

5 Things You Need to Know to Ride Out a Volatile Stock Market



“The market seems to be up one day and down the next. I’d rather wait before investing.”

1 Watching from the Sidelines May Cost You

When markets become volatile, a lot of people try to guess when stocks will bottom out. In the meantime, they often park their investments in cash. But just as many investors are slow to recognize a retreating stock market, many also fail to see an upward trend in the market until after they have missed opportunities for gains. Missing out on these opportunities can take a big bite out of your returns. Consider that in the 12 months following the end of a bear market, a fully invested stock portfolio had an average total return of 32.1%. However, if an investor missed the first six months of the recovery by holding cash, their return would have been only 7.1%.¹

The table below is a hypothetical illustration showing the risk of trying to time the market. By missing just a few of the stock market’s best single-day advances, you could put a real crimp in your potential returns.

Jumping In and Out of the Market May Cost You

10 Years Ended December 31, 2006

Period of Investment	Average Annual Total Return of S&P 500 Index ²
Stayed Fully Invested	8.42%
Missed the 10 Best Days	3.42%
Missed the 20 Best Days	-0.38%
Missed the 30 Best Days	-3.66%
Missed the 40 Best Days	-6.41%

This table is for illustrative purposes only.

1. Source: Ned Davis Research. Ned Davis Research defines a bear market as a 30% drop in the Dow Jones Industrials after 50 calendar days or a 13% decline after 145 calendar days. Reversals of 30% in the Value Line Geometric Index also qualify. Twenty-six bear markets were analyzed from 9/3/29 through 10/9/02, including the most recent bear market, which lasted from 3/19/02 through 10/9/02. In 92% of the 12-month periods following these bear markets, positive performance resulted, with 100% of the immediate (first) 6-month periods and 73% of the latter 6-month periods returning positive performance, based on the Standard & Poor’s 500 Index.
 2. Source: Standard & Poor’s Micropal. Index is unmanaged, and one cannot invest directly in an index.



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“It’s hard to invest when stocks are this volatile.”

2 Dollar-Cost Averaging Makes It Easier to Cope with Volatility

Most people are quick to agree that volatile markets present buying opportunities for investors with a long-term horizon. But mustering the discipline to make purchases during a volatile market can be difficult. You can’t help wondering, “Is this really the right time to buy?”

Dollar-cost averaging can help reduce anxiety about the investment process. Simply put, dollar-cost averaging is committing a fixed amount of money at regular intervals to an investment. You buy more shares when prices are low and fewer shares when prices are high, and over time, your average cost per share may be less than the average price per share. Dollar-cost averaging involves a continuous, disciplined investment in fund shares, regardless of fluctuating price levels. Investors should consider their financial ability to continue purchases through periods of low price levels or changing economic conditions. Such a plan does not assure a profit and does not protect against loss in a declining market.

Dollar-Cost Averaging at Work

Month	Monthly Investment Amount	Share Price	Shares Purchased Each Month
January	\$500	\$9.00	55.6
February	\$500	\$10.00	50.0
March	\$500	\$8.00	62.5
April	\$500	\$11.75	42.6
May	\$500	\$12.25	40.8
June	\$500	\$9.00	55.6
Total	\$3,000	\$60.00	307.1

AVERAGE SHARE PRICE: \$10.00 (\$60.00/6 purchases)

AVERAGE SHARE COST: \$9.77 (\$3,000/307.1)

The average cost of your shares would be \$0.23 less than the average price of your shares over that period.

Figures are for illustrative purposes only.

To learn more about dollar-cost averaging, order a copy of Franklin Templeton’s *A Guide to Dollar-Cost Averaging*. Lit. Code: IBS XGDCA



3 Now May Be a Great Time for a Portfolio Checkup

Is your portfolio as diversified as you think it is? Meet with your financial advisor to find out. Your portfolio’s weightings in different asset classes may shift over time as one investment performs better or worse than another. Together with your advisor, you can re-examine your portfolio to see if you are properly diversified. You can also determine whether your current portfolio mix is still a suitable match with your goals and risk tolerance.



“I wonder if I should be more diversified.”

To help evaluate your portfolio, ask your financial advisor for a copy of Franklin Templeton’s *A Guide to Asset Allocation*.

Lit. Code: ALLOC XG



To order literature, please call Franklin Templeton Investments at 1-800/DIAL BEN® (1-800/342-5236) or visit franklintempleton.com.

4 Tune Out the Noise and Gain a Longer-Term Perspective

Numerous television channels and websites are dedicated to reporting investment news 24 hours a day, seven days a week. What's more, there are almost too many financial publications and websites to count. While the media provide a valuable service, they typically offer a very short-term outlook. To put your own investment plan in a longer-term perspective and bolster your confidence, you may want to look at how different types of portfolios have performed over time. As you can see below, while stocks may be more volatile, they've still outperformed income-oriented investments (such as bonds) over longer time periods.



“With so many opinions about the market, I don't know who to listen to.”

Hypothetical Performance of Asset Allocation Portfolios (12/31/81–12/31/06)³

	Growth of a \$10,000 Investment	Average Annual Total Return	ROLLING 5-YEAR CUMULATIVE RETURNS ⁴	
			Best	Worst
100% Stocks	\$207,954	12.91%	190.45%	-6.01%
80% Stocks 20% Bonds	\$186,490	12.42%	165.31%	4.26%
60% Stocks 40% Bonds	\$163,437	11.82%	158.21%	14.51%
40% Stocks 40% Bonds 20% Cash	\$118,170	10.38%	132.34%	20.74%
20% Stocks 60% Bonds 20% Cash	\$99,120	9.61%	124.51%	29.43%

The hypothetical asset allocation portfolios shown above are for illustrative purposes only. They do not represent the past or future portfolio composition or performance of any Franklin Templeton fund and are not intended as investment advice. We suggest working with your financial advisor to see which allocation opportunities may be right for you.

For a more complete picture of how markets have performed over the decades, order a copy of Franklin Templeton's *77 Years of Bulls and Bears* brochure. Lit. Code: THEME XBE



5 Believe Your Beliefs and Doubt Your Doubts

There are no real secrets to managing volatility. Most investors already know that the best way to navigate a choppy market is to have a good long-term plan and a well-diversified portfolio. But sticking to these fundamental beliefs is sometimes easier said than done. When put to the test, you sometimes begin doubting your beliefs and believing your doubts, which can lead to short-term moves that divert you from your long-term goals. **To keep from falling into this trap, call your financial advisor before making any changes to your portfolio.**



“We're sticking to our investment plan.”

3. Source: Standard & Poor's Micropal. Stocks are represented by an equal-weighted composite of the S&P 500 Index, the Russell 2000® Index and the MSCI EAFE Index; bonds are represented by the Lehman Brothers U.S. Aggregate Index; and cash is represented by the Payden & Rygel 90-Day U.S. Treasury Bill Index. Allocations are rebalanced every 12 months. Indexes are unmanaged, and one cannot invest directly in an index.

4. Rolling period cumulative returns are based on monthly index performance during the stated period.

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A Financial Advisor Can Help

Our mutual funds are sold through financial advisors because we believe investors can benefit from ongoing professional advice. When it comes to choosing an investment, a financial advisor can prove invaluable in helping you define your needs and narrowing the search for investments suitable to your unique financial objectives. To invest in Franklin Templeton funds or to learn more about our products and services, please contact your financial advisor.

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A Few Words about Asset Allocation

While asset allocation can be a valuable tool to help reduce volatility, all investments involve some degree of risk. Typically, the more aggressive the investment or the greater the potential return, the more risk involved. Generally, investors should be comfortable with some fluctuation in the value of their investments, especially over the short term. Diversification does not assure better performance and cannot eliminate the risk of loss. A fund's specific risks are described in greater detail in the prospectus, and you should always read a fund's prospectus carefully before investing.

Authorized for distribution only when accompanied or preceded by a current prospectus of a Franklin Templeton fund, which contains more detailed information. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. Please carefully read the prospectus before you invest or send money.