

Making the Right Selection: Is It Just Luck?



In the last issue of InSite, you learned that creating a sound strategic plan is the first step toward investing success. Once that plan is in place, it becomes critically important to select investments that are right for you. Is it just luck or is there a more disciplined approach to investment selections? You'll find that through a disciplined, ongoing process of evaluating and re-evaluating your investment selections, optimal performance can be achieved.

Begin by answering some of these important questions: Do your investment choices still reflect your long-term plan? How have your current investments performed? Are there better choices inside the category, or should you make other choices given current market conditions? Examining the full range of investment products available to

you can help in your selection process. If you already have made your selection, then do you need to make adjustments?

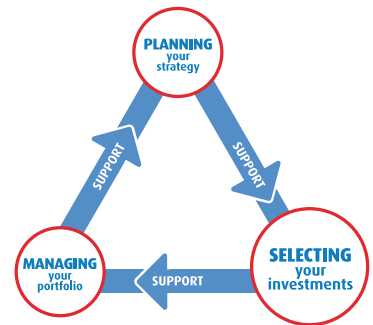
It's important to regularly fine-tune your investment choices to keep up with current market conditions and any changes to your long-term goals. Disciplined investors know that investment decisions that made sense in the past must be constantly revisited in order to ensure that both the appropriateness and performance of those investments are in keeping with current and future goals.

To help you select the investments that are right for you, take advantage of a comprehensive array of online screening and research tools available. Basic to advanced screening tools and third-party research,

"A careful, disciplined selection and an ongoing review of your plans go a long way toward investing success."

such as Morningstar Canada, Zack's Investment Research, and briefing.com, can help you evaluate which investment products match

your unique investment plan. To build your mutual fund portfolio and make the selection process easier, try Analyst Select Funds or model portfolios that match your investor type and asset mix.



The RRSP investing process is a good example of the benefits of careful analysis. Many investors make last minute contributions in February in order to meet the tax deadline. Rather than carefully assessing their investment options, they simply 'park' their cash leaving strategic investment decisions for another place and time. If you are among those who are under-invested, now is the perfect time to look at your best investment options. Instead of making last minute contributions, you can leverage the power of automatic purchase plans to make regular contributions throughout the year.

Whether you are just starting a portfolio or fine-tuning your investments, it takes more than just luck. A careful, disciplined selection and an ongoing review of your plans go a long way toward investing success. ■

Screening Your Investments

There is a wide range of screening tools on bmoinvestorline.com to help you select investments that best fulfill your plan. There are both basic and advanced Screeners for stocks, mutual funds and fixed income products, depending on the type of investor you are and the level of support you want.

If you are an investor who wants more support, use the Predefined Stock Screener to choose from a list of pre-determined criteria. The result is a list of stocks that match your specific requirements, with links to detailed company information. The Advanced



Screener lets you control the search category with parameters that you can choose, such as “per share data” or

“valuations”. You can also save the results for future use. Both the Predefined and Advanced Stock Screeners are available for Canadian and U.S. companies.

To help select the fixed income products that are right for you, we offer Quick Picks, which allows you to search our entire inventory for a list of fixed income products that meets your investment needs. Or, experienced investors can use the Advanced Screeners to narrow down the search to specific fixed income products.

The mutual fund screening tools let you choose Quick Picks or the Advanced Fund Selector. You can also choose from the Analyst Select Funds and the model portfolios, put together by leading Canadian economist Ranga Chand.

Screening tools can help you make decisions and cut through the clutter by showing you investments that meet the criteria you specify. You decide on the level of support you need, depending on your comfort level, experience and preference. ■



Contributor's Note

This issue of InSite focuses on giving you relevant information to support you in making confident investment selections. As an online investor, you know there is a wide range of financial options available to you when building your portfolio. The true determinant of successful investing is being able to evaluate each of these options and select the best investments that meet your personal needs.

During February and March, you can test your investing knowledge by entering the Ultimate Golf Getaway. This year there are more options. For every correctly completed quiz, you earn a ballot for a chance to win your dream 18 – a trip for you and three guests to your choice of Scotland, Hawaii, or Spain, where championship golf courses, world-class resorts and diverse cultural experiences await.

I encourage you to take the time to enter the Ultimate Golf Getaway before it ends on March 31st. You'll have some fun, learn a few things, and – if you're lucky – get to make another selection that has the power to affect your future: your choice of a vacation destination.

Best of luck!

Thomas A. Flanagan
President & Chief Operating Officer



Leading Online Investing Firm[†]

BMO InvestorLine
rated Best Online
Broker for the 7th
time in a row by
The Globe and Mail[†]

Heavy Hitter Model Portfolio Corner by Ranga Chand

Growth & Income Model Portfolio

The Heavy Hitter®* Growth & Income Model Portfolio is designed to provide investors with moderate long-term growth of capital and reasonable current income. It is suitable for those investors who can withstand moderate to significant year-to-year fluctuations in the value of their portfolios in exchange for potentially higher long-term returns. It is not suitable for investors with a short investment time horizon.

The target allocation of the portfolio is 65% stocks and 35% fixed income and consists of 6 underlying Heavy Hitter funds (Table 1). These six funds, like their counterparts in the Heavy Hitters Select Funds' list, all have a strong performance history, superior risk/reward ratios, a minimum 5-year track record and below-average management fees within their respective categories.

The portfolio is well diversified with exposure to a wide range of sectors in both domestic and foreign equity markets. The fixed income component of the portfolio consists of high quality Canadian government and corporate bonds with an average term-to-maturity of about 8 years.

The investment returns for the Growth & Income Model Portfolio are shown in Table 2. The portfolio's average annual total return for the 5-year period ending December 31, 2004 was 11.3% and on a yearly basis the portfolio has delivered positive returns 4 of the past 5 years, with returns ranging from a low of -0.4% in 2002 to a high of 20.9% in 2000.

The Growth & Income Model Portfolio has a moderate/high risk profile. Although there is a 1 in 11 chance that returns will be negative over any 1-year period, the portfolio has delivered positive returns over all 3 and 5-year holding periods. Looking at all

5-year rolling periods from October 1998 to December 2004 (Table 3) returns have averaged 11.5%, ranging from a high of 13.2% to a low of 10.6%. ■

To learn more about the Heavy Hitter Model Portfolios, check out the November/December 2004 issue of *InSite*. Or, visit the Mutual Fund Centre in the Education Centre at bmoinvestorline.com.



Ranga Chand is widely recognized as one of Canada's leading economists and mutual fund analysts. He is also the Founder and President of the research and consulting firm Chand Carmichael & Company Limited.

Table One			Growth & Income Model Portfolio	
Heavy Hitter Funds	Fund Type	% of Portfolio		
BMO Dividend	Canadian Dividend	25%		
Cundill Value	Global Equity	10%		
Dynamic Income	Canadian Bond	20%		
Elliott & Page Monthly High Income	Canadian Income Trust	15%		
Fidelity Canadian Disciplined Equity	Canadian Equity	20%		
Trimark Fund SC	Global Equity	10%		

Table Two					Growth & Income Model Portfolio Investment Performance (to December 31, 2004)				
Average Annual Total Return (%)									
1 YEAR	2 YEAR	3 YEAR	4 YEAR	5 YEAR					
12.4	15.7	10.1	9.0	11.3					
Yearly Performance (%)									
2004	2003	2002	2001	2000					
12.4	19.1	-0.4	6.0	20.9					

Source: Chand Carmichael & Company Limited

Table Three		Growth & Income Model Portfolio Risk/Return Profile (October 1998 - December 2004)				
	Best Return (%)	Worst Return (%)	Average Return (%)	Frequency of Negative Returns (%)	Number of Periods	
1 year	29.9	-9.1	11.9	9	63	
3 years	15.2	4.8	9.4	0	39	
5 years	13.2	10.6	11.5	0	15	

Source: Chand Carmichael & Company Limited

Profile of a Heavy Hitter: Fidelity Canadian Disciplined Equity Fund

by Fidelity Investments

The exceptional performance of Canadian equities has been good news for equity mutual funds. Every fund has different strate-

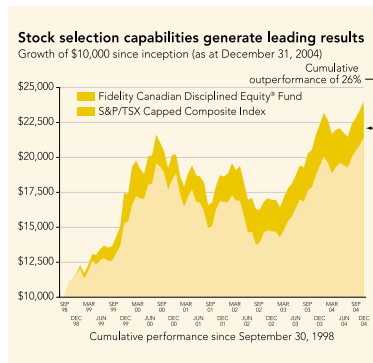


gies for making the most of good markets. One strategy is to vary the amount invested in the different sectors of the economy, hoping that some will outperform others. The Fidelity Canadian Disciplined Equity[®] fund follows a “sector-neutral” approach. The fund invests a set proportion in each sector – proportions that mirror the composition of the Canadian stock market.

This disciplined approach gives the fund some key advantages:

- It has broad exposure to all areas of the Canadian market all the time.
- It is never overexposed or underexposed to any particular sector, which means less volatility.
- The investment management team can focus on what they do best - finding the best opportunities within each sector.

Although it's sector neutral, the Fidelity Canadian Disciplined Equity fund is anything but passive. The fund has an unusual management system that focuses on stock picking. Robert Haber, Chief Investment Officer for Fidelity Investments Canada and a fund manager with more than 17 years experience, provides overall guidance. Working with him are 11 analysts, with expertise in different industries, who select stocks, manage assets and develop investment strategies for the different sectors. They, in turn, are supported by two



research specialists. Together they follow Fidelity's traditional bottom-up, wide-ranging research approach. The result? A fund with a unique approach that delivers consistent results, providing a strong foundation for an investment portfolio. ■

Feature of the Month

Watch Ranga Chand's latest webcasts as he talks about the Heavy Hitter Select Funds and Model Portfolios, exclusively available through BMO InvestorLine.

To watch Ranga Chand or other online investment webcasts, visit the *Education Centre* and choose “Expand Your Knowledge” at bmoinvestorline.com today!



Making the Most of Income Trusts by Gavin Graham



Income trusts were set up to encourage investments in such industries as oil, gas, resources and property. Income trusts can be an attractive choice for investors looking for income from their portfolios, as cash flow generated by the business is distributed to the unit holders. In addition, where businesses are allowed significant tax breaks, the savings are passed on to the unit holders.

Tax Considerations for Income Trusts

Income trusts do not pay tax at the corporate level, therefore the depreciation allowances, property tax reductions and amortization of buildings flow through to the ultimate investor. However, when unit holders sell their income trusts, they are liable for capital gains tax on the difference between the adjusted book cost, which is what they originally paid less all of the tax breaks that have flowed through to them, and what the trust price is on the day they sell.

Investors should choose the time to sell their trust units carefully - specifically when it is most advantageous to them. When they do pay tax on their gains, it is taxed at the capital gains rate, typically half their top marginal tax rate.

Earnings Payouts

Another important point to remember is that income trusts have to pay out at least 90% of their earnings to retain their trust status. Any business needs

"Income trusts are a suitable investment if they are purchased for a relatively high level of tax effective income..."

to retain some cash in order to maintain its equipment or premises and to invest in new machinery. A good rule of thumb is to see whether the income trust is paying out more than 95% of its Free Cash Flow, or Funds From Operations (FFO), as they are sometimes described. Free Cash Flow

includes not just earnings but also items such as depreciation and amortization. If the trust is paying out all, or almost all of its cash, it is likely that management is being too aggressive and that the payout will have to be reduced or eliminated in the future.

What To Look For

When investing in income trusts, it is very important that investors look at the underlying quality of the business and the strength of the balance sheet, just as they would do with any investment. If it's a cyclical or low margin business such as restaurants, trucking or agriculture, it is highly likely that the trust will end up cutting or suspending its payouts. Although oil and gas trusts can be volatile, you are receiving a high yield to compensate for the fluctuation in prices. Income trusts are a suitable investment if they are purchased for a relatively high level of tax effective income, and not expected to be growth vehicles over the long term. Investors should carefully review their selection to make sure that this is a suitable investment for their investing needs and risk profile. ■

Gavin Graham is Vice President, Director of Investments, at Guardian Group of Funds Ltd.

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To learn how you can take full advantage of all the stock trading features available to you, check out the Interactive Trading Tutorial on the "Explore Online Investing" page in the Education Centre at bmoinvestorline.com today.

The Ultimate Golf Getaway

You and three guests could be flying to your choice of one of three luxurious destinations.

For your chance to WIN, complete the weekly online quizzes. Every correctly answered quiz gets you a ballot into the contest.

Swing by bmoinvestorline.com for details! Contest closes March 31, 2005.

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Please send comments and suggestions to insite@bmoinvestorline.com or mail to: The Editor, BMO InvestorLine InSite, First Canadian Place, 100 King St. W., 54th Floor, Toronto, ON M5X 1H3.

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