

A Disciplined Approach In Action



Back to School - The Perfect Time to Revisit Your Strategy

In past issues of InSite you've read about a disciplined approach to investing and the tools and research available to help you successfully plan, select and manage your investments. Now that it's back-to-school time, it's the perfect opportunity to revisit your plan. Has your situation or goals changed? Or, do you even have a plan in place?

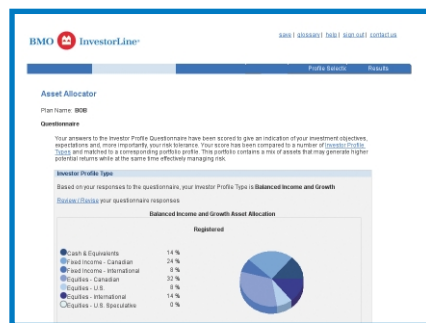
Staying on Track from Start to Finish

Staying disciplined as you plan, select and manage your portfolio helps you stay on track towards your investment goals. To follow this process from start to finish, let's look at Bob, a 46 year-old professional with a wife and two children, and how he's staying disciplined so he can retire at 60.

Step One: Create a Plan

As an online investor, Bob has access to many effective planning tools specifically designed to help him reach his goals. Realizing that to achieve his goals he must first have a viable plan, Bob creates an Investor

Profile with an Asset Allocator tool to better understand and identify his investment objectives, risk tolerance, and time horizon. After completing the questionnaire, he realizes that he has a moderate risk tolerance and falls into the Balanced Income, Growth investor profile. In conjunction with Asset Allocator, Bob also defines his retirement goals with Retirement Planner and customizes a plan.



Bob uses these planning tools to test different scenarios and investment strategies, determine a proper mix of investments, RRRSPs and other assets for his portfolio, and align investment performance targets to his retirement plan. This helps him to clarify exactly where he wants to go, and what asset mix will get him there.

Step Two: Select the Investments that are Right For You

With a clear plan in place, Bob now takes advantage of a comprehensive array of online screening and research tools. With access to third-party research such as Morningstar Canada and Zacks Investment Research, Bob evaluates which investment products match his unique investment plan while taking into account the needs of his children down the road.

Bob selects investments using basic and advanced stock screeners that allow him to narrow down the equity options that fit with his criteria. To build his mutual fund portfolio, he accesses the Mutual Fund Centre and buys third-party recommended Analyst Select Funds. To ensure he has a diversified portfolio, Bob also buys an Exchange Traded Fund Model Portfolio that matches his Balanced Income, Growth investor profile.

Step Three: Active, Ongoing Management

Bob knows that in order to reach his investment goals, he has to stay disciplined. He regularly fine-tunes his investment choices to keep up with current market conditions and any changes to his plan.

Every quarter, Bob uses the Portfolio Rebalancing tool to compare his actual asset allocation to the asset allocation he created in his plan. He also

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sets up Alerts to receive market news and notify him of specific stock price changes by email. Bob plans an exit strategy by setting up a Trailing Stop Order on his stocks, which re-calculates the Stop Price every time a new



closing high is reached, helping to lock in any potential gains.

Step Four: Leveraging the Support Available

Bob uses the many online support tools and resources available to help him stay informed. He views webcasts, reads investment articles and newsletters, and keeps his skills sharp with interactive trading tutorials.

Bob learns about mutual funds, fixed income products and gets useful tax information from the online Education Centre. He also regularly attends seminars to learn more about valuable investing strategies.

A Disciplined Approach - Start Today

Being disciplined helps Bob stay on track to reaching his goal of retiring

at 60. For you, taking a disciplined approach to investing can provide the framework to help you reach your unique goals sooner and become a more successful investor. ■

Explore Our Site

To learn how you can take advantage of all the trading features our website has to offer, check out the Interactive Trading Tutorials at bmoinvestorline.com/AccountAccess/Demo.

New! Enhancements to the BMO InvestorLine 5 Star Program™

BMO InvestorLine is pleased to introduce new benefits coming this fall for 5 Star Program clients. In addition to exclusive financial and service benefits, 5 Star clients will enjoy access to a new Online Service Package including:

- **Real-Time Quotes throughout the website**
- **Level II Quotes**
- **Streaming Quotes**
- **Enhanced Charting**

In addition, you will be able to link all of the accounts you manage within a User ID to qualify for the Program.

To learn more about the 5 Star Program, visit bmoinvestorline.com/ProductsServices/5Star.html today.



Contributor's Note



The investing world is complex with many choices. Many investors are looking for ways to simplify their investment selection process and diversify their portfolios. To be successful they need to stay disciplined. Recognizing this need, we have partnered with third-party industry experts to bring you Model Portfolios to help you simplify the selection process.

Our Heavy Hitter Model Portfolios introduced in 2003 have proven to be very popular with investors. With the growing popularity of Exchange Traded

Funds (ETFs), we have partnered with Barclays Global Investors Canada Limited to develop ETF Model Portfolios, available exclusively to BMO InvestorLine clients. Whether you're an experienced investor or just starting out, ETF Model Portfolios can fit into many different investing strategies. Read the articles *Rethink the Way You Invest*, *ETFs Deliver a New School of Investing* and *Power Up Your Investments with the NEW ETF Model Portfolios* in this issue, or visit bmoinvestorline.com to learn more.

Sincerely,

Thomas A. Flanagan
President & Chief Operating Officer

Heavy Hitter Model Portfolio Corner by Ranga Chand

Income Model Portfolio

In this issue of InSite, Ranga Chand profiles his fourth Heavy Hitter Model Portfolio out of seven.

The Heavy Hitter Income Model Portfolio provides investors with current income and a modest opportunity for some growth while preserving capital and maintaining a low expected volatility. It is suitable for conservative investors with an intermediate to long-term time horizon who can withstand moderate fluctuations in the value of their portfolios in the short-term.

The target allocation of the portfolio is 20% stocks and 80% fixed income, and consists of five underlying Heavy Hitter Select Funds (Table One). These five funds, like their counterparts in the Heavy Hitters Select Funds list, all have a strong performance history, superior risk/reward ratios, a minimum five-year track record and below-average management fees within their respective categories.

The investment returns for the Income Model Portfolio are shown in Table Two. The portfolio's average annual total return for the five-year period ending June 30, 2005 was 9.1%. By way of comparison, during this five-year period the average rate for a five-year GIC was 3.6%. On a yearly basis the portfolio has delivered positive returns throughout this period with returns ranging from a high of 10.2% in 2003 to a low of 5.4% in 2002.

Year-to-date, the Income Model Portfolio is up 4.5%. Over the same time period, all five of the portfolio's underlying funds were in positive territory with returns ranging from a low of 1.7% for the TD Mortgage Fund to a high of 6.8% for the BMO Dividend Fund.

Given its high fixed income component, the Income Model Portfolio has a low-risk profile. Although there is a

1 in 5 chance that returns will be negative over any one-month period, the portfolio has delivered positive returns over all 1-, 3- and 5-year holding periods. Looking at all 34 five-year rolling periods from September 1997 to June 2005 (Table Three), returns have averaged 8.0%, ranging from a high of 9.9% to a low of 5.8%. ■

To read the other Heavy Hitter Model Portfolio profiles, visit

bmoinvestorline.com/EducationCentre/InSite.html and click on the past issues of InSite.



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			Income Model Portfolio	
Heavy Hitter Select Funds	Fund Type	% of Portfolio		
BMO Dividend	Canadian Dividend	20%		
Dynamic Income	Canadian Bond	30%		
Elliott & Page Monthly High Income	Canadian Balanced Income	10%		
Fidelity Canadian Short Term Bond	Canadian S-T Bond & Mortgage	20%		
TD Canadian Mortgage	Canadian S-T Bond & Mortgage	20%		

Table Two					Income Model Portfolio Investment Performance (June 2000 - June 2005)				
Average Annual Total Return (%)									
1 YEAR	2 YEAR	3 YEAR	4 YEAR	5 YEAR					
11.7	9.4	8.7	8.4	9.1	Yearly Performance (%)				
2005*	2004	2003	2002	2001					
4.5	8.8	10.2	5.4	7.8	*to June 30, 2005; Source: Chand Carmichael & Company Limited				

Table Three		Income Model Portfolio Risk/Return Profile (September 1997 - June 2005)				
	Best Return (%)	Worst Return (%)	Average Return (%)	Frequency of Negative Returns (%)	Number of Periods	
1 year	17.1	0.1	7.5	0	82	
3 years	9.9	5.9	8.0	0	58	
5 years	9.9	5.8	8.0	0	34	

Source: Chand Carmichael & Company Limited

Rethink the Way You Invest. ETFs Deliver a New School of Investing.

by Howard Atkinson, Barclays Global Investors Canada Limited

Gaining in popularity, Exchange Traded Funds (ETFs) combine the flexibility you want with the modularity a portfolio demands. As part of your disciplined approach to investing, ETFs provide instant diversification to your portfolio as well as a host of other benefits. Whether you're a novice or experienced investor, they can help advance your personal investment strategy.



What are ETFs?

Combining characteristics of traditional mutual funds and stocks, ETFs are baskets of stocks giving you part ownership in an underlying portfolio of securities that tracks a specific market index, such as the S&P/TSX 60, Dow Jones Industrials or the S&P 500. Unlike mutual funds, you do not purchase or redeem shares from the fund. Instead, like stocks, you buy and sell shares of ETFs on an exchange.

Advantages

ETFs offer you a simple, low-cost and convenient way to invest. In addition to these benefits, investors find the following characteristics of ETFs most appealing:

Increased diversification to reduce risk

As a diversification tool, ETFs allow you to reduce concentration risk by diversifying away from single stock, asset class or sector concentration. They are an excellent way of investing in a sector while mitigating the risk of being exposed to the fortunes of only a few companies.

Tax efficiency

They deliver tax efficiency by tracking and “refreshing” holdings in step with the underlying index, so portfolio turnover is generally low. In addition, stock exchanges provide liquidity; so net unitholder selling does not necessarily mean redemptions for ETFs. These two features help reduce realized capital gains and taxable distributions that often result.

Fair pricing/cost effective

Since the underlying securities and the ETF basket are interchangeable, you get a fair price as market participants ensure prices remain in line with each other. ETFs are cost-effective since you can buy or sell a portfolio of bonds or stocks in a single transaction, and tend to have low expense ratios.

Access to sectors and indexes

ETFs provide access to multiple benchmark categories, including: small-, mid-, large- and broad-capitalization; growth, value and core; international (sector and single-country); and fixed income. In many cases there are even multiple benchmark provider options for the same style or sector.

Ability to track an entire market segment

ETFs closely track an index or sector. They may replicate an index entirely by owning every security in the index, or they may “optimize” the portfolio – track the index as closely as possible without owning each security.

Transparency

Whether an ETF is fully replicated or optimized, a fund manager must know what's in the index to be able to track it. Index providers publish changes to their benchmarks daily, providing complete transparency.

Part of Your Investment Strategy

You can incorporate ETFs into a variety of investment strategies. Whether you are looking for short-term trading opportunities; intermediate-term sector rotation; tactical asset allocation; portfolio completion; or long-term buy-and-hold strategies, ETFs can meet your needs. As ETFs are incorporated more and more as a staple investment, popular strategies are emerging, such as:

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“...ETFs allow you to reduce concentration risk by diversifying away from single stock, asset class or sector concentration.”

Power Up Your Investments with the NEW ETF Model Portfolios

These days, investors have grown more receptive than ever to the fundamentals of sound investing, such as asset allocation, diversification, cost control and risk management. Exchange Traded Fund (ETF) Model Portfolios make it possible for you to use these investing principles in ways that are more ingenious than ever.

Available exclusively at BMO InvestorLine, ETF Model Portfolios are an exciting and powerful option to diversify your investments, simplify the selection process, and take the complexity out of investing in ETFs. Whether you're a novice or experienced investor, there is a Model Portfolio to suit your particular needs.

Expertise Working For You

BMO InvestorLine has partnered with Barclays Global Investors Canada Limited (Barclays Canada), an established leader in the ETF marketplace, to bring you six distinct ETF Model Portfolios.*

To determine the proper asset allocation for each Model Portfolio, factors including returns, volatility and



correlation of key domestic and foreign markets were considered. Then, quantitative modelling techniques determined the optimal mix between the major asset categories that maximized returns at different risk levels. The analysis was then taken one step further to include additional factors such as cost, liquidity, average spreads and diversification of the indices.

Selecting ETF Model Portfolios Made Easy

Each Model Portfolio matches an Investor Profile as described in our

Asset Allocator. After determining your Investor Profile, you select one of the specifically designed ETF Model Portfolios to match your asset mix. There is an ETF Model Portfolio to suit every investment objective from security, balanced, growth to aggressive growth.

Building a diversified portfolio and taking advantage of industry-leading expertise can help you further your investment strategy. ETF Model Portfolios can broaden your investments, give you access to Barclays Canada's wealth of knowledge and research, and incorporate fundamental investing principles into your overall strategy. ■

For more information on ETF Model Portfolios, visit bmoinvestorline.com.

**The funds in each Model Portfolio will be monitored regularly, reviewed at least annually and adjusted or rebalanced as required. The ETF Model Portfolios will not be rebalanced in your account after you purchase them, therefore, it is important you monitor and review your portfolio periodically.*

ETF Model Portfolios for Every Investor

With six ETF Model Portfolios to choose from, there is a Model Portfolio for every type of investment objective from income, balanced income, growth and aggressive growth. To help you determine which ETF Model Portfolio is right for you, here are the six model portfolios that are available:

Model Portfolio	Target Asset Allocation	
	Fixed Income %	Equity %
Income	70-80	20-30
Balanced Income, Limited Growth	55-65	35-40
Balanced Income and Growth	45-55	45-55
Growth and Income	30-40	60-70
Growth	15-25	75-85
Aggressive Growth	0-15	85-100

Rethink the Way You Invest. ETFs Deliver a New School of Investing.

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Portfolio Completion Strategy – Use ETFs to fully diversify your portfolio by simply filling in what you are missing, whether it be a sector, asset class or even foreign-market gap, and gain targeted exposure to sectors and/or markets.

Core/Satellite Strategy – Diversify your portfolio and reduce risk by combining ETFs (as the “Core”) with complementary mutual funds, individual securities or separately managed accounts (the “Satellites”). This strategy incorporates both passive and active investing.

Fixed Income Strategy – Using ETFs for your fixed income exposure offers you advantages and unique features that are not characteristic of traditional bonds.

Building a diversified portfolio is an important part of a disciplined approach to investing. ETFs are an excellent investment option that can provide instant diversification beyond

traditional stocks and mutual funds, along with many other benefits to help you with your personal investment strategy. ■

For an in-depth look at popular ETF strategies, go to bmoinvestorline.com.

Howard Atkinson, CFA, CIMA®, is author (with D. Green) of “The New Investment Frontier II: A Guide To Exchange Traded Funds For Canadians” and “Les fonds négociés en Bourse: Un outil de placement novateur pour l’investisseur avisé (Transcontinental, 2003)”. He is the Head of Public Funds at Barclays Global Investors Canada Limited (Barclays Canada), an indirect subsidiary of Barclays PLC. Part of his role includes the development, promotion and ongoing management of Barclays Canada’s iUnits® and BARCLAYSfunds™ product lines in Canada.

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Leading Online Investing Firm[†]

Gómez ranks
BMO InvestorLine
#1 in
website speed
(July 2005).

In Brief

The proposal to eliminate the 30% foreign content limit has been passed. You can now increase the foreign content in your registered account(s) without penalty. The new rule is retroactive to January 1, 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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the historical annual compounded total returns, including changes in unit value and reinvestment of all distributions, and do not take into account sales, redemption, distribution, or other charges or income taxes that may have reduced returns.

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