



WHY DIVERSIFY?

OPEN THE DOOR TO NEW OPPORTUNITIES WHILE REDUCING YOUR RISK



FRANKLIN TEMPLETON
INVESTMENTS

Franklin • Templeton • Mutual Series • Bissett

Protect and grow your assets

HOW DO YOU PRESERVE STABILITY OF YOUR PORTFOLIO—EVEN WHEN MARKETS ARE NOT?

Ideally, you would always hold top-performing investments, but history has shown that trying to predict the next ‘winning’ investment category is nearly impossible.

This is where diversification comes in. By ensuring that your portfolio is broadly diversified you can:

- > Participate in market gains
- > Minimize the effect of market downturns
- > Achieve more consistent, stable returns over the long term
- > Effectively manage portfolio risk

SO, WHY DIVERSIFY?

As markets are difficult to predict, a well-diversified portfolio can be the best investment strategy.

The table below shows how various asset classes have performed year-by-year from 1988 to 2007, with the best performers displayed at the top of each column. It’s easy to see that past performance does not guarantee future results.

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Emerging Market Equities	28.8%	60.3%	9.2%	59.5%	30.8%	82.7%	14.2%	33.8%	30.1%	39.2%	38.4%	68.4%	15.5%	15.3%	15.3%	50.7%	16.8%	36.3%	52.3%	32.4%
Foreign Equities	17.9%	28.1%	7.5%	45.4%	22.3%	52.3%	11.6%	24.9%	28.4%	34.0%	38.0%	57.2%	10.2%	8.9%	9.1%	46.3%	16.2%	31.2%	33.8%	18.6%
U.S. Large Caps	14.4%	25.4%	-2.9%	29.9%	18.9%	39.0%	9.2%	20.7%	27.5%	29.7%	34.0%	31.7%	7.4%	8.1%	8.7%	27.8%	14.5%	24.1%	32.1%	9.8%
U.S. Small Caps	13.7%	21.4%	-3.3%	22.1%	18.7%	35.7%	8.5%	18.7%	23.6%	27.8%	29.2%	20.3%	6.8%	8.0%	-2.5%	26.7%	12.6%	14.3%	26.4%	3.7%
Global Equities	11.1%	13.9%	-10.4%	20.5%	16.9%	32.6%	7.3%	17.9%	22.2%	21.4%	22.0%	18.9%	0.4%	4.1%	-7.0%	25.7%	12.6%	13.8%	20.2%	2.0%
Canadian Large Caps	9.8%	13.1%	-14.8%	18.7%	13.0%	30.8%	6.2%	16.4%	17.1%	15.0%	16.7%	18.4%	-3.2%	3.6%	-11.4%	20.5%	11.9%	11.2%	20.2%	-3.0%
Canadian Small Caps	6.7%	12.8%	-16.0%	18.5%	10.0%	28.7%	4.0%	15.2%	14.6%	14.5%	9.2%	16.4%	-4.3%	2.8%	-12.4%	13.8%	9.7%	7.3%	17.9%	-5.3%
Global Bonds	6.7%	11.4%	-16.4%	15.6%	9.8%	23.2%	2.9%	14.5%	13.6%	9.6%	7.5%	14.6%	-4.9%	-6.4%	-16.1%	13.8%	7.2%	7.2%	17.3%	-7.1%
U.S. Bonds	5.5%	10.7%	-19.3%	15.5%	5.1%	18.1%	-0.2%	13.3%	12.3%	8.4%	4.6%	14.4%	-5.9%	-11.4%	-16.5%	9.4%	6.9%	6.5%	16.6%	-7.2%
Emerging Market Equities	-1.3%	7.7%	-23.1%	13.4%	4.6%	15.2%	-2.0%	12.6%	6.9%	7.2%	-1.6%	9.8%	-9.9%	-11.8%	-18.9%	6.7%	5.4%	2.3%	15.4%	-7.9%
Global Equities			-27.3%	12.2%	-1.4%	14.1%	-4.3%	8.4%	6.6%	6.6%	-19.9%	-1.1%	-11.0%	-12.6%	-20.4%	5.3%	2.8%	1.9%	6.2%	-9.3%
U.S. Large Caps				12.0%	-3.3%	13.8%	-9.2%	-7.9%	5.4%	2.6%	-21.5%	-6.3%	-20.1%	-15.0%	-21.3%	-8.0%	1.3%	-0.2%	4.1%	-10.5%
U.S. Small Caps									4.2%	-7.7%	-43.4%	-10.4%	-28.2%	-16.5%	-22.9%	-14.8%	-3.3%	-6.9%	3.9%	-16.5%

Source: Morningstar Research Inc., December 31, 2007.

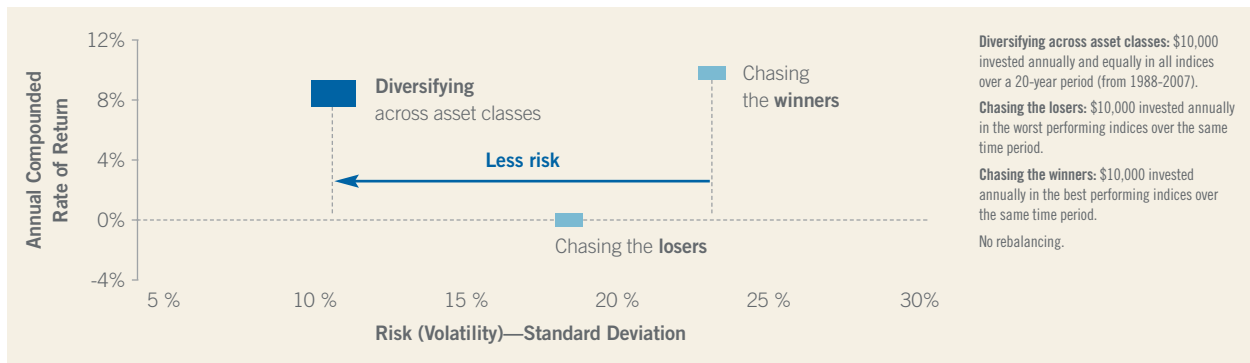
- Canadian Large Caps: S&P/TSX TRI (CDN\$)
- Canadian Small Caps: BMO Nesbitt Burns Small Cap TRI (CDN\$)
- European Equities: MSCI Europe TRI (CDN\$)
- Foreign Equities: MSCI EAFE TRI (CDN\$)
- Emerging Market Equities: MSCI Emerging Markets Free TRI (CDN\$)
- U.S. Large Caps: S&P 500 TRI (CDN\$)
- U.S. Small Caps: Russell 2000 TRI (CDN\$)
- BRIC Equities: MSCI BRIC TRI (CDN\$)
- Global Bonds: Lehman Brothers Global Aggregate Unhedged TRI (CDN\$)
- U.S. Bonds: Lehman Brothers U.S. Aggregate Bond TRI (CDN\$)
- Canadian Bonds: SCM Universe Bond TRI (CDN\$)
- Global Equities: MSCI World TRI (CDN\$)
- Global Small Caps: S&P/Citigroup <\$2 Billion TRI (CDN\$)

Lower your risk and reduce performance fluctuations

Spreading your portfolio's risk across a wide variety of asset classes, geographic regions, investment styles and market capitalizations can position you for enhanced portfolio performance. As well, it can smooth out the highs and lows of individual investments. Let's look more closely at what happens when you diversify across the 13 asset classes listed on page 1.

DIVERSIFICATION LOWERS RISK

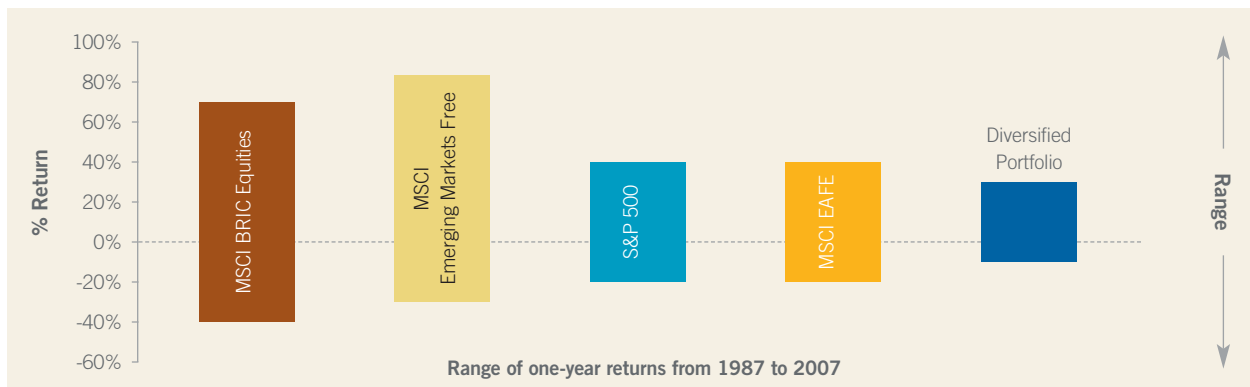
Historically, diversified portfolios have yielded strong results, but with significantly less risk than a chase-the-winners strategy.



Source: Morningstar Research Inc., December 31, 2007.

WHAT'S MORE, DIVERSIFICATION MINIMIZES VARIANCE

If you're investing in single markets alone, market swings will be felt more acutely. A diversified portfolio can ensure a smoother ride.



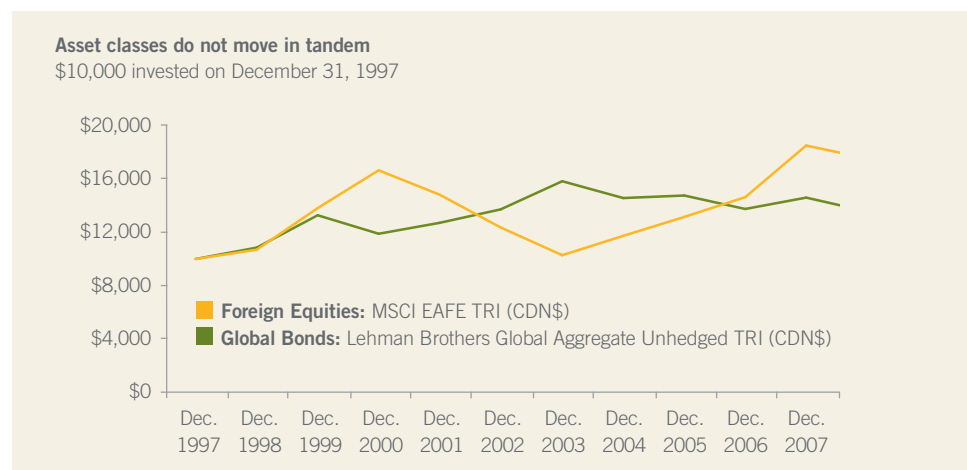
Source: Morningstar Research Inc., December 31, 2007.

Your 5-step guide to achieving true diversification

AT FRANKLIN TEMPLETON INVESTMENTS, WE DEFINE TRUE DIVERSIFICATION AS INVESTING ACROSS ASSET CLASSES, INDUSTRY SECTORS, GEOGRAPHIC REGIONS, MARKET CAPITALIZATIONS AND INVESTMENT STYLES.

1. DIVERSIFY BY ASSET CLASS

Diversification across asset classes will help expose your portfolio to the best-performing segments at all times, and moderate the impact of poorly performing segments on your portfolio. For instance, when equities are experiencing downturns, bonds are often performing well, and vice-versa.



Source: Globe HySales, December 31, 2007

2. DIVERSIFY BY SECTOR

Top-performing sectors rotate in and out of favour over time as seen by their ranking in the following table. By ensuring that your portfolio is diversified across multiple sectors, you can lower risk and increase return potential.

	2003	2004	2005	2006	2007
Materials	2	4	2	3	1
Energy	7	2	1	8	2
Utilities	6	1	3	1	3
Telecommunication Services	8	6	10	2	4
Consumer Staples	10	8	7	6	5
Industrials	4	3	4	7	6
Information Technology	1	10	8	10	7
Health Care	9	9	6	9	8
Consumer Discretionary	5	7	9	5	9
Financials	3	5	5	4	10

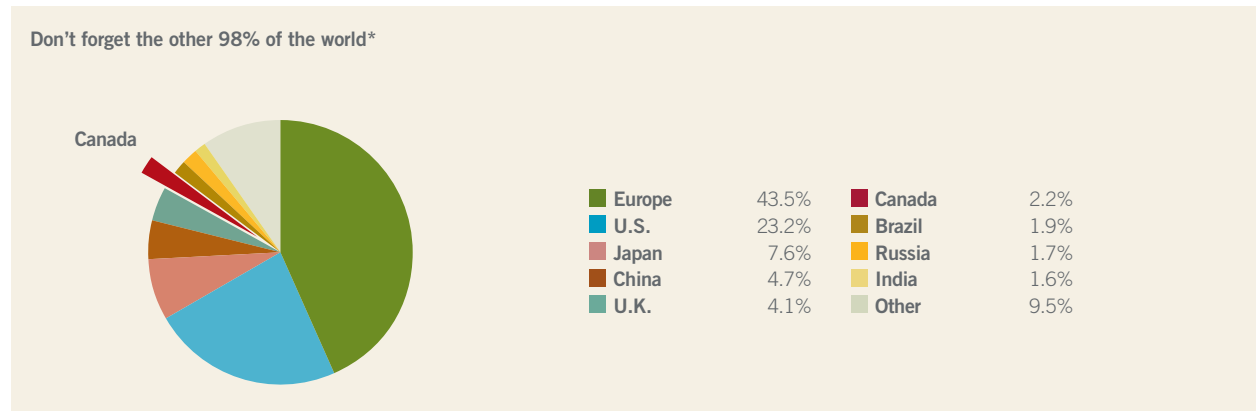
Source: FactSet. Dec 31, 2003, 2004, 2005, 2006, 2007

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

Sir John Templeton

3. DIVERSIFY BY REGION

If you are not investing outside North America, you are missing out on some of the most profitable marketplaces in the world. For instance, for the five-year period ended December 31, 2007, European countries contributed more than half of the world's GDP Growth (source: Bloomberg). As Canada currently makes up only 2.2% of global GDP, diversification outside Canada's borders makes sense.



*Based on GDP. Source: Bloomberg as of December 31, 2007

4. DIVERSIFY BY MARKET CAP

As the following chart indicates, different sized companies perform differently at various points in a business cycle. Representation across a range of market capitalizations helps ensure that your portfolio can thrive in all market and business cycles.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
U.S. Large Caps	38.0%	31.7%	7.4%	8.9%	-2.5%	46.3%	16.2%	24.1%	20.2%	9.8%
Canadian Large Caps										
Global Equities	34.0%	18.9%	0.4%	4.1%	-11.4%	26.7%	14.5%	14.3%	20.2%	2.0%
Global Small Caps	7.5%	18.4%	-3.2%	2.8%	-12.4%	25.7%	12.6%	13.8%	17.9%	-7.1%
U.S. Small Caps	4.6%	16.4%	-4.3%	-6.4%	-20.4%	20.5%	9.7%	7.3%	17.3%	-7.9%
Canadian Small Caps										
U.S. Large Caps	-1.6%	14.6%	-5.9%	-11.4%	-21.3%	9.4%	6.9%	2.3%	16.6%	-10.5%
Canadian Large Caps										
Global Equities	-21.5%	14.4%	-9.9%	-12.6%	-22.9%	5.3%	2.8%	1.9%	15.4%	-16.5%
Global Small Caps										

- Canadian Large Caps: S&P/TSX TRI (CDN\$)
- Canadian Small Caps: BMO Nesbitt Burns Small Cap TRI (CDN\$)
- U.S. Large Caps: S&P 500 TRI (CDN\$)
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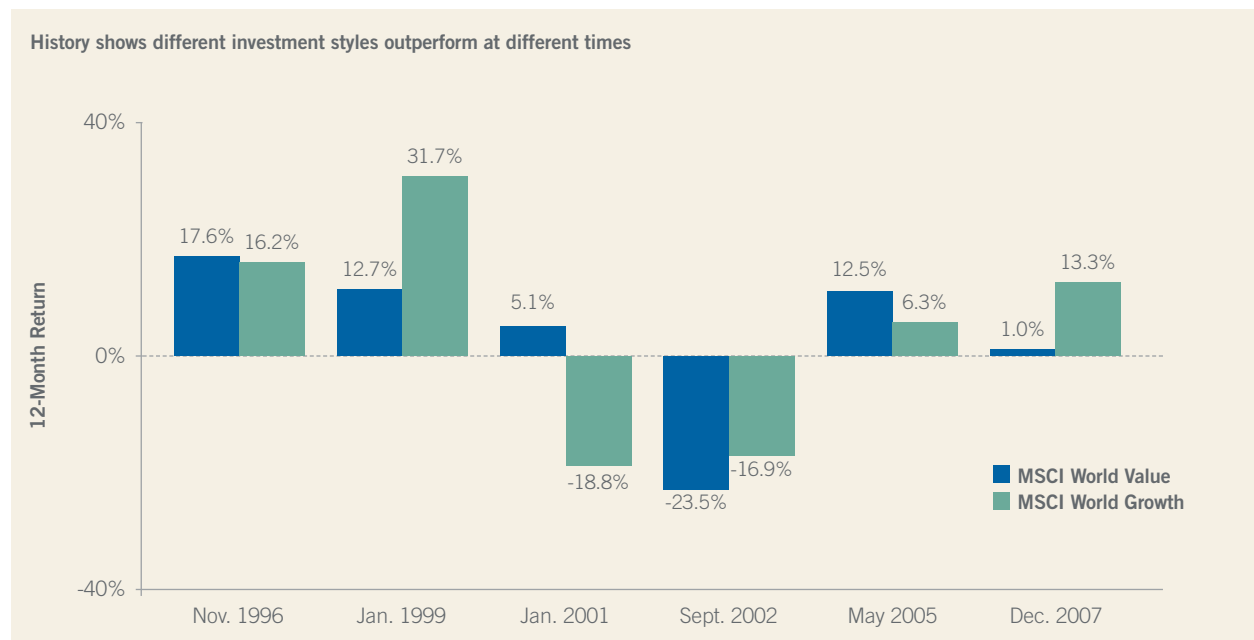
Source: Morningstar Research Inc., December 31, 2007.

5. DIVERSIFY BY INVESTMENT STYLE

Spreading your investments across different world regions or industries can help you to diversify. But diversification by investment style is just as imperative. Like asset classes and sectors, different investment styles perform best at different points in the economic cycle.

Let's take a closer look at two of the major investment styles: Growth and Value. One can see how they perform differently at different phases of the market cycle. By ensuring that you have representation across multiple styles, you can participate in market gains and cushion your portfolio in market downturns.

To help you build a diversified portfolio with exposure to all investment styles, Franklin Templeton Investments offers four different fund families—Templeton, Franklin, Bissett and Mutual Series—each with its own distinct management style and investment focus.

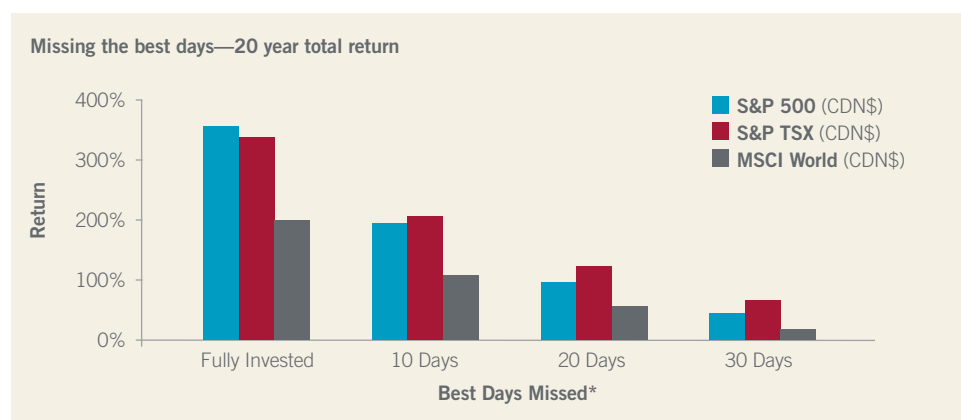


Source: Bloomberg, December 31, 2007

Stay invested in all markets

While diversification is an essential investment strategy, it's only effective if you stay invested through all market conditions. Achieving your investment goals requires a steadfast focus on your long-term investment goals. Making changes to your portfolio in response to market movements can be costly; thinking in the short term can cause you to miss out on the gains when the markets bounce back—and the markets always bounce back.

It's not always easy to stay the course, but history has shown that missing the best trading days within the market can be a costly proposition. In other words, 'timing the market' rarely pays. Missing only a few of the best days can affect the growth of your investment dramatically. Only the decision to stay invested can turn volatility to your advantage.



Another proven investment strategy

Dollar-cost averaging strategies thrive in turbulent markets. By investing regularly, even in falling markets, you maximize your units, and smooth out temporary peaks and valleys associated with short-term volatility. There has never been a better time to reap the rewards of this time-tested investment approach.

As Sir John Templeton often said: **“The best time to invest is when you have money”**.

PUTTING CANADA INTO PERSPECTIVE

Sometimes it helps to view investing from a broader perspective. The illustration below shows how the number of Canadian stocks in each market capitalization segment measures up against the global universe.

SMALL CAP

USD\$100M-USD\$1.5B



MID CAP

USD\$5B-USD\$10B



LARGE CAP

> USD\$20B



Source: FactSet, December 31, 2007

Franklin Templeton Investments is one of the world's largest publicly-traded investment management companies, delivering a truly global perspective to investors for over 60 years. With values that have withstood the test of time, Franklin Templeton Investments provides global and domestic investment advisory services to the Franklin, Templeton, Bissett and Mutual Series funds and institutional accounts, including private wealth management solutions through Fiduciary Trust Company of Canada.

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