MUTUAL FUNDS *Update*

Summer 2001

CANADA COMING ALONG NICELY

By Levi Folk and Richard Webb

With RSP fund investors facing a new world of RSP "clone" funds, old foreign content rules are almost irrelevant. Canadians can now use these funds to turn their RSP into an entirely un-Canadian investment vehicle. That means the familiar choice between investing in the Canadian market or beyond it is even more important – simply because anything is now possible.

Over the past two years, Canadian investors have seen a roller coaster ride in the domestic market. The TSE 300 surged 31.7% in 1999, and rose 7.4% in 2000, but those stats hide a big drop that began as 2000 came to a close. During the six months from October 2000 to March 2001, the index dropped 26.2%, led primarily by Nortel Networks. All these swings were about 50% more extreme than those seen in the U.S. S&P 500, and some observers feel that any bounce back in world markets this year could be most lucrative here in Canada.

The first factor in Canada's favour is the relative strength of the domestic economy. Canada's GDP and industrial production growth are outpacing that of the U.S. and this is being reflected in a stronger Canadian dollar. Over the next year, the country's currency will be a key indicator of stock market prospects. A stronger loonie will not only attract more foreign investment into Canadian stocks, but it will be a sign that Canadian firms are performing well. This should feed into higher domestic equity fund prices.

Reinforcing this trend is the tech sector. Many investors may balk at this suggestion, having seen a tech meltdown over the past 18 months, but historically when bubbles burst, they tend to "overshoot" fundamentals. In other words, many tech stocks worldwide are trading below their fair value. When investors actually take a sober look at some of these firms, the rebound to fair value could be sharp, and with the TSE boasting a high tech weighting, thanks to the presence of firms like Nortel, JDS Uniphase and Research In Motion, Canada's stock market ought to benefit more than most.

However, there may be some factors holding Canadian equity funds back over the next year. One factor is commodity prices. With the world economy slowing, industrial commodity prices have dropped sharply since the start of the year, mostly due to the plummeting oil and gas prices. While resources now only account for around 15% of the TSE 300, they remain important. This could hold back Canadian equity funds for the next year, although over the past year, many resource firms have cleaned up their balance sheets or enjoyed the benefits of a merger, which has helped the sector immeasurably.

Another negative for Canada is its current interest rate policy. The Bank of Canada has been somewhat less aggressive recently, when compared to its U.S. counterpart, the Federal Reserve. Interest rate cuts have been slower to materialize in Canada than in the U.S. due to Canada's higher rate. So far, global interest rate cuts have not spurred markets significantly; therefore Canada's strong growth and higher rates may actually be good for equity fund prices.

One factor to keep in mind, recently highlighted by the BMO Nesbitt Burns economics group, is that the correlation between international markets is growing. This means that outperformance by any one market, including Canada, is becoming less significant. That being said, investors will always choose to zero in on markets with the best prospects. During the next twelve months, Canada's equity funds will certainly face challenges from its interest rates and commodity price exposure.

But these problems ought to be overshadowed by the positives. Growth looks good, and the Canadian market offers value. Furthermore, the stability of Canada's economic and political outlook will be attractive to investors. While the U.K. wobbles on the border of Euroland, Japan remains mired in recession and the U.S. suffers political gridlock between the President and Congress, Canada's steady progress may look more exciting than it sounds.

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HOW TO OUTSMART THE BIG BAD BEAR MARKET

DYNAMIC MUTUAL FUNDS

Most people would describe a bear market as one with falling prices, where your hands are tied to do nothing but sell your stocks quickly with the sole objective of minimizing unavoidable losses. Ironically, the biggest risk during bear markets is the impulse to sell. Markets generate temporary declines. Only people can lock-in permanent losses.

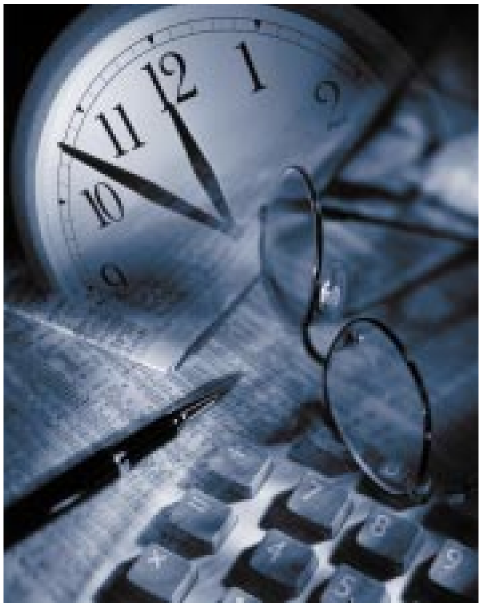
A true bear market is one that declines 20% or more from peak to trough. As represented by the S&P 500 Index, the U.S. has seen 11 declines of this approximate magnitude since World War II, occurring every five years on average. Bear markets tend to be short in duration. Only four lasted more than a year and none lasted more than two years. The current decline reached one year in length on March 23, 2001.

Bear market declines are difficult for those caught in the middle. But keep in mind the strength and speed of recovery. Upon close examination of the eight TSE 300 bears since 1950, we notice that the strength of recovery has been almost as great, if not greater than the declines. Studying the TSE 300 performance from the 100% decline from its peak, to the one-year simple return after the prices bottomed, we can easily see the dramatic jump that follows a bear market. For example, in 1957, a more than 20% drop was followed by a more than 20% gain within a year. From 1981 to 1982, an almost 40% decline was followed by a more than 80% recovery. The history of these bear markets tells quite a story. First, it suggests that right now we are most likely closer to the end of the bear market than the beginning.

Second, when the market turns around, it will happen quickly and substantially erase recent losses. We know from experience that trying to time the bottom of the market is a losing game. Most people miss it, and by the time they're back in the market, they've missed the strongest part of the recovery. That's no way to get the better of a bear market.

A bear market can shave plenty of value off your portfolio, but permanent losses accrue only if you sell. If you bought-in at the peak of the market in 1987 and sold at the bottom, you would have lost about 25%. If you have a long-term strategy, the results are very different. The growth of $10,000 invested in the TSE 300 at the end of June 1973 would give you more than $200,000 at the end of June 2000. Observing the 1987 crash in this long-term context, the impact is only a minor blip.

Warren Buffett is a good example of an investor whose long-term focus paid off, although he suffered tremendous temporary losses in the market. On October 19, 1987, the S&P 500 Index dropped 23.2%. The value of Warren Buffett's holdings in Berkshire Hathaway plunged more than $300 million dollars. Had he been unnerved by the market volatility and sold, he would have solidified a huge loss. However, he didn't sell and the value of his shares is now worth over 22 times what they were on Black Monday.



The professional investment management provided by a mutual fund company can be beneficial in dealing with a falling market. A well-managed mutual fund will help see you through a bear market and gain from its recovery. Dynamic Mutual Funds recognizes five basic keys to superior performance – market knowledge, in-depth analysis, entrepreneurial instinct, market momentum and sound management. This recognition allows Dynamic to put all their resources behind a single goal – building financial strength for you for the long term. Dynamic Funds are just one of the 80 Fund Families available through BMO InvestorLine. Contact a BMO InvestorLine Mutual Fund Specialist to learn more.

FUTURE SHINES BRIGHTLY FOR PRECIOUS METALS

BMO Mutual Funds®

When Bill Belovay of Jones Heward Investment Counsel analyzes the precious metals sector, it's the speculators he keeps his eye on. "At the end of the day, the speculator is really the most important person in this whole equation," says Belovay. "In this sector, the speculators always lead – then other investors follow."

Positive outlook for sector

Belovay identifies a couple of key reasons for the recent strong performance of the sector and the positive outlook of speculators. First, recent interest rate cuts have put a damper on the forward selling of gold, which was depressing the price of the commodity. When selling gold forward, a gold company borrows gold from a central bank at a very low rate of interest, then sells it in order to buy term deposits that pay a higher rate of interest. While this allows the companies to hedge against a drop in the price of gold, selling the borrowed gold puts downward pressure on the commodity's price. Deep interest rate cuts and a rise in gold lending rates have made this procedure less attractive to the gold producers who sell gold forward. This reduces the gold supply, allowing gold to rise.

In addition, speculators are anticipating that the U.S. dollar, which has been going from strength to strength, is a bubble ready to burst. Their thinking is that when this happens, a lot of the money from the currency market will move into gold.

What does this mean? "Speculators are now predicting that forward selling is going to be history, and that the U.S. dollar is going to decline," says Belovay "These factors bode well for the sector."

Looking ahead, Belovay sees the strong performance continuing. Signs of inflation, energy troubles, political flare-ups in Asia and the Middle East, and deepening economic woes in Japan all make an increase in the price of precious metals likely, as investors view these commodities – especially gold – as a safe haven in troubled times.

In addition, the AIDS tragedy in Africa appears to be taking its toll on gold production, which could drive the price of gold higher. Gold production in Africa remains a labour-intensive industry with South Africa being the world's largest gold producer. Apparently more than 70% of beds in South African mining hospitals are taken by AIDS patients, and more than 40% of South Africa's young labour-force are already either HIV-positive or suffering from AIDS. Last year, this country produced 13.7 million ounces of gold, down 5% from the previous year, and since it is unlikely that AIDS will be controlled in the near future, we could see a further steep decline in its gold production.

Sector offers portfolio protection

Belovay sees the investment in a precious metals mutual fund as a form of insurance, offsetting unpredictable financial shocks that can affect other parts of an investor's portfolio. For example, a significant downturn in the U.S. dollar, a crisis in one of the major world economies or more localized threats to economic and financial systems, such as the collapse of the hedge fund Long Term Capital Management in the U.S. a few years ago.

"In a sense, it's like buying fire insurance for your home," explains Belovay. "You don't wait for your neighbour's house to catch fire before buying fire insurance. You buy it before the unpredictable event occurs. The same holds true for the precious metals portion of your investments. It should be a consistent part of a portfolio, to help steady returns when these inevitable crises occur."

Belovay takes a value approach to choosing investments in the sector, looking for reasonably priced shares of companies that combine solid assets with good management. He views the assets – the actual mines a company owns – as the most important consideration. "I believe good assets cannot be destroyed by poor management," he says, "whereas poor assets and good management together doesn't get you much – just good investor relations."

Belovay has avoided companies with a high dependence on hedging future gold production in a low interest rate cycle. Even if management is well regarded in the industry, there is no substitute for fundamental analysis of each of the individual mines that make up the backbone of the company's value. This approach has benefited investors in the Fund he manages, the BMO Precious Metals Fund.

The Fund has outperformed its industry giving consistent upper Quartile performance, gaining 30% for the year ending June 5, 2001. This compares with a return of approximately 7% for the TSE's Gold and Precious Metals Index (or the comparable Exchange-Traded Fund) over the same period. For more information on BMO Precious Metals Fund, contact a BMO InvestorLine Mutual Funds Specialist.

If you want to learn more about the precious metals sector, visit our web site and get research from Morningstar Canada today.

MUTUAL FUNDS *Update*

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Available through BMO InvestorLine

- **@rgentum Management & Research Corporation**
  – includes University Avenue Mutual Funds
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  – includes Global Strategy Mutual Funds
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- **AIM Funds Management Inc.***
  – includes Trimark Mutual Funds
- **Acker Finley Asset Management Inc.**
- **Acuity Funds Ltd.***
  – manages Clean Environment Funds
- **Altamira Investment Services Inc.***
- **Arrow Hedge Partners Inc.**
- **BMO Investments Inc.***
  – BMO Mutual Funds
- **Beutel Goodman Managed Funds Inc.**
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- **CIBC Securities Inc.**
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- **Capstone Group**
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- **Dynamic Mutual Funds***
  – manages Power Funds
- **eFunds Asset Management Ltd.**
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- **First Trust Portfolios**
- **Franklin Templeton Investments***
  – includes Bissett, Franklin and Mutual Series Funds
- **GBC Asset Management Inc.**
- **Globeinvest Funds Management Inc.**
- **Guardian Group of Funds Ltd.***
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- **Hartford Life Insurance Company**
- **Hirsch Asset Management Corp.**
- **ING Investment Management Inc.**
- **Jones Heward Group of Funds***
- **Lion Funds Management**
- **Mackenzie Financial Corporation***
  – manages Industrial, Ivy, Universal and Cundill
- **Mawer Mutual Funds**
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- **Merrill Lynch Investment Managers Canada Inc.**
  – manages Atlas Mutual Funds
- **Middlefield Group**
- **Montrusco Bolton**
- **Northwest Mutual Funds Inc.**
  – includes Marathon Mutual Funds
- **Opus 2 Direct.com Inc.**
- **Orbit Mutual Funds**
- **Perigee Investment Counsel Inc.**
- **Phillips, Hager & North Investments Management Limited**
- **R Group of Funds**
- **Royal Mutual Funds Inc.**
- **Sagit Management Ltd.**
  – manages Cambridge & TransCanada
- **Saxon Group of Funds**
- **Sceptre Investment Council Ltd.**
- **Scudder Maxxum Co.**
  – includes Janus Mutual Funds
- **Sentry Select Capital Corporation**
  – manages NCE Mutual Funds
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- **Standard Life Mutual Funds**
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- **Strategic Nova Mutual Funds**
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- **Synergy Asset Management***
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- **Talvest Fund Management***
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**** Approved for BMO InvestorLine Automatic Investment Plans.***

FUND *Focus*

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Fund Reports: Obtain detailed information about a specific mutual fund, including fund performance as well as asset and geographic information. You can also view the Top 10 holdings for further insight.

Fund Selector: Use this tool to help you rank and choose top funds within the categories that you're interested in. Use the Morningstar rating category to find 5 star rated funds.

Morningstar Rating: Helps you narrow your search. An industry standard in evaluating how a fund has performed on a risk adjusted basis relative to its peers in the past. Use this tool as a starting point to evaluate the fund.

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COMMISSION *RATES*

Front Load Funds & No Load Funds

Transaction	Charge
Purchase	No fee[1]
Redemption	Flat $40

There are no purchase or redemption fees on BMO Mutual Funds.

Back Load Funds

BMO InvestorLine does not charge a commission on back load (DSC) funds. A fund company charge may apply.[2] When you purchase $1000 or more of our back load funds, you receive a bonus of 2.5% if your order is placed through one of our agents, or a 3% bonus if you use the Web to order.[3]

Money Market Funds and T-Bill Funds

BMO Money Market and T-Bill Fund purchases:
- $5,000 minimum initial purchase [4]
- No Redemption Fee

Other fund company Money Market and T-Bill Fund purchases:
- $25,000 minimum initial purchase [5]
- $40 Redemption Fee applies

Switch Orders

There is no charge for switch orders within the same fund family, regardless of the type of fund.[6] Switch orders are subject to BMO InvestorLine minimums or fund company minimums if higher.

[1] An initial purchase minimum of $1,000 and a subsequent purchase minimum of $500 apply.

[2] Deferred sales charge on selling. These charges decline over a series of years.

[3] This offer does not apply to Labour Sponsored Investment Funds and Automatic Investment Plans.

[4] All units must be redeemed if your balance falls below $5,000

[5] All units must be redeemed if your balance falls below $25,000

[6] Some funds apply an early redemption fee to switch or sell units.