Manulife Investments

For your future™

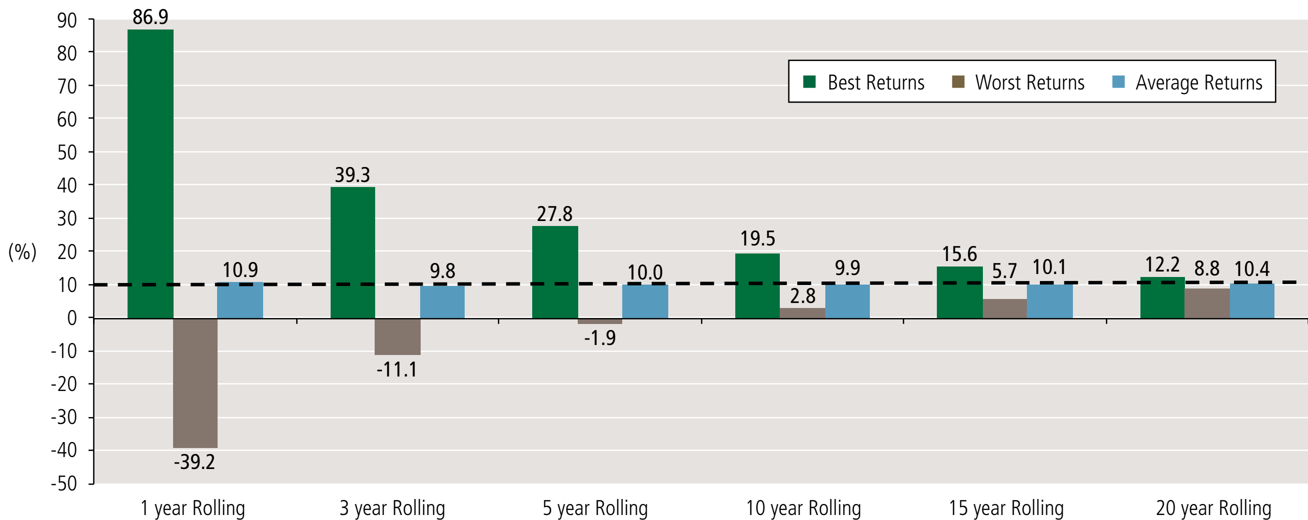
Allocate your assets: balancing your time and risk tolerance

Asset allocation is an investment term referring to the percentage of money you should put in various asset classes such as stocks, bonds or cash. Using the right asset allocation can potentially lower your investment risk and increase your returns, so your asset allocation decision is one of the most important you can make. So how should you allocate your investments? The two most important considerations are your time horizon and your risk tolerance.

TIME HORIZON

Time horizon refers to your age and how many years you have to invest before you need the money. A long time horizon generally allows you to bear more risk in your investments because of your ability to ride out potential fluctuations by holding your investments through an entire market cycle. The chart below illustrates the market's volatility over specified time periods.

Investment risk lessens over a longer time horizon — S&P/TSX Composite 1956–2011[1]



[1]Source: Morningstar Direct as of June 30, 2011. © 2011 Morningstar Research Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in share/unit value and reinvestment of all dividends or distributions and do not take into account sales, redemptions, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns.

RISK TOLERANCE

Each investor has a different comfort level with risk and will react to market fluctuations in a variety of ways. If you see a sudden market drop of 20 per cent as an opportunity to buy more stocks, you have a high risk tolerance. If the very idea of losing 20 per cent of your retirement account keeps you up at night, you have a lower risk tolerance. Your advisor can help you determine what mix of assets best suits your unique situation.

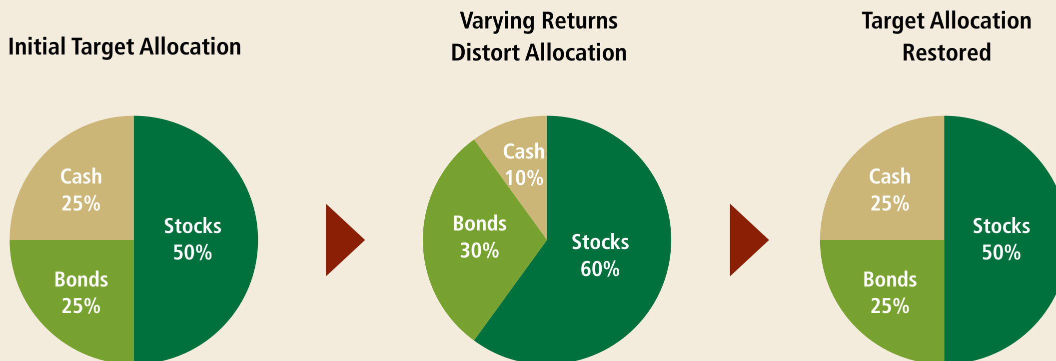
THE IMPORTANCE OF REBALANCING

Stock and bond values don't move in a straight line. Left alone, your portfolio can stray far from your original asset allocation. By regularly "rebalancing," or shifting your money among investments in order to maintain your target allocations, your portfolio is more likely to maintain a consistent risk profile.

Rebalancing has another potential benefit. Although rebalancing is not a market timing strategy, its very nature can force you to move money from an asset class that has performed well (selling high) into an asset class or fund that has performed poorly (buying low). This strategy may provide attractive returns over time and reduce the overall volatility of your portfolio.

Asset allocation and rebalancing add discipline to the investment process, something most investors need. Before establishing an asset allocation or rebalancing program, make sure you understand all the implications. An expert opinion from a source that isn't emotionally involved in the decision, like an advisor, can be a great help.

Why rebalance



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TMK1351E 05/12