InSite
News and views for the online investor
NOV/DEC 2004

Investing Success: A Silver Bullet or a Disciplined Approach?

Have you ever wondered what makes some investors more successful than others? Are they just lucky, or is there more to it? While there doesn't appear to be a 'silver bullet' or a 'one size fits all' approach to investing success, one thing is clear: a disciplined approach to investing goes a long way to helping you achieve your investing goals, with confidence.

A disciplined approach involves taking the time to prepare a plan, make appropriate portfolio selections, and then consistently manage your investments over time. These steps are key to achieving investing success—however you define it.

Start with a Plan

Whether you're investing for retirement, a vacation home, or your child's education, the most productive, disciplined investment strategies begin with a plan. In fact, taking the time to create a plan that accurately reflects your goals is perhaps the best investment you can make.

There are many online planning tools available to investors. Asset allocation and retirement planning tools are a good place to start. Asset allocation tools are designed to help you identify your investment objectives, risk tolerance, and investment time horizon.

Retirement planning tools help you define your retirement goals, including desired retirement income and the age you plan to retire. They also compare how well your plan and asset allocation profile meet your goals, help you identify shortfalls in your investment, and give you a year-by-year projection for future retirement income. And as your situation changes, you can re-work and improve your plan to accurately reflect you and your goals.

Select Your Investments

Once you have a plan, there is a full range of investment products that you can use to structure your portfolio—everything from stocks and mutual funds to GICs and options. Whether you are a beginner or an expert, selecting the right investments for your portfolio can be made easier using one of the online research and screening tools. If you want to dive into the data, Morningstar Canada and Zack's Investment Research are two industry leaders you can draw on for company reports, online charting and financials.

Mutual fund model portfolios are another option where analysts have constructed portfolios to match investors' risk profiles. These model portfolios can provide direction and are tremendously valuable in the selection process.

Manage Your Portfolio

After your portfolio is built, management is often the greatest determining factor in how productive it will be. Investors who attentively manage their portfolios typically see better results in the end. A number of useful online tools are available to help you with portfolio management. Alerts, for instance, notify you of market prices virtually anywhere, anytime. They allow you to stay on top of market fluctuations, providing peace of mind.

Stop orders allow you to plan your exit strategy—the price at which you would sell an investment to lock in gains or minimize losses. Whether you set them up when you buy an investment, or sometime thereafter, stop orders can help you take a more disciplined approach to managing your portfolio.

Continued on page 4

Website Enhancements Streamline the Online Experience

We've recently made some enhancements to our website that will make it easier for you to access the information that is most important to you. The addition of the "Watch List" on the home page will give you instant, at-a-glance access to the stocks and options you want to watch. And the addition of "Quick Quote" on the home page will allow you to get a quote quickly and easily. From the "Quick Quote" you can get more details, trade, or look up another symbol. We have linked the symbols to the "Quick Quote" throughout the site for ease of navigation, and have added economic reports from BMO Nesbitt Burns®† and BMO Financial Group to the Market Overview section. All of this is designed to make the online investing experience easier and more fulfilling for you. So take a minute to visit the homepage and customize the "Watch List" to truly make it your homepage. ■

Contributor's Note

We are very pleased to bring you InSite, a fresh new newsletter developed specifically with BMO InvestorLine clients in mind. InSite, which replaces NewsLine and Mutual Funds Update, provides you with valuable, relevant investing information to support you in fulfilling your investment goals.

InSite will feature articles on investing concepts, planning tools, industry information, timesaving tips and perspectives on issues that are important to investors. As the investing seasons change, so will the feature stories. InSite will also bring you a forum to share your own success stories and review tips and practices from fellow investors.

Our goal is to make InSite a resource you can keep and reference while you are contemplating your investments. Your feedback is important to us, so please send us your questions, comments and story ideas. We aim to continuously improve InSite to serve you better.

Cheers to a new beginning!

Tom.

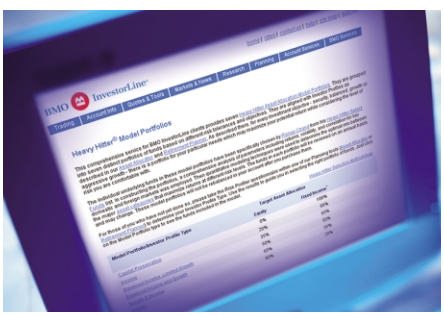
Thomas A. Flanagan
President & Chief Operating Officer

Feature of the Month

Did you know you can make deposits and RRSP contributions by adding BMO InvestorLine to your bills payable from your bank account through online or telephone banking? Visit *Frequently Asked Questions* at **bmoinvestorline.com** to see how easy depositing funds into your account can be.

Is Your Portfolio a Heavy Hitter? by Ranga Chand

How's your portfolio performing? Is it still on track or have the market's ups and downs made you second-guess your best efforts? If so, you may want to take a look at the seven Heavy Hitter®* Model Portfolios that were introduced onto BMO InvestorLine's website last year. By taking the Risk Profiler questionnaire, part of the BMO InvestorLine Asset Allocator and Retirement Planner planning tools,



you can determine which of the seven portfolios would be a good fit based on your goals, objectives, and risk tolerance. In the meantime, to get you started, here's a quick overview of the Heavy Hitter Model Portfolios.

In constructing the seven portfolios, a comprehensive analysis of parameters including returns, volatility and correlation for key domestic and foreign markets, was employed. Then quantitative modeling techniques were used to determine the optimal mix between the major asset categories that maximized returns at different risk levels. This diversification is a crucial ingredient in constructing a well-balanced investment portfolio. A portfolio that is well diversified across the major asset classes is better positioned to achieve higher returns at a reduced level of risk. The underlying principle behind diversification is that the performance of some asset classes tends to be significantly independent of the performance of others. In other words, they have a low correlation. This same principle can be applied to mutual funds.

Table 1 shows the asset allocation breakdown and the risk/return profile for each of the seven Heavy Hitter Model Portfolios. Using standard deviation—a widely used measure of risk—in all cases the returns are in line with the attendant risk. For example, the Capital Preservation Portfolio (an all fixed-income portfolio) has the lowest degree of volatility (2.4%) and also the lowest compound annual return (5.7%) over the past five years ending August 31, 2004. In contrast, the Aggressive Growth Portfolio (an all equity portfolio) has the highest volatility rating (9.9%) but has also delivered the highest rate of return (11.6%) over the same time period.

Since asset allocation plays such a crucial role in determining performance, it's important (once you've identified your goals, objectives, and risk tolerance) to make your asset allocation decision your top priority. In this respect, the seven Heavy Hitter Model Portfolios provide a wide array of asset allocations that have been specifically designed to meet a range of diverse investor needs. ■

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.

"A portfolio that is well diversified across the major asset classes is better positioned to achieve higher returns at a reduced level of risk."

Heavy Hitter Model Portfolios

Table One	Asset Allocation		Risk/Reward Profile	
	Stocks (%)	Fixed Income (%)	5 year risk* (%)	5 year return (%)
Capital Preservation	0	100	2.4	5.7
Income	20	80	3.0	8.6
Balanced Income, Limited Growth	35	65	4.8	9.7
Balanced Income & Growth	50	50	6.3	10.6
Growth & Income	65	35	7.3	10.8
Growth	80	20	8.3	11.4
Aggressive Growth	100	0	9.9	11.6

*As measured by standard deviation which shows the variability around a portfolio's average return — the higher the standard deviation, the higher the volatility. (Time period: 8/31/1999 to 8/31/2004.)

Profile of a Heavy Hitter: BMO Dividend Fund by BMO Mutual Funds

Structuring a balanced portfolio can be challenging. That's why a growing number of investors rely on the recommendations of professional investment analysts. One such expert is Ranga Chand, an internationally recognized economist and mutual fund analyst.

Recently, Chand teamed up with BMO InvestorLine to compile a list of Heavy Hitter®* Select Funds – a group of 50 funds from

across all the major asset classes that have demonstrated a consistent record of top performance. To understand what it takes to make the cut, we've included this profile of a Heavy Hitter: the BMO Dividend Fund.

What does it take to be a Heavy Hitter?

To make the list of Heavy Hitter Select Funds, a fund must have a strong performance history, a superior risk/reward ratio, a minimum 5-year track record and below-average management fees within its respective category. The BMO Dividend Fund fits the Heavy Hitter criteria nicely.

With more than 25 years of experience, the fund's portfolio manager, Michael Stanley, has a long record of delivering sustainable and consistent results. Chief Investment Officer of Jones Heward Investment Counsel, Stanley relies on a bottom-up investment process. Primarily, the fund invests in dividend-yielding common and preferred shares of established Canadian companies. As a result of this discipline, the fund has a record of solid growth and capital preservation, offering investors a prudent way to participate in the growth potential of Canadian equities. ■

To learn more about the BMO Dividend Fund and the other diversified funds available through BMO Mutual Funds, visit bmoinvestorline.com today.*

*BMO Mutual Funds are offered by BMO Investments Inc., a financial services firm and separate legal entity from Bank of Montreal. Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Investing Success: A Silver Bullet or a Disciplined Approach?

Continued from page 1

There are also a variety of portfolio management tools to help you maximize your portfolio's performance and productivity. For example, online performance reporting functions can help you monitor your gains and losses to see how well you are doing against your plan.

Support Along the Way

As an online investor, you know that investing takes time, knowledge, and discipline. You have made the choice to take control of your investments—but that doesn't mean there isn't support along the way when you need it. Knowing that you can count on

qualified, professional support along with having effective tools means you can execute your investment strategy with confidence.

A disciplined approach to investing can help you to achieve your investing goal, whatever it may be. Everything that's required to plan, select and manage your portfolio along with professional support is now available online. You can use as much—or as little—of what you need. ■

You Earned It - Now Keep It

Year End Tax Tips For Tax-wise Investors by Evelyn Jacks

Investors can benefit from a year end checklist of investment priorities that may decrease their 2004 tax liability and help plan for tax efficiencies in the New Year. Remember, it is your right to arrange your affairs within the framework of the law to pay the least income taxes possible as an individual and as a family, so consider the following now:

1. Don't overpay your final quarterly installment

If you have a quarterly tax installment due on December 15, or in the case of farmers, December 31, calculate your estimated income for 2004 first. If your income is lower than in past years, you may be able to reduce that payment, or not make it at all. To use the optional "current year" or "prior year" methods of calculating your installments, check out the Canada Revenue Agency's publication *P110 Paying Your Income Taxes by Installment.* Nice way to create new capital for investment purposes!

2. Compute your family RRSP advantage

The RRSP is a family deduction that offers leveraging opportunities. The RRSP deduction reduces net income—that line on the tax return upon which refundable and non-refundable tax credits are based. A reduced net income increases refundable and non-refundable tax credits, leaving more money for investment opportunities. Plan now to contribute to an RRSP for each family member who has RRSP Contribution Room (check last year's Notice of Assessment for this figure). RRSP makes a great Christmas present too: a gift of an RRSP investment is not subject to the normal Attribution Rules.

Besides the marginal tax savings that an RRSP brings to those with taxable income, and the advantages of tax-sheltered income growth within the registered account, your RRSP investment may create additional new money due to increased:

a. Tuition and education credits from university-bound children.

b. Monthly benefits for young families from the Child Tax Benefit.

c. Canada Learning Bond entitlements and RESP benefits.

d. Age Amounts, or Old Age Security, for those seniors subject to "clawbacks".

> "RRSP makes a great Christmas present too: a gift of an RRSP investment is not subject to the normal Attribution Rules."

e. Employment Insurance Benefits for suddenly unemployed high-income earners who will be subject to clawbacks when they file income tax returns.

f. Opportunities under the Lifelong Learning Plan or the Home Buyer's Plan—tax-free withdrawals from the RRSP, which can be used to enrich back-to-school or home buying initiatives.

3. Plan your non-registered investment strategy

Understand the tax efficiencies of your investments held outside the RRSP. First to know: when is income reported for tax purposes? Interest, which is the least tax efficient, must be reported annually—even when it compounds and is paid out later. Capital gains on your investments, on the other hand, are the most tax efficient, as accrued gains are never taxed until disposition, and then, the taxable portion is 50% of the capital gain. Dividends are subject to a 25% "gross up" for tax purposes, which can affect the size of refundable and non-refundable tax credits on your return and certain user fees, like per diem rates at nursing homes. Next to know: your marginal tax bracket and rate. A good tax software program can help you monitor your real, after-tax rate of return—a great strategy for knowledgeable investing.

4. Consider tax loss selling activity

The fall is a favourable time to consider selling your losers to offset your winners. Capital losses generated by the sale or transfer of stocks and bonds in your non-registered portfolio before year end will first offset other capital gains incurred this year. Unused losses can be carried back to offset capital gains you reported in any of the previous three years—a great way to reach back and recover taxes previously paid. Or, you can carry unused capital losses forward, indefinitely—an important way to manage taxes on your next winning investments.

Continued on page 6

You Earned It - Now Keep It

Continued from page 5

5. Leverage effectively in the current low interest rate environment

The current low interest rate environment is opportune if you wish to borrow money to increase your portfolio or split income with family members. In the former instance, interest on your investment loan will be tax deductible, provided your assets generate a reasonable expectation of income from property in the future, i.e., interest, dividends, rents or royalties. (Note: capital appreciation is not considered income from property.) For family income splitting purposes, draw up a bona fide loan with your lower earning spouse and charge the prescribed interest rate, currently 3%, to enable the reporting of investment income in that person's hands. The interest, however, must actually be paid to you by January 30 following each taxation year and you must, of course, report it on your tax return.

A tax-wise investor becomes wealthier over the long run. Maximize your disciplined investment strategies by including available tax preferences in your overall investment plans. ■

Evelyn Jacks, a best-selling Canadian author, is Founder and President of The Knowledge Bureau. For more information see www.knowledgebureau.com.

Tell Us Your Story

Is there a success story you'd like to share with InSite readers? Would you like to share your review of an investment book you've recently read? We'd like to hear from you. Tell us your story at *insite@bmoinvestorline.com.*

Please note: Emails you send to us are not encrypted. Do not send us any personal information (example: account numbers and/or passwords) by email.

InSite is published six times a year by BMO InvestorLine Inc., and is distributed with BMO InvestorLine account statements. To request additional copies of this issue, please send an email to *insite@bmoinvestorline.com.* To view past issues of the newsletter, visit the *Education Centre* at **bmoinvestorline.com.**

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.

5122168 (11/04)