At a glance

Sun Life Financial

Helping You Understand Financial Planning and Investments

Times have changed. Has your asset mix?

As part of your investment strategy, you've selected an asset mix that's right for your investment goals and risk tolerance. But over time, your actual asset mix will change with fluctuations in the value of each asset class and you may find that it's shifting away from your target allocation. Allocation is the processes of investing in different assets classes (cash, bond and stocks).

The solution? Regular rebalancing of your portfolio. Reviewing and rebalancing your asset mix on a regular basis ensures that you always stay true to the investment strategy that best reflects your investment needs and risk tolerance.

Keeping your asset allocation strategy on track

It's easy for fluctuations in the market to throw your asset allocation strategy off track. *For example*, if the value of your equity fund investments increase by 15% one year and your fixed income investments only increase by 5%, you'll need to rebalance your portfolio to maintain your target asset mix.

And while investors have welcomed the solid performance of the Canadian stock markets over the last two years, they may not have been aware that the fast rising markets may be shifting their investments away from their ideal mix and leaving them overexposed to equities. Pulling money out of an asset class that is performing well and reinvesting it in a class that is doing not as well may seem counter-productive, but it can help lock in the gains you've already made, and keep you well balanced if the stock market experiences a decline.

Here's an example. Martin switched employers and transferred $40,000 from his former employer's pension plan to his new group plan. Martin completed an investment questionnaire determining how comfortable he is with investment risk. As a growth investor with many years until retirement, his result showed he could invest 52% of his money into Canadian equities, 28% into foreign equities and 20% bonds. He invested accordingly.

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Keeping your asset allocation strategy on track *(cont'd)*

Over the next two years, Martin didn't monitor his portfolio other than to note it was increasing in value, and he didn't make any changes to it. At the end of the two years, his $40,000 portfolio had increased in value to $55,000. His Canadian equity funds were worth $30,250, his foreign equity funds were worth $17,600 and his bond funds were worth $7,150. While Martin was delighted with his portfolio's strong performance, he realized that equities, both Canadian and foreign, now made up 87% of his portfolio, not the 80% he started with, and that bonds made up only 13% of his portfolio, instead of the 20% he intended. Martin's portfolio was exposed to more risk than he was comfortable with or wanted. If the stock markets were to plunge suddenly, his investments would be hit hard. Martin decided to shift his portfolio back to its original asset mix.

If you withdraw monies from your investment account, your portfolio allocation will be affected not only by fluctuations in the market, but also by any withdrawals you make. If you withdraw funds from only one asset class (i.e. bonds), your total asset mix will be affected. The best way to prevent this from occurring is to withdraw proportionately across asset and sector classes to keep your asset allocation strategy intact.

Is it time for a change?

Sometimes you need to do more than rebalance your portfolio – you need to review your asset allocation strategy. Life doesn't stand still and your asset allocation strategy may need to be amended to reflect changes in your personal and financial situation. Here are some circumstances that may call for you to revisit your target asset mix and see if it needs adjusting:

- **Risk tolerance.** If, after you've experienced the ups and downs of the market, you realize your tolerance for risk is less (or more) than you thought, an adjustment to your investment mix may be in order.
- **Personal financial situation.** If you receive an unexpected sum of money that has a significant impact on your financial situation, such as an inheritance or a large bonus, you may want to take another look at your investment strategy.
- **Life changes.** Changes in your marital status, health or the birth or death of a family member may mean you need to reassess your savings goals, and the asset mix you need to achieve those goals.
- **Time horizon.** As you move closer to retirement, you may want to shift your portfolio into more conservative investments to ensure that your capital is secure.

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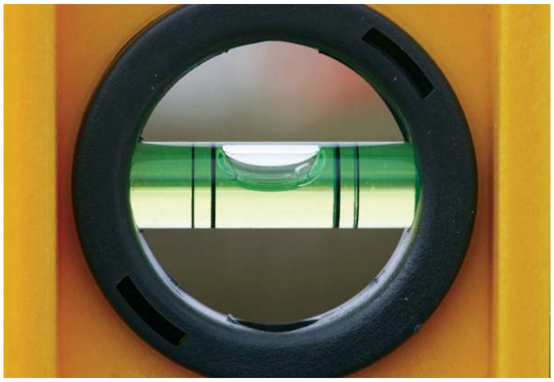
Rebalancing made easy

If you find that your portfolio needs rebalancing, it's easy to do. If you make regular contributions to your group plan, you can allocate them so that your asset mix stays as close as possible to your target mix. And if you ever withdraw funds from your account, you can structure your withdrawals so that you adjust your asset mix back to target levels.

Or, if you hold guaranteed investments, when they mature you can direct the funds to other asset classes rather than reinvesting into new guaranteed funds.

If you make lump sum contributions (if applicable to your plan) to your group plan, you can direct those contributions to the underrepresented asset classes in your portfolio.



Your group plan may include a premixed portfolio that automatically rebalances your asset mix. You may want to consider one of these portfolios, if available, as they provide the comfort of knowing that your investments are regularly being monitored and rebalanced when they shift from your target asset mix.

Do you need to rebalance your asset mix?

Sun Life Financial offers an Investment Risk Questionnaire to help you determine your investment risk tolerance. You can find the questionnaire either online at **www.sunlife.ca/member** or in the paper version of the *what? me save?* guide you received when you first joined the plan.

You can also contact a financial planner who can help you determine your investment strategy.

Know your responsibilities

As a member of a group retirement or savings plan with more than one investment option, you are responsible for making investment decisions regarding your plan. We've provided tools and information to assist you in making these decisions. You should also decide if seeking investment advice from a qualified individual makes sense for you.

Group Retirement Services are provided by Sun Life Assurance Company of Canada, a member of the Sun Life Financial group of companies.

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This bulletin has been created exclusively for you. It addresses issues to help you with your financial planning and investments.