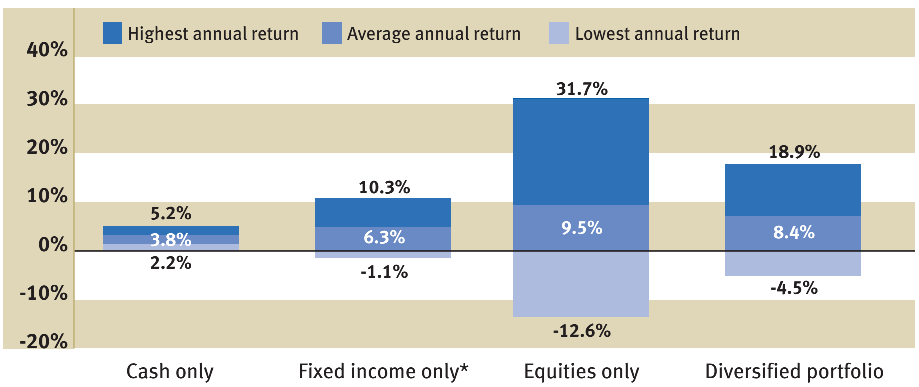


Balance risk and **returns** to benefit over the long term

The historical long-term performance of a well-diversified portfolio has always been rewarding. The bar chart below compares a diversified portfolio to each asset class over a recent 10-year period.

A diversified portfolio manages risk

A PORTFOLIO COMBINING CASH, FIXED INCOME AND EQUITIES PROVIDES 90% OF THE AVERAGE RETURN OF AN EQUITY-ONLY PORTFOLIO, BUT WITH LESS THAN 60% OF THE RISK.



Calendar year returns 1998 – 2007.
Cash – Scotia Capital Markets 30-Day T-Bill Index.
Fixed income – S&P/TSX Broad Canadian Bond Market Index.
Equities – S&P/TSX Composite Total Return Index.
Diversified portfolio invested in 5% cash, 35% fixed income, 60% equities.

* A portion of the fixed-income return over the past 10 years is attributable to the significant decline in interest rates. Historically, a 5% to 7% long-term return is a more reasonable target for fixed income.

As expected, cash produced the lowest returns. Fixed-income investments provided better returns, but lost value in some years. Equities had both the best years and the worst years.

The diversified portfolio containing all three asset classes performed nearly as well as equities, but with less risk. In fact, the diversified portfolio provided 90% of the average return of an equity-only portfolio, but with less than 60% of the risk. That's because it added the high returns from equities to its solid base of cash and fixed-income investments.

This shows how a diversified portfolio can balance risk and returns, so you can focus on your long-term investment plan.

Diversify with the right **combination**

Working with your advisor, you can determine your investor profile (your investment objectives, time horizon and level of risk) and establish the appropriate asset mix for your portfolio.

Whether your portfolio is comprised of mutual funds only or a mixture of mutual funds and Guaranteed Investment Certificates (GICs), there are investment solutions to match your objectives.

Balanced Funds – hold a mix of equity, fixed-income and cash investments.

RBC Select Portfolios – invest in a collection of RBC Funds spanning the three major asset classes.

RBC Select Choices Portfolios – composed of funds offered by leading companies including AGF, AIM Trimark, CI, Fidelity, Franklin Templeton, Mackenzie, RBC Asset Management and TD Mutual Funds.

RBC Model Portfolios – include GICs and mutual funds to help build a customized portfolio solution.

For the fixed-income portion of your portfolio, **Guaranteed Investment Certificates** may be an appropriate investment solution. Speak to your advisor about which GICs may be right for you.

No matter what investment approach you and your advisor choose, we have the investments to help you build a diversified portfolio.

Different ways to diversify further

To balance your portfolio across a greater number and variety of investments, you can choose additional funds that focus on:

- **Geographic Sector**
  Diversifying around the world gives access to opportunities not available in Canada, resulting in increased potential returns and reduced volatility.
- **Economic Sector**
  By holding investments across a broad range of industries, you can protect your portfolio from downturns in any one sector.
- **Management Style**
  Mutual funds with different management styles react uniquely to market conditions. Diversifying by management style can help to balance portfolio returns.
- **Market Capitalization**
  Diversifying by size – small-cap, mid-cap, or large-cap companies – ensures you are always exposed to potential growth opportunities.

We are pleased to offer a broad range of investments to help build better portfolios. How you and your advisor decide to diversify depends on your specific needs, your existing investments, and your desired level of involvement. Talk to your advisor about diversified portfolio protection that balances risk and reward.

To find out more about the comprehensive line-up of RBC Funds, contact your advisor.

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 GICs are offered by RBC Financial Group. RBC Funds are offered by RBC Asset Management Inc. and distributed through authorized dealers.

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