

Market Insight

Recent Volatility through the Patient lens

As at January 23, 2008

As of Tuesday's close, the Canadian TSX index has declined 8.6% in 2008, the S&P 500 is down 10.8% (-7.9% in Canadian dollar terms) and much of Europe and Asia are down between 12% and 15%. With market-volatility making front page news, clients are asking what they should do with their portfolios. In times of uncertainty and stress, the instinctive reaction is to retrench and reduce exposure to market gyrations. However, this behavior can lock-in paper losses and sacrifice future returns.



Source: MFC Global Investment Management

The chart to the left (Source: Bloomberg) displays how market volatility (blue line - VIX Index) has risen substantially over the past few months. Volatility has risen as markets have sold-off (green line - S&P 500) due to uncertainty around the declining US housing market, losses from various bond derivative contracts and a general fall in available liquidity.

Despite the temptation to sell holdings during periods of market stress, history has shown that investors are better off staying on track. The following table shows how historical down markets are

followed by recoveries that on average took 15 months and returned an annualized 30%. However, investors that sold near the end of the correction without participating in the recovery would have lost an average of 19%.



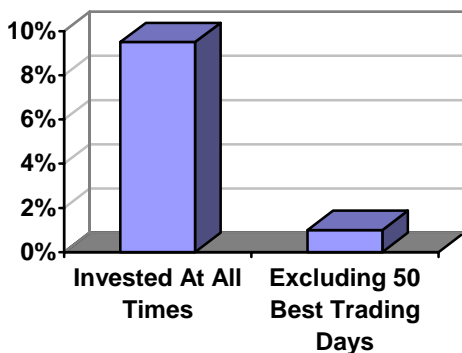
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Recoveries Follow Market Downturns			
Period	S&P/TSX Return	Post Annualized S&P/TSX Return	Time Period to Recover (months)
Q4'83 – Q3'84	-16%	47%	6
Q3'87 – Q4'87	-26%	19%	21
Q4'89 – Q4'90*	-23%	11%	34
Q1'94 – Q2'94	-12%	14%	13
Q2'96 – Q3'96	-6%	53%	2
Q3'97 – Q4'97	-8%	41%	3
Q2'98 – Q3'98	-28%	37%	16
Q3'00 – Q4'02	-45%	20%	39
Q3'06 – Q3'06	-5%	25%	4
Average	-19%	30%	15

Recoveries often include short bursts of very strong performance. Timing a market bottom and predicting when strong performance will occur is nearly impossible. In fact, many investors actually exit the market near the bottom and buy back in after the easy gains have been made. It is therefore critical that investors remain fully invested according to their long-term financial plan. To elaborate, research has shown that investors who missed the 50 best trading days on the S&P 500 between January 1978 and March 2007 reduced their annualized return from 9.5% to 1%.¹

The Benefit of Staying Invested

Annualized Returns Jan 1978 - Mar 2007



For many fund managers market corrections, media sensationalism and negative mass-market psychology create fantastic buying opportunities:

Mawer Investment Management Ltd: *“As much as this creates discomfort, it also brings opportunity to buy stocks that are driven lower than their fundamental value.”*

Alan Wicks, VP and Senior Portfolio Manager, MFC Global Investment Management: *“We are seeing more opportunities in the Canadian Market than we have in a long time. Valuations haven’t been this attractive since 1991.”*



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Despite the 'doom and gloom' reported by the press, global markets are quite healthy and any declines in corporate profits is likely priced into the market.

Mark Schmeer, CIO MFC Global Investment Management: *"Market volatility is likely to remain at heightened levels while the state of the economy becomes clearer, however further risks to the downside have lessened over the past few weeks."*

9 More Reasons to Stay Invested:

1. Global economic growth should remain healthy despite the slower US growth.
2. Central banks around the world have responded with a coordinated effort to stimulate the economy and enhance liquidity and growth.
3. Inflation should remain in check providing room for central banks to lower interest rates.
4. Stock valuations are fair unlike the bubble that existed after the technology rally of the late 90's.
5. Corporate balance sheets are generally strong and well positioned to weather a slowing environment (financials are being challenged).
6. Inventory levels are low allowing businesses to quickly respond to changes in demand.
7. Employment and wage growth are still positive, albeit slowing.
8. Equities should also find support from a lack of alternative investments, as dividend yields on many stocks are now competitive with bond yields.
9. The stock markets may trade lower still due to negative momentum and investor psychology, but the market appears to have discounted much of the impending economic slowdown.

Annualized returns were used to provide a standard measure for comparing returns during recoveries.

Source: MFC Global Investment Management

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