

## 2004: The Year of Investing Wisely

Winter 2004

After years of adverse market conditions, 2003 has brought significant upside to your portfolio. Additionally, many analysts predict that 2004 will be positive for financial markets, with sustained low-inflation growth, continued consumer demand and accelerated inventory buildup. In Canada, solid economic growth and job creation auger relatively well for the year to come. To prepare your portfolio accordingly, you may want to adopt one of the following approaches, depending on your views on the markets:

**Buy and hold** – Made famous by Benjamin Graham, the father of value investing, and his illustrious disciple, Warren Buffett, this approach consists in finding excellent companies and investing in them for years and years, by finding remarkable business plans with executive and management teams that can execute them. This approach is demanding because you need to analyze a large number of companies, and you need to fully understand both the business plan and management's outlook.

**Tactical asset allocation** – This approach is based on allocating your portfolio between asset classes – Canadian equities, U.S. equities, international equities, Canadian bonds, and cash, for instance – according to your investor profile (as revealed through BMO InvestorLine's Asset Allocator and Retirement Planner tools). Tactical asset allocation consists of placing lower and upper bounds around asset class allocations, and moving your portfolio

within these bounds according to market opportunities. For instance, with 40% Canadian equities in your portfolio, you may allow yourself a 20% lower bound and a 60% upper bound. If you believe that markets will perform well over the next 12 months or so, your Canadian equity holdings may increase anywhere between 40% and 60% (reducing other asset classes correspondingly). This is a disciplined way of maintaining your portfolio in focus, while allowing yourself access to market opportunities.

**Market timing** – This approach is based on the view that it is possible to forecast market movements accurately, and to move in and out of different markets relatively frequently and at the right time. Technical analysts will identify buy and sell signals, moments in time at which stock positions should be changed. However, several investment professionals consider that market timing is ineffective because it requires precise advance positioning and because it is not based on an understanding of economic forces (e.g., interest rates, equity valuations, exchange rates, etc.) that move financial markets.

**High-frequency trading** – Some investors do not rely on economic or business events but rather trade on a very frequent basis (e.g., day traders may open and close many positions within each trading session) according to very short term market momentum and sentiment. Events occurring almost on an instantaneous basis will be acted upon. However, this approach requires constant monitoring and nerves of steel, as only the average gains matter – significant losses can be accumulated rapidly.

Whatever your investment approach, here are some tips that should help you in managing your portfolio:

☑ **Consider investing as a continuous process.** It's not just about RRSP season, nor about year-end: you are basically managing your disposable

income every day, every week, every month. Your savings stem really from what you make of your take-home pay, your business income, or any other sources of revenue. Make sure to plan accordingly, with tax and compounding considerations in mind.

☑ **Don't segregate your assets.** Some investors tend to separate their total assets into 'mental accounts', leading to potentially flawed investment decisions. For example, an investor may consider that losing \$5,000 in an RRSP account is worse than losing \$5,000 in an account set up for vacation money. However, it's the same sum – and the same investor! It's important, then, to consider all opportunities and manage all volatility across your portfolio. See your assets in their entirety, and avail yourself of all worthwhile investments.

☑ **Be consistent with your portfolio asset allocation.** A well-designed portfolio targets your investment goals, such as retirement, children's educations, or a secondary home. But to attain your goals, you need to stay focused 'beyond the market cycle', and that means staying committed to your asset allocation throughout the market cycle. We can't know what's ahead in the markets. But what we do know is how different asset types have behaved over the past decades. This is important knowledge that can be put to good use. In particular, you should refrain from 'waiting for markets to turn' – rather than parking your money and missing opportunities, you should add to your portfolio in the right asset proportions whenever you have additional money to invest.

Be sure to avail yourself of the many powerful tools available on the BMO InvestorLine web site, designed to help you plan, implement and maintain a portfolio that will lead you to your investment goals.

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## A new spin on investment returns

If you've been looking for the opportunity to enjoy a substantial reward without risk, you may now have the chance! Sound too good to be true? Then you probably haven't heard about BMO InvestorLine's 2004 Ultimate Golf Getaway. This RRSP season, you can put your investment knowledge to the test by filling out our weekly online quizzes. For each correctly completed quiz, you'll earn a ballot to enter this year's contest. Best of all, this simple investment of time will yield an amazing reward for several lucky winners.

What can you win? Well, for starters, you and three friends can enjoy a weekend of golf instruction at the Byron Nelson Golf School at the Four Seasons Resort and Club Dallas in Las Colinas, Texas. Next, you'll get a chance to put your new skills into practice at the Four Seasons Resort Hualalai, Hawaii, where you and three friends (the same ones, or others) can spend a week playing on a Jack Nicklaus signature golf course. And, in case that isn't enough, consider this: the two trips don't need to be taken in conjunction. That means you essentially get two prizes in one!

In addition to this grand prize, there are also four secondary prizes to be won, two weekends for two at the Taboo Resort in Muskoka, Ontario and two sets of custom golf clubs from PING.

### A wealth of opportunity

Of course, visiting [bmoinvestorline.com/golf](http://bmoinvestorline.com/golf) to fill in our weekly investment quizzes will

do more than make you eligible to win the Ultimate Golf Getaway. It will also help you learn more about your financial planning goals and the tools you can use to achieve them.

This is particularly relevant as we rapidly approach March 1 – this year's RRSP contribution deadline. With other, more immediate, demands on their finances, saving for retirement is often put on the backburner for many investors. However, it's never too early to begin planning for retirement. That's why BMO InvestorLine offers a range of tools and calculators to help you construct the most effective retirement plan possible.

For instance, our Retirement Planner helps you develop a customized plan by taking into account your current financial situation, your risk tolerance, and your retirement goals. Using the Investor Profile Questionnaire, you'll gain an understanding of the type of investor you are based on your personal level of risk tolerance and your investment time horizon. Your answers are then scored and matched with an investor profile type and a corresponding asset allocation model. This recommended asset mix can, in turn, be compared with your existing asset allocation to help you make the necessary adjustments to help you reach your retirement objectives.

By providing you with a clear financial analysis and a detailed savings plan, the Retirement Planner allows you to construct a retirement plan that takes all your assets into account, from your RRSP and

company pension plan to your non-registered investments. It also incorporates all Canadian tax and savings rules, so you have an up-to-date picture of RRSP contribution limits and pension adjustments. Plus, as an interactive online tool, it can be easily updated over time as your circumstances change.

### Beyond retirement planning

In addition to our retirement resources, BMO InvestorLine offers a wide range of products, services, and tools to meet all your investment needs. For instance, with access to comprehensive research, you can make informed investment decisions. Stock and news alerts keep you informed about the news that matters most to you. The Asset Allocator tool helps you determine an asset mix to meet your financial objectives. And, with Fixed Income Online, you can search, buy and sell fixed income products such as bonds, debentures, and money market instruments online.

Whatever your investing needs, BMO InvestorLine offers a comprehensive range of tools to help you meet your financial goals. Plus, with the Ultimate Golf Getaway, you might realize your vacation dreams as well.

For full contest rules, visit [bmoinvestorline.com/golf](http://bmoinvestorline.com/golf) or contact a BMO InvestorLine Representative at 1 888 776-6886.

# Options Basics

When they hear the word investments, many people automatically think about the stock market. The vast majority of investors are more familiar with this market since they understand how it works and know what risks are involved.

However, other market alternatives exist and provide attractive opportunities for investors taking the time to explore them. The options market is one of the alternatives. This market is still broadly unknown; and most investors who have heard about options believe they are high risk and dangerous investments. In reality, the options market allows investors to benefit from a broad range of possibilities and trading strategies that can be used in a very conservative way to achieve investment goals. Options are equally used by hedgers and speculators. Hedgers will use options to protect their portfolios by transferring the inherent risk of their investments to other market players who are willing to accept it, in this case the speculators.

## Why should investors use options?

Unlike most investors who limit themselves to a few trading strategies, the option user enjoys a wide variety of powerful investment alternatives! Options strategies give you better control over the performance of your portfolio and the degree of risk. Consider the following scenarios:

- You anticipate that a particular stock is likely to increase in price. Instead of buying the stock, options offer a way to benefit from the price increase at a lesser

capital cost and with a limited and known risk.

- You wish to establish the maximum price you will have to pay for a stock at a later date. Options can be used to “lock in” the price today.
- You wish to protect your portfolio holdings from an unexpected decline in the price of a certain stock. Options can be used to hedge your portfolio.
- You wish to increase the performance of your portfolio. Options can be sold to increase the return on your portfolio.

And these are only a few examples of the flexibility options offer to those who understand their uses. Whether you are bearish, neutral or bullish, many option strategies may give you better results than stocks alone!

Many investors have recognized options as efficient, effective complements to their overall investment strategies. Take the time to understand how options work, you can use options to help manage the risks and rewards associated with your chosen investment strategy and find ways to adapt your investment plan to any changes in market conditions. Individuals seeking new investment opportunities in today’s market will find options challenging and often fast moving but potentially rewarding.

Depending on what your goals are, options can play an important role in your investment plans. Options are not for every investor but the wise investor should be aware of all the tools available to him as he seeks to maximize the value of his holdings.

For BMO InvestorLine clients, the

online options offering has been enhanced. The order entry screens have been improved for greater ease of use and option chains has been introduced for the investor who wants to see all available options on a stock. For those wanting to learn more about options, the online educational content has been enriched. If you are considering adding options to your trading strategy, or you would simply like to learn more, visit [bmoinvestorline.com](http://bmoinvestorline.com).

## Option Chains

BMO InvestorLine offers Option Chains on their web site – a visual display of every option contract on a particular security including the various strike prices, dates and option types.

You can search for Option Chains for a particular stock or index on the symbol search page.

Once you have made your choice, you will see quotes for every possible strike price for that given option type and expiration date. This list amounts to the Option Chain.

Each quote will contain the following information: symbol, bid, ask, last, change, volume, open interest (the amount of open contracts) and strike price.

To trade the option, simply click on that option’s symbol and you will proceed to a user-friendly order entry page where you can complete your transaction.

## Asset Allocation – Finding the Right Fit

You already know the importance of financial planning. You may already have a plan in place. And, you recognize that as your personal and financial circumstances change, it's important to revisit and update your plan to ensure the asset mix in your investment portfolio is still right for you. But, did you know that BMO InvestorLine provides you with the online tools that help you to manage your own portfolio?

### Determine your appropriate asset mix

BMO InvestorLine's Retirement Planner is a unique planning tool available online through our Planning Centre. Not only does it provide you with information to help you determine how much you should invest to help you meet your retirement goals, it contains an Asset Allocation tool that can guide you through an asset mix review.

The Asset Allocation tool helps you better understand your investment needs and expectations, as well as your tolerance for risk. It then produces an asset allocation model that matches your investor profile.

### Asset Allocation tool – here's how it works

After you log into your BMO InvestorLine account, select the "Retirement Planner" feature from the "Planning Centre" option on the main navigation toolbar. When you open on the Retirement Planner page, you will be prompted either to access an existing plan or create a new plan.

You can then proceed either through Retirement Planner and complete the process, or you can go directly to the Asset Allocation section. This is a particularly beneficial option, if you're curious about how your existing asset allocation compares to that recommended by the Asset Allocation tool.

### Your investor profile

If you choose to head straight to Asset Allocation, you will be prompted to provide answers to the Investor Profile Questionnaire. These questions make you

examine your rate of return expectations and your comfort level with investment risk.

Once you submit your responses, you are then matched with the applicable investor profile type, with possibilities ranging from "Capital Preservation" to "Income" to "Growth" to "Aggressive Growth". The program then generates an asset allocation model that corresponds to your Investor Profile Type and provides directions on how your investments should be divided amongst the main asset classes. The resulting report even provides a detailed breakdown of how you could choose to allocate both your registered and non-registered investments – before and after retirement by assigning

percentages to the segments within the main asset classes: Cash & Equivalents, Canadian Fixed Income, International Fixed Income, Canadian Equities, U.S. Equities, International Equities and U.S. Speculative Equities.

With this report in hand, you'll be well positioned to compare your current situation with that which was recommended by this sophisticated online planning tool in order to determine whether your portfolio is structured to meet your financial objectives – including your retirement goals.

Check out these investment tools for yourself. Visit [bmoinvestorline.com](http://bmoinvestorline.com) today and see how empowering direct investing can be.

## Protecting Your Privacy

At BMO InvestorLine, we take our commitment to protect the privacy and confidentiality of your personal information very seriously. That's why, as of January 1, 2004, a new Privacy Code was introduced in BMO InvestorLine entitled *Your Privacy*.

A privacy insert was included in your October and December statements – or in your Welcome Kit if you're a new client – we'd like to take this opportunity to remind you of the salient aspects of our privacy commitment to you.

### Using your personal information

In our Account Application, we ask for your personal information – details that specifically identify you as an individual – for four main reasons:

- To verify your identity and protect you and BMO InvestorLine against fraud.
- To set up and manage the products and services you've requested.
- To provide you with information about our products and services that we believe may interest you.
- To satisfy various regulatory obligations.

As part of the process, we ask for your Social Insurance Number (SIN). Federal and provincial income tax authorities require us

to collect your SIN and include it on the tax information we send to you and them. We also use your SIN for administrative purposes, like processing your statements more effectively.

Your personal information is shared within BMO Financial Group – primarily to set up your AccountLink® service.

In addition, your personal information may occasionally be used for direct marketing purposes to inform you of wealth management solutions that may be of interest to you.

### The choice is yours

You can control the extent to which the personal information you provide to BMO InvestorLine is used. If you would prefer your information not be shared within BMO Financial Group, or if you don't want your SIN used for administrative purposes, or if you'd rather not receive occasional direct marketing messages, you can simply change your preferences.

You can obtain further information about the Privacy Code, as well as the appropriate forms for modifying your preferences, online at [bmoinvestorline.com](http://bmoinvestorline.com) or by speaking with a BMO InvestorLine Representative.

BMO InvestorLine is a member of BMO Financial Group.

† As ranked by *The Globe and Mail*, Jan. 26, Sept. 14, 2002, Feb. 8, Sept. 6, 2003 and by *Gómez Canada* Q1, Q3 2002 & Q2, Q4 2003 Canadian Brokers Scorecard.

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Please send comments and suggestions to: The Editor, BMO InvestorLine *NewsLine*, First Canadian Place, 100 King St. W., 54th Floor, Toronto, ON M5X 1H3



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CIPF  
6700020  
(01/04)