

WHY WORK WITH A FINANCIAL ADVISOR?



Because that relationship may be one of your best investments.



VALUE OF AN
ADVISOR

2024

INTRODUCTION

What's next? That is the eternal question we can ask ourselves about life – and about the financial markets.

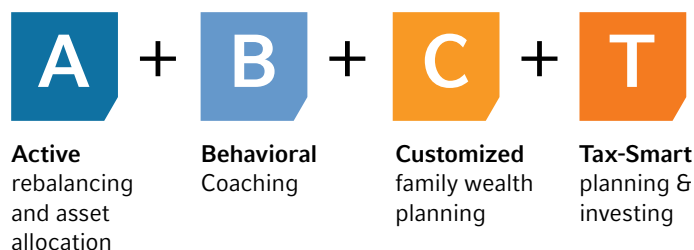
Without a crystal ball there is no way of knowing what may come next in either our lives or in the markets. That's why we should always be prepared for any potential situation. But we can generally assume that our lives will follow a certain pattern – we're most likely going to navigate careers, relationships, and major financial events (like having children or buying a home) until we get to an age where we then enjoy the fruits of our labors.

We can't make such assumptions about the markets, however. There are any number of unforeseen events that could jostle them. Just consider the past few years in which the markets have been buffeted by wars, a global pandemic, corporate bankruptcies, surging inflation, or the emergence of accessible artificial intelligence. We just can't predict what may be on the horizon. And in a year where more than half of the global population¹ is going to elect new leaders, the potential for volatility is significant.

That's why we at Russell Investments believe all investors should work with a financial advisor. We believe advisors are never more important than during periods of the unknown – which, frankly, is all the time! We truly can never know what may come next in our lives or the markets.

We believe that advisors play a critical role in steering investors through the various market environments they may encounter over their lives – and through the various major life events they undergo. Indeed, for more than a decade we have conducted an annual study into the variety of services that an advisor typically provides to their clients. We've also estimated the value that represents. And year over year, our Value of an Advisor study has indisputably shown that an advisor who delivers holistic wealth management services provides value that far exceeds the typical fee charged.

Our study is based on a simple formula that shows the value that advisors add by helping ordinary people gain financial security.



¹ Source: <https://www.economistgroup.com/group-news/the-economist/2024-will-put-a-spotlight-on-the-global-state-of-democracy-as-more-people>

A IS FOR ACTIVE REBALANCING AND ASSET ALLOCATION

Rebalancing is a critical component of wealth management, but your advisor may never have discussed it with you.

Why? Well because many advisors take rebalancing for granted. It's often automated once your asset allocation is determined. Let's remember that your asset allocation was selected to fit your goals, circumstances and preferences. Rebalancing ensures that your asset allocation – or the mix of equities, fixed income, alternatives and other assets in your portfolio – remains in line with the level of risk that you feel comfortable with.

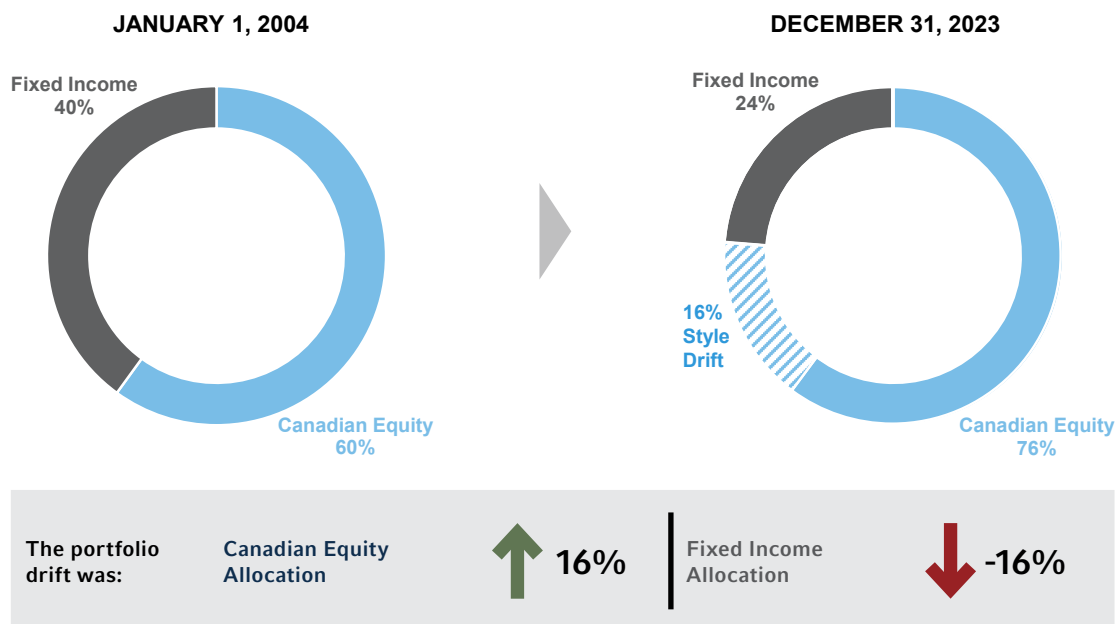
It's unlikely you would rebalance your portfolio on your own. Rebalancing is buying more of the securities in your portfolio that have fallen and selling those that have risen. In other words: selling winners and buying losers. Would you do that willingly? Probably not.

That's why we consider rebalancing a vital activity for an advisor to do. By ensuring your portfolio is regularly rebalanced, your advisor is making sure that it remains in line with the original mix of stocks, bonds, cash, and alternatives. Remember, that asset allocation was chosen to fit your risk comfort zone.

What could happen if your portfolio wasn't regularly rebalanced? Let's say you purchased a hypothetical balanced portfolio of 60% Canadian equities and 40% Canadian fixed income in January 2004 and never rebalanced. By the end of 2023 the portfolio would look very different. That original balanced portfolio would have become a growth portfolio, with approximately 76% invested in equities and only 24% in fixed income. This would be a more volatile portfolio than one with a higher allocation to fixed income, which generally has a smoother performance path.

WHEN BALANCED BECOMES THE NEW GROWTH

The potential result of an un-rebalanced portfolio



For illustrative purposes only. Not intended to represent any actual investment. Source: Russell Investments. Analysis based on data from 1/1/2004 - 12/31/2023. Initial asset allocation: 60% S&P/TSX Composite Index (Canadian equity) and 40% Bloomberg Canada Aggregate Index (Canadian fixed income). Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

B IS FOR BEHAVIORAL COACHING

What happens when markets get jittery? Do you get jittery too? If so, you're a normal investor. When it comes to our retirement savings, most of us prefer a smooth climb over the years.

You may be okay with a little volatility, but wild swings in the markets could prompt you to pull out your investments and lay low for a while. That would be a mistake: after all, markets have traditionally bounced back from major declines. Indeed, the S&P/TSX Composite Index has ended the year positively 74% of the time from 1924-2023.

That's why advisors who keep their clients calm – and invested – during volatile periods have value.

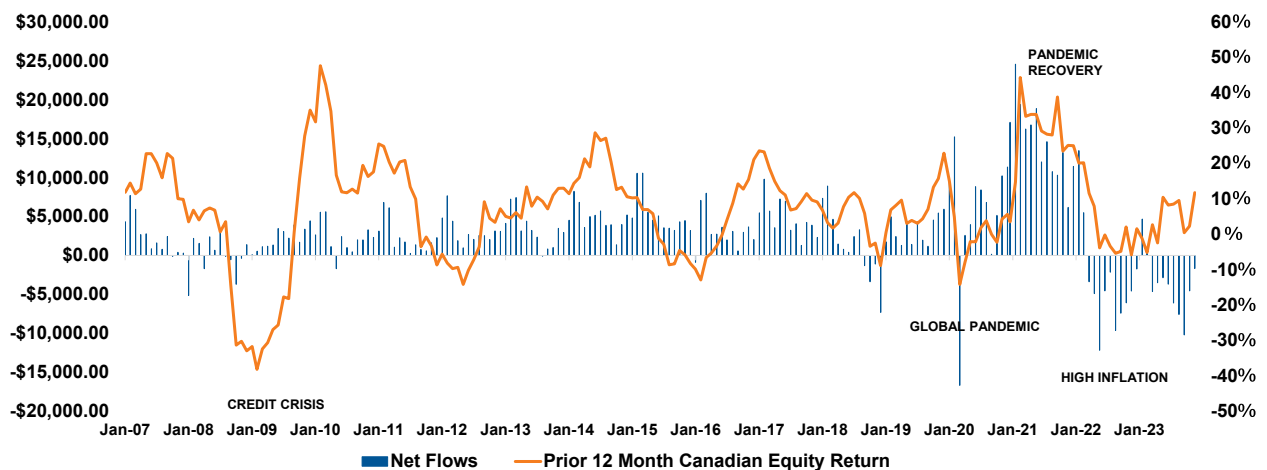
Investors who are left to their own devices are prone to chase performance. Similarly, investors are prone to vote with their feet when markets get difficult. The chart below shows the flow of money into and out of Canadian equity mutual funds and passive ETFs over the 16-year period ending December 2023.

The blue bars represent the net flow of cash, while the orange line represents the returns for the 12-month trailing period from the purchase date. As you can see, the flows into mutual funds and ETFs lagged the orange line – both up and down. That means investors bought into the market after it had already begun to climb and sold after it had begun to fall. In other words, they bought high and sold low.

INVESTORS DON'T ALWAYS DO WHAT THEY SHOULD

Recent demonstration of a "buy high and sell low" mentality

2007 – 2023 Canada open ended mutual fund and ETF flows vs market



Data shown is historical and not an indicator of future results. Sources: LSEG DataStream, Russell Investments. Fund flow based on IFIC Net Sales of Domestic Equity Flows inclusive of mutual funds and ETFs; due to data limitation, prior to Jan 2007, flows represented by mutual funds only. Net flows capture cumulative cash flows during the periods when investor outflows were most extreme. For Credit Crisis = Sept 2008 – Nov 2008, Global Pandemic = March 2020, High Inflation = April 2022 – December 2022. Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly.

Your advisor can protect you from your natural human instinct to act contrary to your best interests in volatile markets.

C IS FOR CUSTOMIZED EXPERIENCE AND FAMILY WEALTH PLANNING

We can all agree that our society has become more complicated and so have our lives.

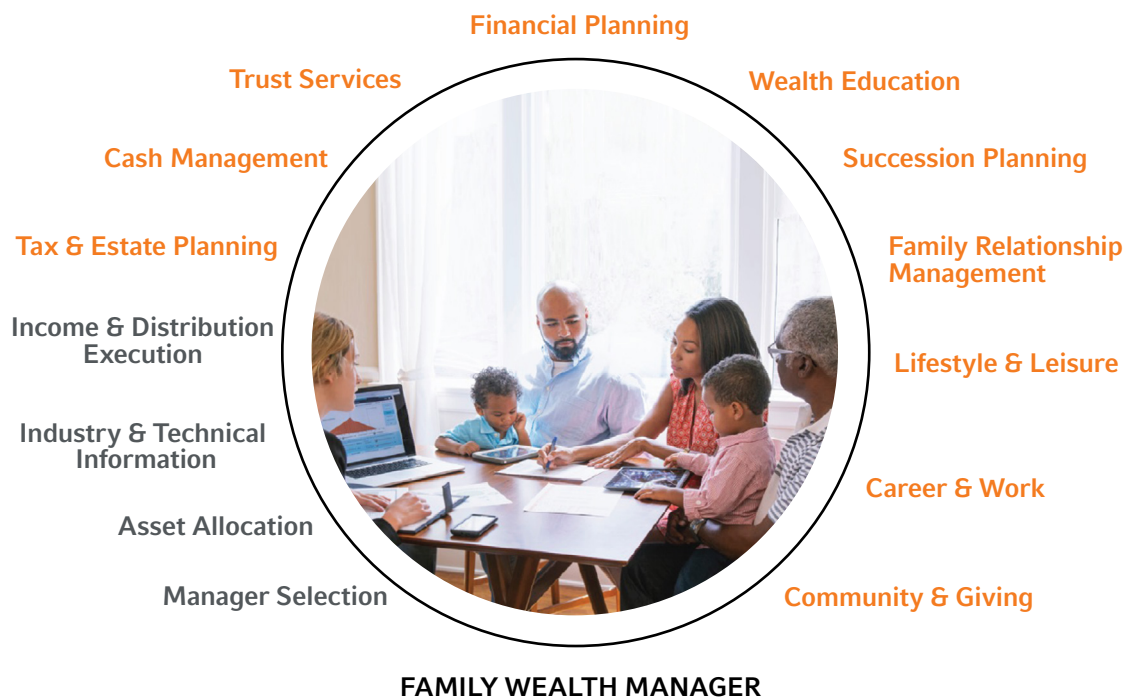
Your advisor can help you through the many events you are likely to go through over your investment journey. Indeed, many advisors now offer a multitude of services, that can cover everything from your insurance needs, your wish to leave a legacy, your charitable planning and other goals – even helping you structure your investments to reflect your value.

Often, advisors build a network of experts—estate lawyers, insurance planners, accountants, lifestyle consultants – to help you create a *holistic* retirement plan that considers more than just how much money you will have to spend. It can help you ensure there is an orderly transfer of wealth, and consider your family’s overall financial situation.

This is more than just a basic financial plan and selecting assets for your portfolio. It’s likely that you and members of your family – your spouse and perhaps your children – meet with your advisor regularly to discuss recent life changes and evolving financial goals. All of you together are helping build an investment plan that considers your family’s unique goals, needs and circumstances.

The extra services and deeper discovery conversations, the expanded planning and coordinating are time-consuming. Personalized services are quite different from basic financial plans. This can represent significant value to you as it can ensure a customized financial journey.

THE WEALTH MANAGER OF THE FUTURE



T IS FOR TAX-SMART PLANNING & INVESTING

Taxes can be complicated and confusing.

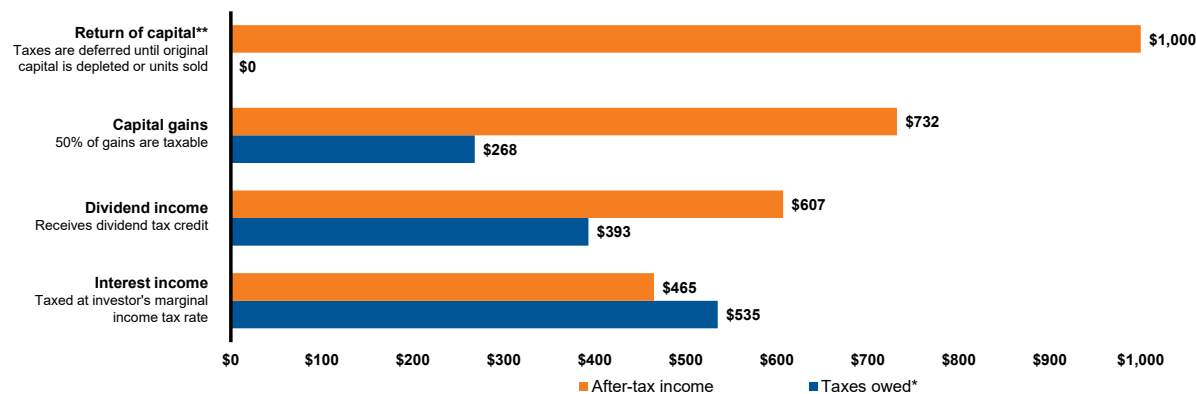
You can review your tax forms and identify how much tax you have paid on capital gain distributions, dividends, and interest payments received from your investments. But those aren't the only taxes that may impact your net returns – the money that goes into your pocket. There are also investment and implementation decisions that result in more money going into the government's pocket. Those are difficult to see and even more difficult to understand.

Working with a tax-smart advisor, who incorporates tax management into the investment process, can help you reduce the taxes on your portfolio and add substantial value.

We call the tax costs that impact a portfolio's returns "tax drag." When your advisor considers the impact of taxes throughout the entire investing process – from initial asset allocation to management of taxable and tax-deferred portfolios, to the most tax-efficient ways to withdraw funds – they can take action to reduce that tax drag.

One of the simplest actions an advisor can take is to incorporate tax-managed funds into the investment portfolio. Tax-managed funds pay little to no capital gain distributions. Alternatively, Corporate Class funds are also a tax-efficient option as they pay distributions in the form of Return of Capital.

DIFFERENCES IN TAXATION FOR \$1,000 OF DISTRIBUTIONS



For illustrative purposes only.

All examples shown are based on the following 2024 Ontario marginal tax rates for calculating the tax liabilities: interest income = 53.5%, Canadian eligible dividends = 39.3% and capital gains = 26.8%

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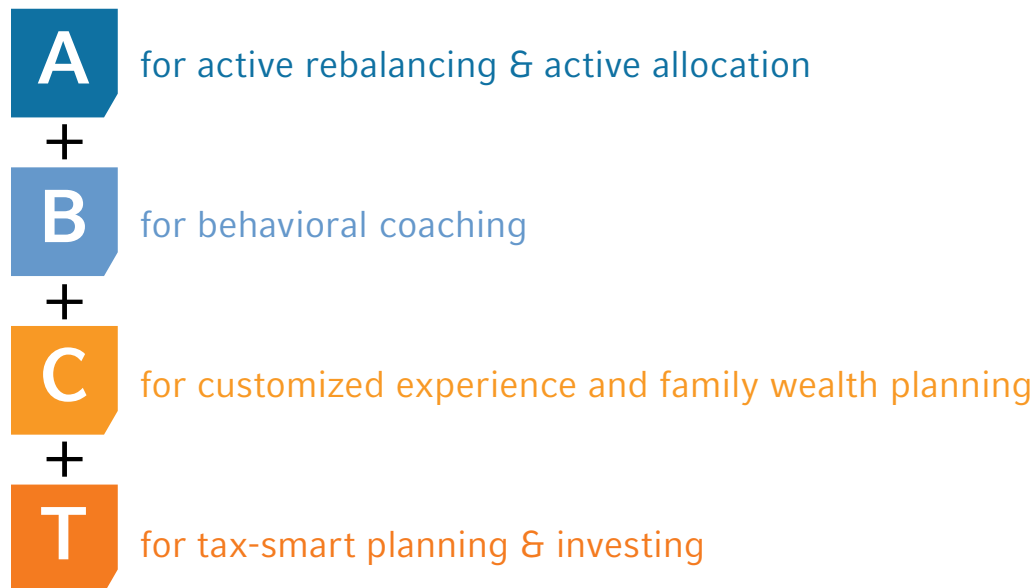
Because that can be your best **investment**.

Wealth planning is one of the most important services an advisor can provide, and it requires an in-depth understanding of your entire personal and financial situation. Professional guidance to uncover and comprehend what's most important to you takes time and knowledge.

With the wealth of information available to us now, you may think you understand the markets enough to invest for yourself or that getting a financial professional to manage your assets is expensive. However, investing is challenging, and emotional responses in periods of volatility can undo years of past or future success. Having an advisor to filter capital market news or your own emotions can create significant value when it is needed most.

The services an advisor provides exceed simply selecting investment products for you. Investment advisors can conduct a full 360-degree spectrum of wealth planning, from investments to retirement and estate planning, for you and your family. They can also provide guidance on taxation to increase the amount of your savings that stay in your pocket and not the government's.

The list below shows some of the most important services an advisor can provide, all of which we believe hold value to you, the investor.



FOR MORE INFORMATION:

Reach out to your financial advisor or visit russellinvestments.com/ca



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Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

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The Investment Funds Institute of Canada (IFIC) comprises 150 organizations, including fund managers, distributors and industry service organizations representing approximately 87% of mutual fund assets under management (AUM) and approximately 81% of ETF AUM.

S&P/TSX Composite Index: The benchmark Canadian index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange.

The **Bloomberg Canada Aggregate Bond Index** measures the Canadian investment grade fixed income market and is comprised of government, government-related and corporate securities. Past performance does not guarantee future performance.

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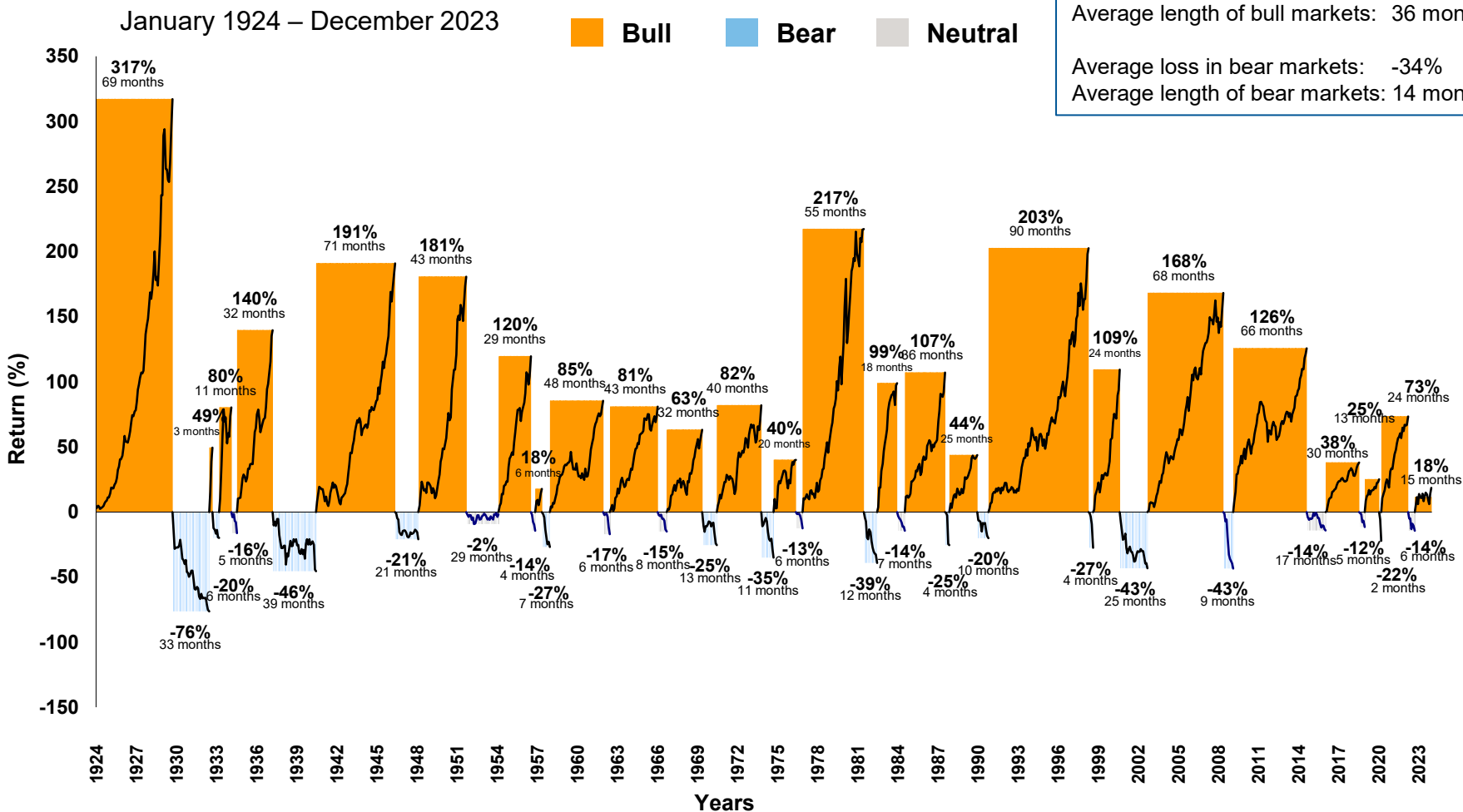
First used: June 2024. RETAIL-04147 [EXP-5/25]

Bull vs. Bear Market

Canadian Equity



Bull & Bear Facts
 Average gain in bull markets: +107%
 Average length of bull markets: 36 months
 Average loss in bear markets: -34%
 Average length of bear markets: 14 months



Source: Canadian Institute of Actuaries, BNY Mellon, Thomson Reuters DataStream, Russell Investments. Note: Returns prior to 1957 are based on the Report on Canadian Economic Statistics, June 2009, from the Canadian Institute of Actuaries. Returns 1957 to current are based on total return of the S&P/TSX Composite Index. Indexes and/or benchmarks are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. As of December 2023

Bull, Bear and Neutral markets:

Bull markets are markets where the cumulative returns exceeded 20%;

Bear markets are determined to be markets where cumulative returns were lower than -20%;

Neutral markets are defined as those where there was no clear directional trend and returns were cumulatively in the range of +5% to -19%.



Important information

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.

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Annual Total Returns (%) for Key Market Indexes (2008 – 2023)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Best performing	CANADIAN BONDS 6.4	CANADIAN SMALL CAP 62.4	CANADIAN SMALL CAP 35.1	CANADIAN BONDS 9.7	EMERGING MARKETS 16.0	US SMALL CAP STOCKS 48.1	US LARGE CAP 23.9	US GROWTH 26.0	CANADIAN SMALL CAP 38.5	EMERGING MARKETS 28.7	US GROWTH 6.7	US GROWTH 29.0	US GROWTH 35.8	CANADIAN LARGE CAP 28	US VALUE -1.3	US GROWTH 37.4
	60% STOCKS 40% BONDS MIX -14.8	EMERGING MARKETS 52.0	US SMALL CAP STOCKS 20.2	US GROWTH 4.7	INT'L STOCKS 15.3	US GROWTH 43.2	US VALUE 22.9	US LARGE CAP 21.6	CANADIAN LARGE CAP 21.4	US GROWTH 21.1	US LARGE CAP 4.2	US LARGE CAP 24.8	US SMALL CAP STOCKS 17.9	US LARGE CAP 27.6	CANADIAN LARGE CAP -6.2	US LARGE CAP 22.9
	US SMALL CAP STOCKS -17.2	CANADIAN LARGE CAP 31.9	CANADIAN LARGE CAP 13.8	US LARGE CAP 4.6	US VALUE 14.9	US VALUE 41.6	US GROWTH 22.6	INT'L STOCKS 19.5	US SMALL CAP STOCKS 17.1	INT'L STOCKS 17.4	CANADIAN BONDS 1.4	CANADIAN LARGE CAP 21.9	EMERGING MARKETS 16.6	US GROWTH 24.8	INT'L STOCKS -7.8	INT'L STOCKS 15.7
	US VALUE -20.3	US GROWTH 16.4	EMERGING MARKETS 13.0	US VALUE 2.4	US SMALL CAP STOCKS 13.8	US LARGE CAP 41.3	US SMALL CAP STOCKS 14.3	US VALUE 15.0	US VALUE 14.3	US LARGE CAP 13.8	US VALUE -0.3	US VALUE 19.9	US LARGE CAP 16.3	US VALUE 24.3	CANADIAN SMALL CAP -9.3	US SMALL CAP STOCKS 13.8
	US LARGE CAP -21.2	60% STOCKS 40% BONDS MIX 15.7	US GROWTH 11.5	60% STOCKS 40% BONDS MIX 0.5	US LARGE CAP 13.4	INT'L STOCKS 31.6	CANADIAN LARGE CAP 12.3	US SMALL CAP STOCKS 14.6	US LARGE CAP 8.1	CANADIAN LARGE CAP 9.8	60% STOCKS 40% BONDS MIX -2.3	US SMALL CAP STOCKS 19.2	CANADIAN SMALL CAP 12.9	CANADIAN SMALL CAP 20.3	60% STOCKS 40% BONDS MIX -9.4	CANADIAN LARGE CAP 12.0
Weakest performance	US GROWTH -23.0	INT'L STOCKS 12.5	US VALUE 10.2	US SMALL CAP STOCKS -1.8	US GROWTH 12.7	60% STOCKS 40% BONDS MIX 14.3	60% STOCKS 40% BONDS MIX 10.9	60% STOCKS 40% BONDS MIX 5.1	60% STOCKS 40% BONDS MIX 7.9	60% STOCKS 40% BONDS MIX 8.4	US SMALL CAP STOCKS -3.0	INT'L STOCKS 16.5	CANADIAN BONDS 8.7	US SMALL CAP STOCKS 13.8	CANADIAN BONDS -11.7	60% STOCKS 40% BONDS MIX 12.0
	INT'L STOCKS -28.8	US SMALL CAP STOCKS 8.0	60% STOCKS 40% BONDS MIX 9.7	CANADIAN LARGE CAP -9.1	CANADIAN LARGE CAP 8.1	CANADIAN LARGE CAP 13.3	CANADIAN BONDS 8.8	CANADIAN BONDS 3.5	EMERGING MARKETS 7.7	US SMALL CAP STOCKS 7.1	INT'L STOCKS -5.6	CANADIAN SMALL CAP 15.8	60% STOCKS 40% BONDS MIX 8.6	60% STOCKS 40% BONDS MIX 12.3	US LARGE CAP -12.2	US VALUE 8.7
	CANADIAN LARGE CAP -31.2	US LARGE CAP 7.4	US LARGE CAP 9.1	INT'L STOCKS -9.5	60% STOCKS 40% BONDS MIX 7.9	CANADIAN SMALL CAP 7.6	EMERGING MARKETS 7.0	EMERGING MARKETS 2.4	US GROWTH 3.7	US VALUE 5.8	EMERGING MARKETS -6.5	60% STOCKS 40% BONDS MIX 15.8	INT'L STOCKS 6.4	INT'L STOCKS 10.8	EMERGING MARKETS -13.9	EMERGING MARKETS 7.3
	EMERGING MARKETS -41.4	CANADIAN BONDS 5.4	CANADIAN BONDS 6.7	EMERGING MARKETS -16.1	CANADIAN BONDS 3.6	EMERGING MARKETS 4.3	INT'L STOCKS 4.1	CANADIAN LARGE CAP -7.8	CANADIAN BONDS 1.7	CANADIAN SMALL CAP 2.8	CANADIAN LARGE CAP -7.6	EMERGING MARKETS 12.9	CANADIAN LARGE CAP 5.6	CANADIAN BONDS -2.5	US SMALL CAP STOCKS -14.7	CANADIAN BONDS 6.7
	CANADIAN SMALL CAP -45.5	US VALUE 1.7	INT'L STOCKS 2.6	CANADIAN SMALL CAP -16.4	CANADIAN SMALL CAP -2.2	CANADIAN BONDS -1.2	CANADIAN SMALL CAP -2.3	CANADIAN SMALL CAP -13.3	INT'L STOCKS -2.0	CANADIAN BONDS 2.5	CANADIAN SMALL CAP -18.2	CANADIAN BONDS 6.9	US VALUE 1.1	EMERGING MARKETS -3.1	US GROWTH -23.8	CANADIAN SMALL CAP 4.8

Sources:

Canadian Large Cap
S&P/TSX 60 INDEX¹

A float-adjusted market capitalization index, comprising of Canadian incorporated companies with established track records. Only stocks with a float turnover exceeding 3.5 are considered for inclusion in the "60."

Canadian Small Cap
S&P/TSX CANADIAN SMALL CAP INDEX¹

Float-adjusted and market cap weighted, this index was developed with industry input as the ideal benchmark for those with small cap exposure of the Canadian equity market.

Canadian Bonds
FTSE TMX CANADA UNIVERSE BOND INDEX²

An index of approximately 750 bonds with a term to maturity of one to 30 years, designed to reflect the Canadian bond market. Prior to 2006: RBC CM Canadian Bond Market Index.

US Large Cap
S&P 500 INDEX

A capitalization-weighted index comprising 500 industrial, utility, transportation, and financial companies of the US market. The index represents about 75% of NYSE market capitalization and 30% of NYSE issues.

US Small Cap Stocks
RUSSELL 2000[®] INDEX

Measures the performance of the 2,000 smallest companies in the Russell 3000[®] Index, representative of the US small capitalization securities market.

US Growth
RUSSELL 3000[®] GROWTH INDEX

Measures the performance of those Russell 3000[®] Index companies with higher price-to-book ratios and lower forecasted growth values, representative of US securities exhibiting growth characteristics.

US Value
RUSSELL 3000[®] VALUE INDEX

Measures the performance of those Russell 3000[®] Index companies with lower price-to-book ratios and lower forecasted growth values, representative of US securities exhibiting value characteristics.

International Stocks
MSCI EAFE INDEX³

An index, with dividends reinvested, representative of the securities markets of 20 developed market countries in Europe, Australia and the Far East.

Emerging Markets
MSCI EMERGING MARKETS INDEX

A free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

60% Stocks 40% Bonds Mix

Represented by 30% Canadian stocks (S&P/TSX COMP), 15% US stocks (S&P 500), 15% International stocks (MSCI EAFE), 40% Canadian bonds (1995–2005 RBC CM Canadian Bond Market Index; 2006 – Current FTSE TMX Canada Universe²).

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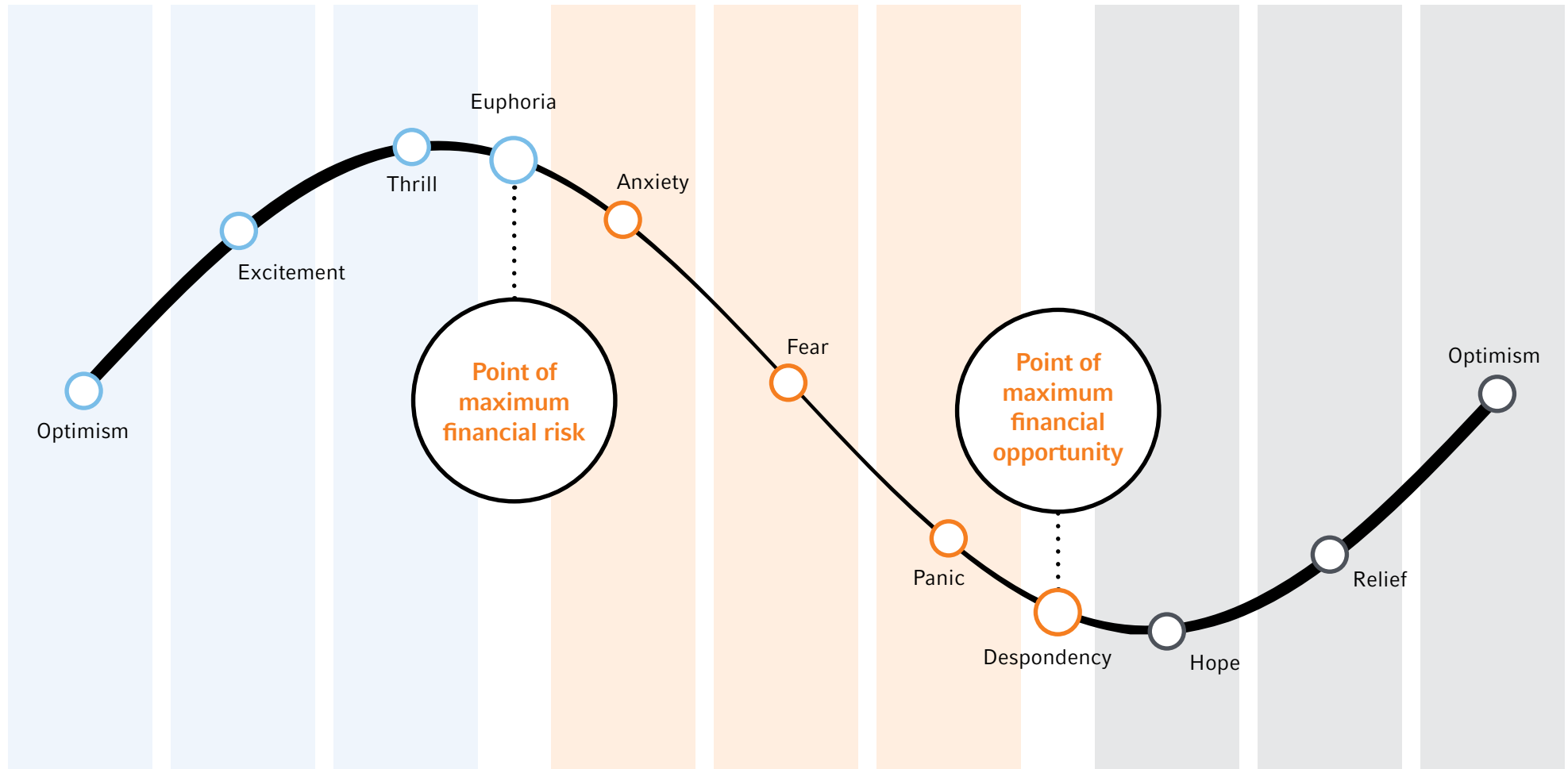
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THE MARKET CYCLE OF EMOTIONS

Most investors are aware of market cycles; and how you feel about the market often runs in cycles as well. This chart identifies how you may be feeling during different phases of the market cycle.



Source: Russell Investments.

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KEEP CALM AND STAY INVESTED

3 GUIDELINES TO KEEP IN MIND IN VOLATILE MARKETS



We are faced with headlines every day that may cause us to think about bailing on investments. Whether it's worries about economic growth, geopolitical tensions or inflation, the news can be very distracting.

On days where headlines are alarming and investors like you are wondering what's happening to your savings, it's more crucial than ever to focus on the bigger picture and your long-term goals. At Russell Investments, we believe that investors can avoid missteps that can lead to bigger shortfalls than they are already facing. Recent events have served as a reminder of this. Investing can be uncomfortable for a lot of people, but does it have to be?

It's important to remember to stick to your long-term financial plan and avoid emotional, headline-driven decisions. To help ease some of the angst, consider these three guidelines to help you keep things in perspective, and stay calm and invested.

1. No one (really) can time the market

Even the most sophisticated investors will tell you that it is virtually impossible to accurately predict the market's short-term moves. In fact, mistiming can have a severe negative impact on investment returns. In a low growth/lower return environment, what does this mean for investors saving for retirement? In today's reality, where investors are more likely than ever to face retirement income gaps, they can't afford to miss out on returns.

We believe in the power of being invested over the long term. Not being invested (strategy #5 in Exhibit 1), and simply leaving money in cash, yields by far the worst ending wealth of any investment option. Even investing your money on the worst days of the market (strategy #4) is still more favorable than not investing at all.

2. Nothing, especially volatility, lasts forever

There have been many times throughout history where markets have declined—but these relatively short periods are most often followed by the most favorable returns. Unfortunately, due to loss aversion¹—one of the principles of behavioral economics—people tend to remember the bad twice as much as the good². Despite the market's long-term tendency to rise, even a few bad days can cause some investors to rethink their investment strategy.

Since 1924, Canadian stocks have more often finished the calendar year in positive rather than in negative territory—in fact, 74% of the time³, as evidenced in Exhibit 2. It's extremely challenging to predict whether a calendar year will be positive or negative.

In the financial markets, hindsight is forever 20/20, but foresight is legally blind. And thus, for most investors, market timing is a practical and emotional impossibility.

Benjamin Graham,
The Intelligent Investor

¹ Loss aversion is people's tendency to prefer avoiding losses to acquiring equivalent gains.

² Source: Seeking Alpha: The Persistence of Aversion: Why Investor Pains Hurts Twice. <https://seekingalpha.com/article/4240745-persistence-of-aversion-why-investor-pain-hurts-twice>

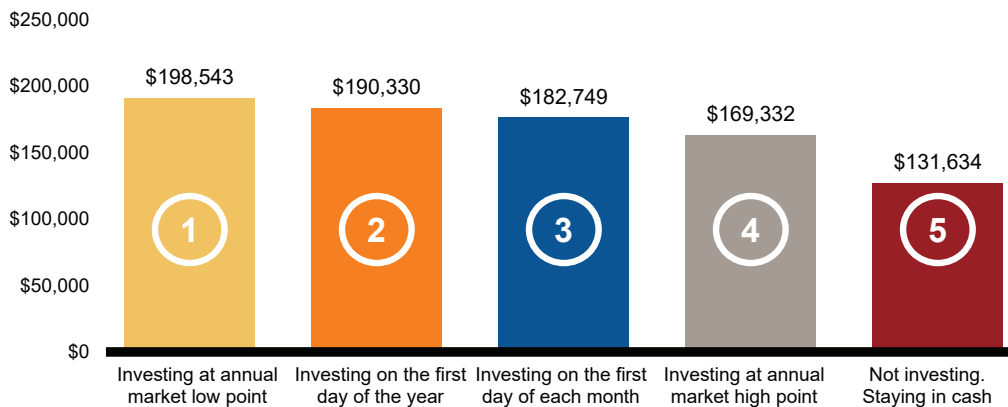
³ Represented by the S&P/TSX Composite Index from 1924-2023. Source: Confluence

Exhibit 1: The power of being invested over the long term

1 Perfect timing	2 First of year	3 Dollar cost averaging	4 Perfectly wrong timing	5 Holding cash, no investment
This strategy is ideal, yet implausible.	Investing your money for the most amount of time can yield the most gain in most market environments	A popular rules-based strategy. Can help investors cope with uncertain or volatile markets.	Despite bad timing, assets invested in the market may grow faster than if left in cash.	Holding cash too long can result in the least growth of wealth.

Hypothetical ending wealth after investing \$12,000 per year for 10 years

Period ending December 31, 2023



Note that one year represents a 12-month period ending the last day of December each year.

Assumes a one-time investment of \$12,000 per year into the S&P/TSX Composite Index with no withdrawals between December 31, 2013 and December 31, 2023. Cash return based on return of \$12,000 invested each year in the FTSE Canada 91-Day T-Bill Index without any withdrawals between December 31, 2013 and December 31, 2023. Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Hypothetical analysis provided for illustrative purposes only.

3. Diversification matters

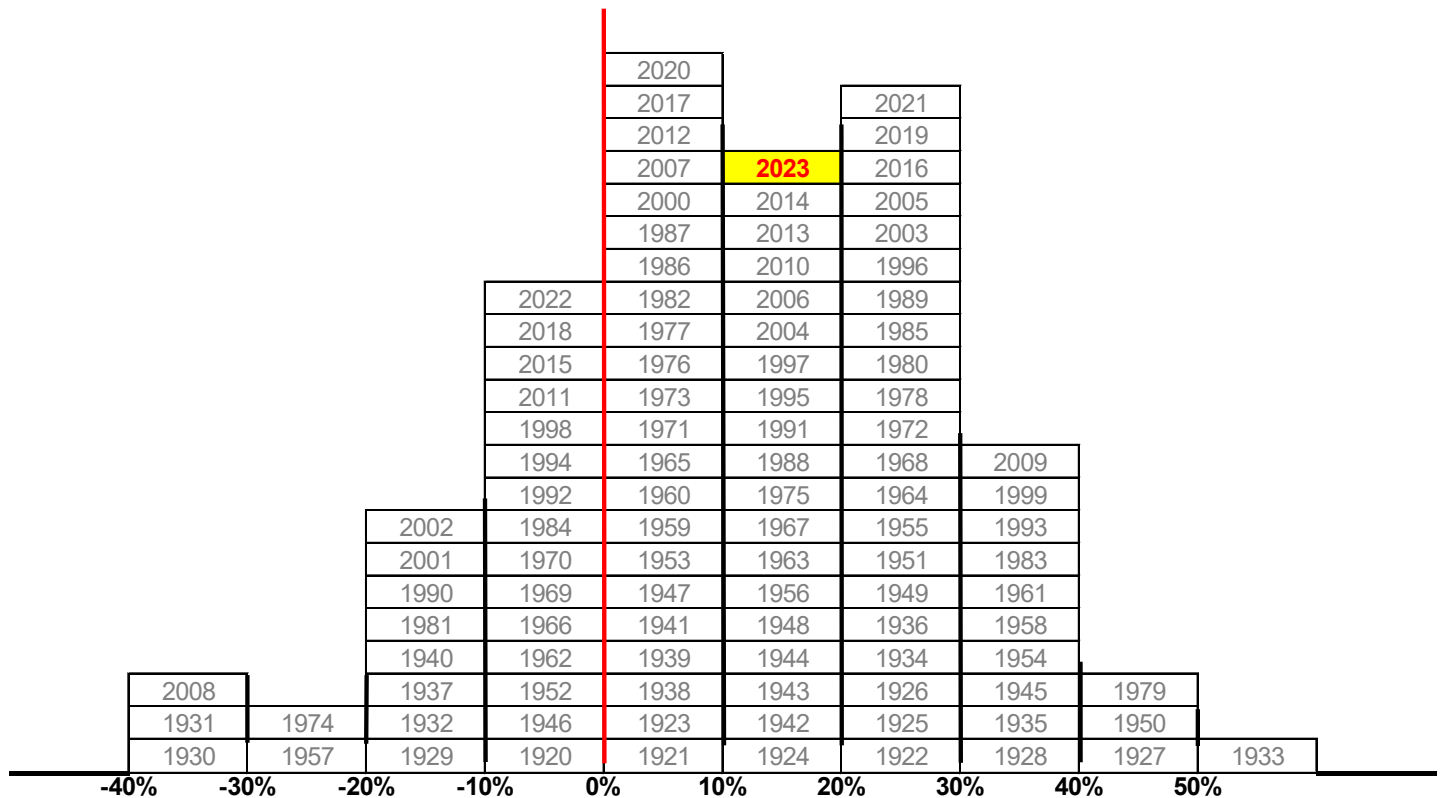
Russell Investments has consistently advocated for investors to consider a global multi-asset approach to investing. We believe doing so may put investors on a smoother path toward meeting goals, while also helping to manage risk. Put simply, investors diversify because the future is uncertain, and no one can predict with certainty which asset class will win or lose over the upcoming market cycles.

“The only investors who shouldn’t diversify are those who are right 100% of the time.”
John Templeton⁵

⁵ Source: Financial Express: How legendary investor John Templeton learned to put his eggs in different baskets, by Sushruth Sunder. <https://www.financialexpress.com/market/how-legendary-investor-john-templeton-learned-to-put-his-eggs-in-different-baskets/847894/>

Exhibit 2: Historically it has paid to own stocks

CALENDAR YEAR STOCK RETURNS - CANADA



Represented by the S&P/TSX Composite Index from 1924-2023. Source: Confluence.

Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

The bottom line

While navigating uncertainty and extreme market volatility is difficult, it's important to keep the big picture in mind and stay focused on your long-term goals. Historically, over the long term, markets have been positive more often than negative, as shown in Exhibit 2. Volatility is a reality, even in positive markets, and diversification is a tool every investor can rely upon to help withstand market corrections. Rather than reacting to volatility and trying to time short-term market gyrations, Russell Investments believes that investments should be based on personal long-term goals, time horizon, financial circumstances and risk tolerance, not on what markets are doing at a given moment. Economic uncertainty will always be a cause for anxiety, so it's important to remember these guidelines and to speak with your financial advisor when the markets get choppy.

About Russell Investments

Russell Investments is a leading global investment solutions firm providing a wide range of investment capabilities to institutional investors, financial intermediaries, and individual investors around the world. Building on an 87-year legacy of continuous innovation to deliver exceptional value to clients, Russell Investments works every day to improve the financial security of its clients.

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Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Diversification and strategic asset allocation do not assure a profit or protect against loss in declining markets.

Dollar Cost Averaging does not assure a profit or prevent a loss in declining markets, and you should consider your ability to continue investing during low price levels.

S&P/TSX Composite Index: The benchmark Canadian index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange.

FTSE Canada 91-Day T-Bill Index: A benchmark that tracks the performance of 3-month Canadian government treasury bills.

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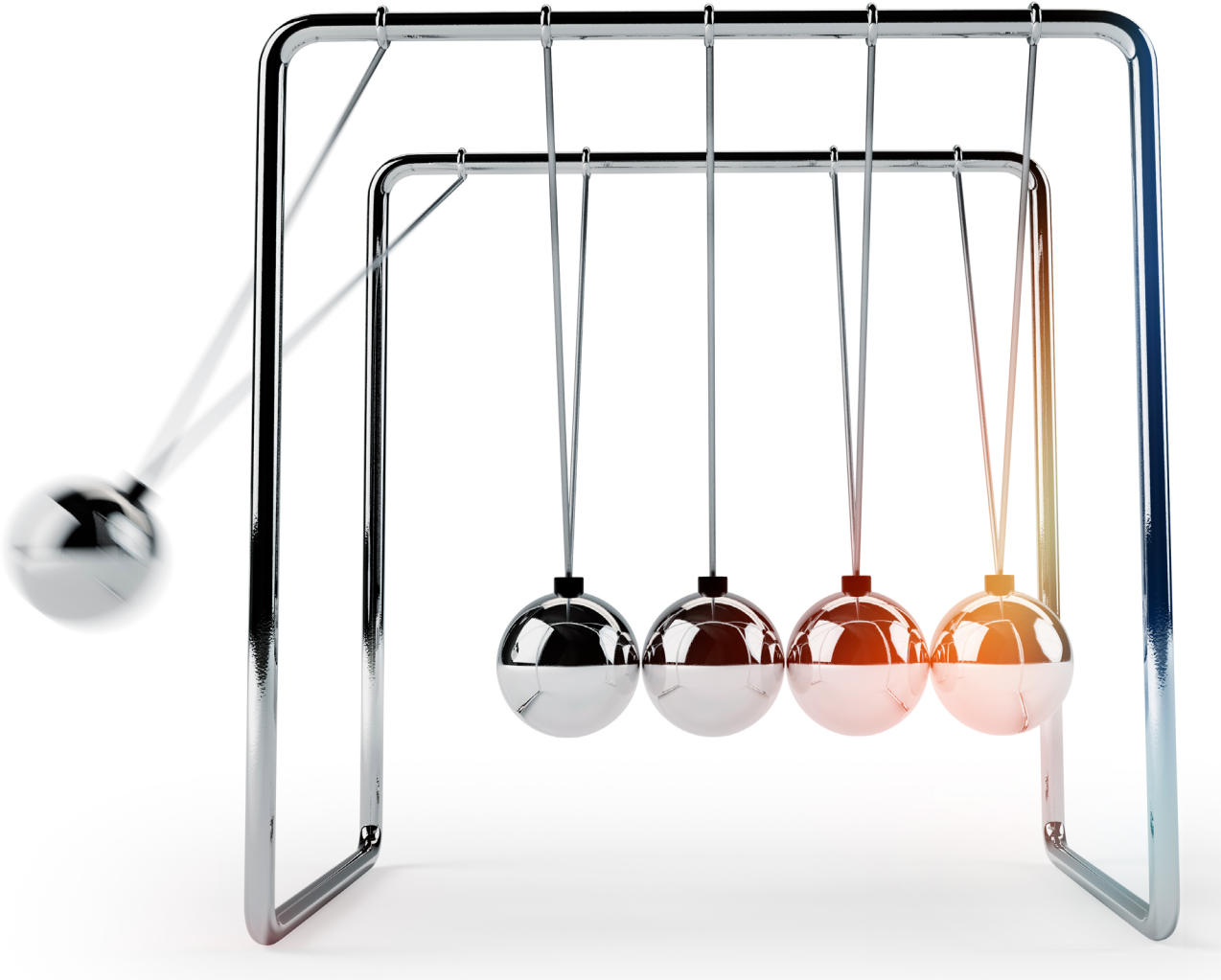
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BEHAVIOR



HOW TO AVOID COMMON BEHAVIORAL BIASES



Why do investors react differently to the same market event?

It depends on a number of factors, such as what the investor's objectives are, including their risk tolerance and return target, what their beliefs are about where they are in the market cycle and what markets will do next within the investor's time horizon.

For example, if markets fall 10% and news headlines about an increased probability of near-term recession fuel anxiety in investors' minds, the following may happen:

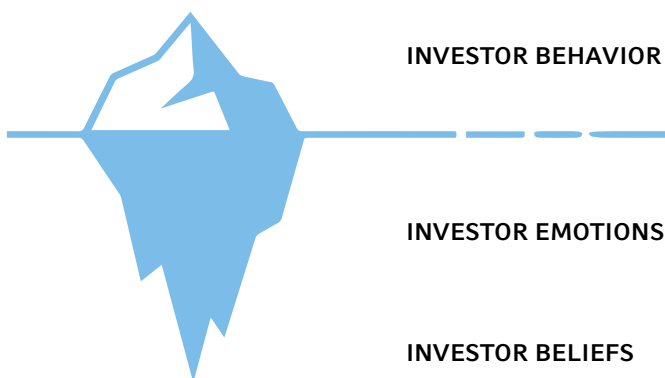
- A common response may be to stop investing until markets stopped falling;
- Some worried investors may even start selling in case it's the start of a bear market;
- Contrarian investors may see the market correction as an opportunity to buy stocks 'on sale' at lower prices.

Same event. Three different types of behaviors.

Conversely, if markets or particular asset classes, sectors or stocks rally, the following may happen:

- A common response may be to follow the herd and join in the buying activity, bidding up prices;
- Some cautious investors may wait to see if the rally will be sustained before investing;
- Contrarian investors may sell because they believe the prices are too high.

Some beliefs may lead to successful investment strategies and behaviors. However, other beliefs may lead to behavioral biases that are counterproductive and jeopardize the likelihood of achieving an investor's objectives. This could ultimately have a long-term negative impact on their wealth.



Examples of behavioral biases & portfolio implications

To understand what these biases are and why investors exhibit them, we need to remember that our human brains are hardwired for a world of limited and poor information.

Historically, survival depended on quick pattern recognition and decisive action. As a result, stereotyping and generalizing have proved helpful in survival.

However, when it comes to investing in a world of uncertainty, these traits can push investors to find patterns that may not actually exist, especially for short-term horizons.

In *"Thinking Fast and Slow"*, behavioral scientist Daniel Kahneman categorized the human thought process in two different ways: System 1, or "Blink" and System 2, or "Think". System 1 is our intuition – fast, automatic and emotional. System 2 is our reasoning – slow, deliberate and systematic.

"BLINK": SYSTEM 1	"THINK": SYSTEM 2
Fast: Freeze, flight or fight	Slow: Considered
Intuitive/Autopilot/uncontrolled	Rational/Intentional/controlled
Ignores some information due to speed	Includes all relevant information
Developed over many years	More recently developed
Prone to predictable, systematic errors	Can be trained, rule-following
Unconscious/effortless	Self-aware/deliberate
Associative	Deductive

Source: "System 1" and "System 2" terminology taken from Daniel Kahneman, *Thinking Fast and Slow*. Random House, 2011.

Buy high, sell low

Contrary to the key to successful investing – buying low and selling high – many investors end up doing the opposite. This can inadvertently result because of:

Herding biases

Humans tend to mimic actions of larger group and follow the crowd, e.g. if everyone is selling, you sell too and vice versa. Herding comes from our evolutionary need to fit in with the majority because exclusion from the pack can be dangerous as there would be less protection from predators.

Fear and loss aversion

Humans tend to prefer avoiding losses than acquiring equivalent gains: If someone is confronted with equal amounts of loss and gain, the pain they experience from loss is nearly twice as strong as the pleasure of the gain.¹ Some investors may sell at low prices as the market is falling to avoid more losses despite the investment being a sound one and helpful to achieve their long-term objectives. They may also miss out on true buying

¹ Source: Advances in Prospect Theory – Cumulative Representation of Uncertainty, Tversky and Kahneman, 1992.

opportunities for fear that negative market sentiment will continue the downward trend.²

Trade too often

In addition investors may trade too often because of an overconfidence bias: humans tend to overestimate or exaggerate their ability to successfully perform tasks.

Humans tend to overestimate their knowledge and skills, underestimate the risks and exaggerate their ability to control those risks.

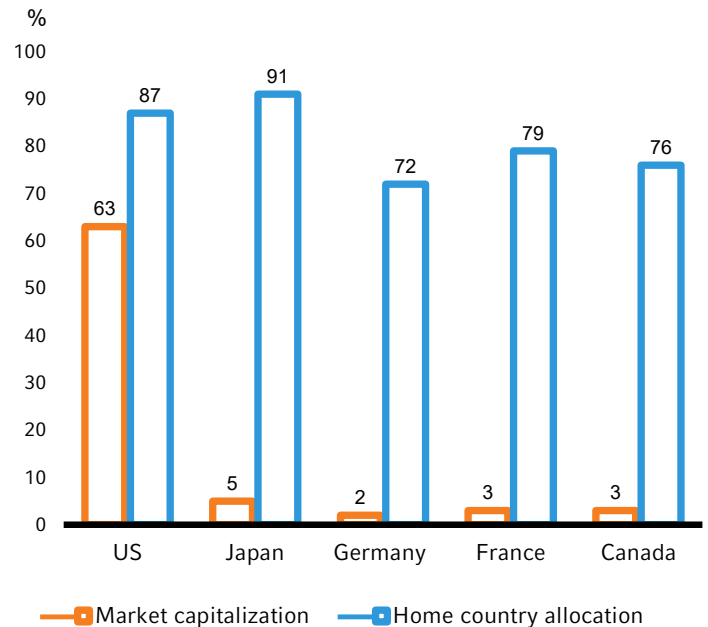
An overconfidence bias often translates into high portfolio turnover. Overconfident investors tend to believe they know more than the average person about investing and tend to be more thrill-seeking according to research by two professors at the University of California.³

Home bias & country specific risk

Humans tend to prefer what is familiar or well-known. One of the common results of this in portfolios around the world is the home country bias: the tendency to allocate a greater portion of one's portfolio to assets domiciled in your home country.

The home country bias limits the amount of diversification in investor portfolios and exposes investors to significant country-specific risk.

Home Country Bias⁴



Indexes are unmanaged and cannot be invested in directly.

Source: MSCI, as of Dec 31 2023. Market capitalization of MSCI country index divided by MSCI All Country World Index. Home country equity allocation—John R. Nofsinger, *The Psychology of Investing*, Fifth Edition, Pearson, 2014, p. 89.

² Also related to regret aversion bias: fear of bad outcomes and desire to avoid blame for poor result, e.g. fear of missing out on fads or stay out of market to avoid downturn.

³ Source: Brad Barber, Terrance Odean, "Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investments," *Quarterly Journal of Economics* 116(2001): 261-292.

⁴ Source: MSCI, as of Dec 31 2023. Market capitalization of MSCI country index divided by MSCI All Country World Index. Home country equity allocation—John R. Nofsinger, *The Psychology of Investing*, Fifth Edition, Pearson, 2014, p. 89.

Common behavioral biases

Herding

Humans tend to mimic the actions of the larger group



Overconfidence

Humans tend to over estimate or exaggerate our ability to successfully perform tasks



Familiarity

Humans tend to prefer what is familiar or well known



Can lead to

Buy high, sell low

Trade too often

Overweight home country

How to avoid behavioral bias

As humans, we all suffer from some biases. But many of these can be offset by a robust, objective and disciplined process.

As more and more investors prepare to retire and financial markets remain unpredictable, it will be increasingly important to keep behavioral biases in check.

A trusted financial advisor can help:

**1**

Provide education on potential biases and how to recognize whether they are affecting investment decisions

**2**

Take an objective view of how any decision can have a long-term impact on a portfolio

**3**

Create a process that considers an investor's goals, circumstances and preferences to keep them focused on their long-term outcomes

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