TD CAPITAL
EARNED TRUST

Managing Volatility

Dear Clients and Friends,

We understand that the volatility in the stock market, along with uncertainty over the length and depth of an inevitable economic slowdown, can cause investors to want to "do something." Should we invest more in stocks? What will we buy? Has the market pullback reached the bottom? Should we sell stock and reduce the potential of further declines?

It is natural to ask ourselves these questions, it is human nature, but we must remember that strong emotion is rarely a good guide to sound financial planning. As such, we believe now is a time to step-back and remind ourselves to focus on what we can control, which is our long-term financial plan.

1. Adequate cash flow coverage: The first factor we consider when constructing an allocation for each of our clients is how much cash flow will be required to sustain expenses over the next 5 years. We allocate these funds to short-term, high-quality investment grade bonds; in order not to expose these known needs to stock volatility. Remember, stocks are a variable asset, therefore the prices will move up and down over shorter periods.

2. Age: The second factor that weighs into our portfolio methodology is the age of each of our clients, which provides prospective into the length of the investment horizon. Younger clients can take on more volatility because they have a longer time to recover from downturns, while older clients may have shorter time horizons.

3. Risk Tolerance: The sleep factor, as we like to call it. Gauging our clients' ability to stay the course through environments like today is important. Making impulsive investment portfolio moves in a time of turbulence is never wise, so discussing and aligning a level of volatility to a portfolio is a necessary consideration.

So why is it we can be calm in a time of stress? Because, we take solace in our process. In the course of modern times, most advisors have seen the financial markets take substantial drops — ranging from the late 1960s and early 1970s, to the early and then mid 1980s, then again in the 1990s, and finally 2008. And every time the financial markets have recovered, often in short order. Or put more simply: financial market declines have never been permanent, and we do not see this as being any different.

We ask that our clients join us in taking a few deep breaths, to remind ourselves about how the financial markets have historically worked. We, as your trusted advisors, remain focused on you and your long-term objectives. We welcome any and all communications with you, and are ready and able to discuss how each of the factors noted above apply to you and your individual investment portfolio.

Thank you for your trust and confidence in us and our work on your behalf,

Your TD Capital Management Team