

Buying mutual funds
Introduction

Mutual funds have a unique role to play in establishing a portfolio. Mutual funds are not for everyone but if you have a small amount of savings, are financially -challenged, or simply don't have the time or inclination to spend on investing, then mutual funds can be useful. Additionally certain specialized funds such as global funds, Small Cap Funds and U.S. funds could be just the right prescription, even for sophisticated affluent investors. The trick is to pick the right one from the 3500 available.



THE CARDINAL RULES OF INVESTING

Rule No.1 – Never lose money

Rule No: 2 – Never forget Rule No.1

-Warren Buffett



Before you invest in any mutual funds, you need to realize that mutual funds are just one investment vehicle. Income trusts, REIT's, individual stocks, real estate (home & rental), fine art, bonds (Canadian, foreign, convertible), preferred shares, GICs (fixed and index linked), whole life insurance, preferred securities, RESP's ,stripped coupon bonds and ETF's are some of the vast array of investment vehicles to round out a diversified portfolio.

Mutual funds in Canada are broken down into 35 categories according to the Investment Funds Standards Committee (IFSC-www.cifsc.com) and are as follows:

Equity funds: Canadian Equity: Canadian equity, Canadian large -cap Equity and Canadian Small-cap Equity; Specialty: alternative strategies, Financial services, Health care, Labor Sponsored Ventures, Natural resources, Precious metals, Science and technology and Specialty/miscellaneous.; U.S.Equity: U.S. equity and U.S. small and MidCap equity and International Equity: Asia ex-Japan equity, Asia/ Pacific- rim equity, Emerging markets, European equity, Global equity, International equity, Japanese equity, Latin American equity and North American equity.

Real Estate funds

Bond & Mortgage funds: Canadian Bond, Canadian Mortgage, Canadian Short-Term Bond, Foreign bond and high -Yield bond

Balanced funds: Canadian Asset Allocation, Canadian Balanced and Global Balanced & Asset Allocation

Preferred Dividend funds

Money Market funds

Be careful of fund names, as nomenclature can be deceiving-look at the fund's actual portfolio. ALWAYS look at what securities are in a fund before investing.

Before we start, here are some Key definitions (A complete intelligent glossary for mutual funds is available from kenkiv@sympatico.ca):

Balanced fund: The main investment objectives of this type of fund is to provide a mixture of safety, income and capital appreciation. These objectives are sought through a balanced portfolio of fixed income securities for stability and income, plus a broadly diversified group of common stock holdings for diversification, dividend income and growth potential. The balance between defensive aggressive security holdings is rarely 50-50; rather, managers of balanced funds adjust the percentage of each part of the total portfolio in accordance with current market conditions and future expectations. In most cases, the prospectus specifies the funds minimum and maximum weighting for each asset class. A reason balanced funds have been criticized is fees-they are priced at the same level as an equity fund. Unbundling of balanced funds reduces fees and allows greater asset control.

Generally speaking, we don't like balanced funds. They're marketed and sold as "safer" funds because they're diversified among the asset classes.... The problem is balanced funds are not balanced to *your* needs.... This one- size- fits all approach ends up suiting very few people ... Add in the management expense ratio and you can see why balanced funds, on the whole, are mediocre investments. Unless you are looking for absolute simplicity, we recommend you create the balance on your own."

-Money Reporter, issue No. 997

June 21,2002

Bond and Mortgage Funds: These funds invest in bonds, mortgages or both. Canadian short-term bond funds are included. Many of these funds are RRSP eligible. This fund category includes Canadian bond, Canadian mortgage, Canadian short-term bond, Foreign Bond and high yield Bond. Bond funds are best for investors who do not have the capital to buy bonds directly. A low MER is crucial to successful bond fund returns.

Clone Fund: This type of fund resembles the 100% RRSP eligible foreign index funds but mimic the returns of actively managed funds. Clone fund managers may invest up to 30% directly in the fund units of the fund they are trying to mimic and then buy customized future contracts (forward contracts) from financial institutions based on the value of the fund units. The fund still holds most of their assets in Canadian money market instruments, maintaining their Canadian content restrictions. If the value of the underlying fund goes up, the financial institution pays the clone fund the difference, pushing the value of the clone fund up as well. If the value of the mirrored fund goes down, the clone fund pays the financial institution the difference, mirroring the loss in value of the underlying fund. Clone funds are only suitable for registered accounts due to higher costs of buying the customized futures contracts on top of the underlying fund's management expense ratio. The derivatives usually add .4% to

.6% to the costs. The usual risks of foreign stocks, currency diversification and even the possibility in the extreme of a breakdown in the complex financial transactions and arrangements apply. It should be noted that in excess of 50% foreign market exposure can be obtained by using up the 30% foreign content limit, buying qualifying funds that themselves hold 30% foreign content and/or by investing in Canadian multi-nationals with significant foreign operations/high exports/U.S. dollar exposure (e.g. Bombardier, Nortel, Alcan). Some observers now feel that with globalization, high international trade and modern communications, the correlation between international markets is so high that many benefits of foreign investment have been reduced. Various studies indicate that Canadians hold about 9.5 % (excluding clone funds) of RRSP assets as foreign content, well below the 30% allowable limit. Maybe words like “Asian flu”, “Argentine crisis” or “Mexican peso devaluation” made them think twice.

Dividend fund: The basic idea of this type of fund is to invest in blue-chip companies’ common or preferred shares that pay a steady flow of increasing tax advantaged dividends. Holdings typically include pipelines, power utilities and banks. According to the 2001 TSE yearend report only 57 Canadian stocks paid dividends non-stop for the past 25 years versus 100 companies 25 years ago. Generally, Banks are able to increase their profits faster and more consistently than utilities because they are expanding into new and profitable growth areas such as, in fact, mutual funds. A dividend fund is designed to meet the needs of the conservative unitholder who wants to withdraw steady amounts to live on and/or faces a high tax rate that is partially mitigated by the Canadian dividend tax credit.

Note: Unless you make less than \$31,700 your dividends will be taxed at a higher rate than capital gains.

Surprisingly, Dividend funds turned in a average 5- year return of 9.03% vs. an average 5.6 % for Canadian equity funds over the last 5 years.

Sounds simple eh? In reality, dividend funds are more complex and can have some important issues associated with them. Some so-called “dividend” funds actually carry common shares that do not pay dividends but can help turbo - boost a fund in a bull market. Additionally, dividend funds might hold some cash, T-bills and bonds which are not tax advantaged. Furthermore, some Canadian securities may be U.S. dollar pay with potential upside-down side currency diversification. Some funds also reserve the right to purchase a defined percentage of attractive foreign, primarily U.S., dividend-bearing shares which enhance currency diversification but carry a withholding tax and negate the value of the Canadian dividend tax credit.

The form of the distribution is not always a dividend; some portion may be interest or return of capital (a partial refund of the unitholders own money). When a return of capital is paid out in cash, the fund investor’s Adjusted Cost Base is reduced. This means less interest, dividends and capital gains tax now-but more capital gains tax later. Such returns of capital can be misleading; they pose an undue administrative burden at tax time and lose the tax advantages of a dividend payout.

Transparency and disclosure are key things look for in a dividend fund, not just published returns. High MER's can adversely impact unitholder returns so look for those dividend funds, and there are a few, with consistent performance and low MER's. Dividend funds can also be impacted by interest rates and the general state of the stock market so they can attract capital gains or losses. Generally, Dividend funds should not be held in a RRSP where the dividend tax credit cannot be applied.

“ South of the border, dividends account for more than 40 % (4.7%) of the market's average annual return of 11 % since 1926.”

-T. Heaps, P.Fengler
Investors Digest, March 22,2002

Equity fund: The primary objective of this type of fund is capital gains. Short-term notes or other fixed income securities may be purchased from time to time and in limited amounts for diversification, income and liquidity, but the bulk of assets are in common shares in the pursuit of capital gains. Because common share prices are typically more volatile than other types of securities, prices of equity funds tend to fluctuate more widely. Some equity funds invest in a variety of overseas markets as well as Canada and United States. These funds invest in markets perceived to offer the greatest opportunity for growth on a global basis. As with common stocks equity funds range greatly in risk and growth potential. Some funds are broadly diversified holdings in blue-chip income yielding common shares that may therefore be classified at the conservative end of the equity funds scale. Other equity funds are of a more speculative nature aggressively seeking capital gains at the sacrifice of safety, preservation of capital and income.

Exchange Traded Fund (ETF): In one transaction, investors participate in a portfolio consisting of all the underlying securities in the index or industry sector that the ETF is tracking with low MER expense. (e.g. i60, symbol XIU, MER is capped at a low 0.17%). MER's are low because there is no high paid active management or expensive equity research. Canada also has 2 bond index funds (TSX: XGV -5 year and TSX: XGX 10 year). ETF investors often save taxes too. ETF's track and refresh holdings in step with the underlying index, so turnover is low and fewer taxable capital gains are distributed to investors than actively managed funds. Because ETF's are traded on the exchanges you can get real time price quotes and execute trades any time during the trading day. You can buy them on margin, sell them short or do just about anything else that can be done with a conventional stock. ETF's are not just for those committed to passive investment-with ETF's you can work aggressive speculative strategies, hedge risk or even produce income. Just writing covered calls on your existing ETF index holdings can be lucrative. In addition, orders and strategies such as market orders, limit orders and stop loss orders can be utilized.

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NOTE: Only full service financial advisors (stock brokers) are licenced to advise you on the appropriateness of ETF's as an investment. The lion's share of mutual fund advisors are only licenced to advise and sell packaged mutual fund products. They are not licenced to advise and sell the individual components within a mutual fund or exchange traded stocks, bonds, ETF's, etc.

Fund Code: In order to define, track and trade a fund, codes are assigned just like common shares ticker symbols. For example, the AIC Value fund has the symbol AIC117. Fund symbols can be found on most financial websites that offer electronic transactions or from the Fund Co. itself. Different versions of a fund, such as Canadian dollar, U.S. dollar, clone or segregated will each have it's own distinct code.

Index fund: The index fund managers' mandate is to match the performance of the market as represented by a specific index. The manager only needs to make sure that the portfolio always reflects the index that it is supposed to mirror. For this reason the management fees associated with index funds are usually well below those of other equity funds. Equities index funds represent an alternative type of equity mutual fund. The primary focus is on capital gains. The purpose of the fund is to track a specific market index such as the TSE300. Bond index funds focus on meeting investors income needs and may match the gains of the ScotiaMcLeod bond index for example. Index funds match market performance but do not outperform the market. For more seasoned investors it should be noted that *Exchange Traded index Funds* have all the advantages of an equity in that call options, margin buying, short selling etc. can be effected.

Labor Sponsored funds: The federal government introduced Labor Sponsored Investment Funds (LSIF's) in 1983 to stimulate growth of small and medium-sized enterprises. In Canada many venture funds are structured as LSIF's. Under current legislation LSIF's must invest in companies with fewer than 500 employees and less than \$ 50 million in assets.

Venture capital managers provide growth capital and guidance to promising private companies with a view to nurturing best of category firms that can be exited usually through an IPO or strategic acquisition potentially at many times the initial investment value. Venture capital funds can create shareholder wealth primarily by assuming a significant minority ownership position in private companies before they achieve large market capitalization numbers. Under current regulations, investors must hold labor sponsored investment funds for a minimum of eight years to take full advantage of tax benefits; therefore these funds suit individuals with a long-term investment horizon and are not uncomfortable with risk. If the funds are sold prior to the eight years, there is a clawback of tax benefits.

The Investors can benefit from superior long-term growth potential, access to investment in the most promising Canadian sectors, and generous combined tax incentives offered by the federal and select provincial governments. In Ontario for

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example investors can benefit from combined annual federal and provincial tax credits of up to 30 percent in the case of a traditional labor sponsored investment fund and up to 35 percent for the purchase of a research oriented investment fund (ROIF); a specialized LSIF that has at least half of its portfolio invested in companies with significant research and development focus. Venture funds are 100 percent RSP eligible. Combining the RSP contribution deduction with LSIF tax credits provides investors with a powerful tax planning and risk mitigation tool. Investing in retail venture funds is also a good way to maximize a portfolio's foreign content. Many labor sponsored investment funds qualify as “small business property” under the federal income tax Act and are eligible for a substantial foreign content increase. An investment in a research oriented investment fund or a labor sponsored investment fund entitles investors to increase the foreign content held in a registered vehicle such as an RSP by three times the book value on the investment, up to a maximum of 50 percent of the total RSP value. As an example assume your RRSP is worth \$50,000 including a LRIF. Under current legislation, your foreign content limit would be \$15,000 (30 %). With a LRIP, your foreign content can be increased to 3 times the book value of your LRIP investment (3x \$5000) to a maximum of 50 %.

3 x LSIF book value	\$15,000
Existing foreign content limit (30%)	\$15,000
Total	\$30,000
New foreign content limit (maximum of 50 % of portfolio)	\$25,000

Besides the risks inherent in these funds, critics have concerns about the lack of visibility of valuation methods used for privately –held companies, high fees, performance bonuses based on “unrealized gains”, high back-end loads and the 8 year holding rule. Read the prospectus and Annual Reports including the small print Footnotes carefully before you invest in a LSIF.

Money market fund: The objective of this type of fund is to achieve a high level of income and liquidity through investment in short-term money market instruments such as treasury bills, commercial paper and short-term government bonds. These funds have almost no opportunity for capital gains as most funds keep the net asset value at a set level, typically \$10, by distributing monthly income to unitholders in cash or new units. The relatively low risk of the underlying securities and the fixed NAV per share make this category of fund appropriate for investors who want high liquidity and low risk.

Mutual fund: An entity that pools money from many investors and invests in various securities according to the objectives of the mutual fund. Mutual fund trusts are taxed at the highest tax rate for all forms of income earned. As a result, fund companies typically avoid paying this tax by “flowing” or distributing to investors the income and capital gains earned within the fund since the last distribution date,

net of fees and expenses. Unitholders thus pay tax on these distributions at their marginal tax rate according to the type of income or capital gain earned. These distribution surprises are unfortunately usually paid in Dec. sometimes leading to angst and grief if a fund was purchased in a unsheltered account toward the end of the taxation year. The unitholder would be liable for taxes on gains made on an earlier transaction within the fund portfolio. Sometimes the fund has also declined in value adding to unitholder anxiety. The inability of an investor to influence the fund manager realizing capital gains/losses is one of the most significant disadvantages of mutual funds as an investment vehicle.

Registered Retirement Savings Plan (RRSP): Canadians can contribute up to \$13,500C per annum or up to 18 percent of earned income whichever is less to a Registered Retirement Savings Plan. Growth accumulates (compounds) on a tax deferred basis until funds are withdrawn at which time taxes are payable at the investors marginal tax rate. The RRSP can invest up to 30 percent in foreign equities. The 30 % figure can be exceeded through clone funds that use complex financial instruments to “clone” an otherwise non-eligible investment (MER typically 0.5% higher than basic version).

Other ways of getting foreign/non-Canadian dollar exposure include U.S. dollar pay bonds, buying shares traded in Canada that can be exchanged for shares of a foreign parent (e.g. Alcatel Canada, Weyerhaeuser Co) or simply investing in Canadian multinationals such as Alcan, Inco and Bombardier. Estimates indicate that the average Canadian's actual foreign holdings are 9% (excluding clone funds) despite aggressive fund industry promotion. You can maximize your contribution only to the amount identified on your Notice of Assessment, which is based on earned income in the previous taxation here.

Segregated Fund: Segregated funds are investment funds quite similar to open –end mutual funds. But they can only be offered by an insurance company (or in partnership with a insurance company) and are subject to insurance industry regulations. The assets of the fund are kept separate from the general assets of the insurance company. Seg funds also possess a few attractive unique additional features such as certain return of capital guarantees. Typically after 10 years, the policyholder can take the lump sum or turn it into an annuity.

As these funds are considered insurance products, they are creditor proof, in that the beneficiaries are protected from creditors, even if you declare bankruptcy. The insurance company will pay a death benefit guarantee if the unitholder (annuitant) dies before the maturity date. Also, because of their status as an insurance product they are exempt from probate fees, as the proceeds go directly to the beneficiary. They can also flow through net capital losses on the T slip-something mutual funds can't do. Most funds are RRSP eligible. Sales staff must be licensed to sell insurance products. Disadvantages include higher fees and the fact that that some firms insist that they be purchased through a contractual purchase plan. Critics have also argued that the guarantee of principal has little value as the odds of a balanced, bond

or money market fund losing value over the 10 year maturity period is remote. Standard Life, Maritime Life and a few others continue to offer reasonably priced segs for those looking for the estate planning benefits.

Simplified prospectus: This document outlines the objectives of the fund, all costs associated with buying and selling the mutual fund, and all other important information. The prospectus must be reviewed by and receive approval from the securities commissions in the provinces where the mutual fund is sold before it is delivered to the investor making an investment decision. The simplified prospectus is described under National Instrument NI 81-101. It is recognized nationally by all the Provincial administrators and is the most common means of qualifying a mutual fund security for distribution to the public.

Small-Cap Funds: Small capitalization companies are those that are just starting out or relatively modest in size. Canadian small cap funds vary widely in their mandates. The definition of what constitutes a Small Cap Stock varies, but in Canada, companies with a market cap (the collective value of all outstanding stock) under \$150 million Canadian are generally considered to be in this class. In the United States, a small cap Company may have a market capitalization up to U.S. \$500 million. (sales typically under \$100 million)

Actively Managed Mutual Funds

Pros	Cons
Convenience/reinvestment of distributions	High fees, loads and expenses
Daily performance monitoring in Newspapers and on the Web	Detailed financial reporting /limited to Semi-annual & Annual report with little management discussion and analysis/end-of-day pricing
Reasonably good Prospectus /AIF disclosure	Loose regulation and enforcement/lack of governance boards
Professional management using wide range of well-educated analysts equipped with databases, computer systems and analysis tools	Often difficult to find out exactly who is managing the fund/do not pro-actively pursue companies perpetrating fraud or investor abuse
Wide range of choices (3500 funds) provides flexibility	Unlike stocks or ETF's, call /put options, short selling or margin buying not possible
Diversification of assets	Do not ,in general, beat benchmark indexes
Low initial investment brings equity	No equivalent of CDIC or CIPF (IDA)

investment to the masses/automatic monthly investment& withdrawal programs/fractional units	investor protection insurance-the MFDA is in progress of establishing a contingency fund similar to the CIPIF
Restrictions on investments in illiquid securities	Limited /untimely transparency of portfolio
Next day liquidity/Right of redemption	Back-end loads on DSC funds impair returns if sold within 6 years
Very low history of outright fraud or insolvency	High potential for damaging conflicts of interest
Provision of financial guides and tools	Very limited and biased towards investment in mutual funds/ACB record keeping for tax purposes is a burden/tax issues
Beat GIC/bank deposits over most 5 year periods of performance	Inability to control timing or amount of taxable capital gains distributions

Getting ready to Invest

It is vital to think through and articulate your personal goals both short and long term and to understand yourself as an investor. Short-term goals might include early payoff of your mortgage or purchase of a new car. Longer-term goals can include owning your own business, children's university education or the purchase of a new car. An example of a long-term goal would be retirement. An absence of goals is like sailing a ship without a compass. Mutual funds are designed for the longer-term investor.

To meet your goals you'll need to invest your savings. To determine the amount available of savings (investment dollars) a budget is required.

You will need to determine the following:

- Debt obligations-leases, credit cards [pay these off first as they are expensive & not tax-deductible]
- Annual living expenses-mortgage/rent/food/entertainment/utilities etc.
- Car expenses-fuel, maintenance, insurance, lease payments
- Insurance (life, disability, health/dental ,personal care and home)
- Special expenses e.g. caring for ageing parents, a cruise vacation
- Emergency funds
- Money for short-term goals

Once you've made some fundamental decisions regarding your spending budget (lifestyle), home ownership, insurance and major investments like a car you're ready to put what's left into investments that will finance your goals. This is your financial plan.

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Well actually there's one more thing. The kind of risks your willing to take will determine the type of investments that are suitable for you. Realize also that the greater the risk, the greater the potential return. The choice of investments will primarily depend on your age, time horizon, tax status and risk tolerance. Other factors include health status, plans to exit Canada, marital health status, anticipated pension income (Government, company and RRSP) and employment stability. Let's examine risk tolerance-try this self-assessment questionnaire:

1. Does the thought of a bear market scare you?
2. Would you lose sleep if your mutual fund portfolio showed a steady decline?
3. Are you naturally a worrisome type?
4. Would you rush to redeem units of a fund that had declined in value?
5. Would suffering a loss discourage you from continuing a long-term investment program?
6. Would you be angry with yourself if you sold too soon and the price continued to rise?

If you answered no to almost every question, consider yourself able to handle virtually any market situation that might confront you. If you answered yes to most of the questions, you'd better stick with money-market funds and Canadian bond funds until you have the confidence and knowledge needed to invest in the riskier alternatives. Another way to deal with risk is by using investment objectives as the criteria for selecting your mutual funds -take a look at the table below:

Type of fund	Money market	Bond	Income	Growth and income	Growth	Aggressive
Fund Example	Any market fund	Short term Canadian bond fund	Canadian Bond or dividend fund	Canadian balanced fund	U.S. or Canadian equity fund	International fund
Risk level	Very low	Low	Low to moderate	Moderate	High	Very high
Objective	Liquidity	Yield	Income	Growth	Capital gains	Maximum capital gains
Related objectives	Preservation of capital	Stability	Growth	Income	Price appreciation	Price appreciation

For investors with an interest in delving more deeply into the risk analysis of mutual funds, you'll need to understand such terms as Alpha coefficient, Beta coefficient, standard deviation, R- square factor and the Sharpe ratio (risk-adjusted return). {See mutual fund intelligent glossary available from kenkiv@sympatico.ca. } For most mutual fund investors, a nominal understanding of risk concepts, perhaps an

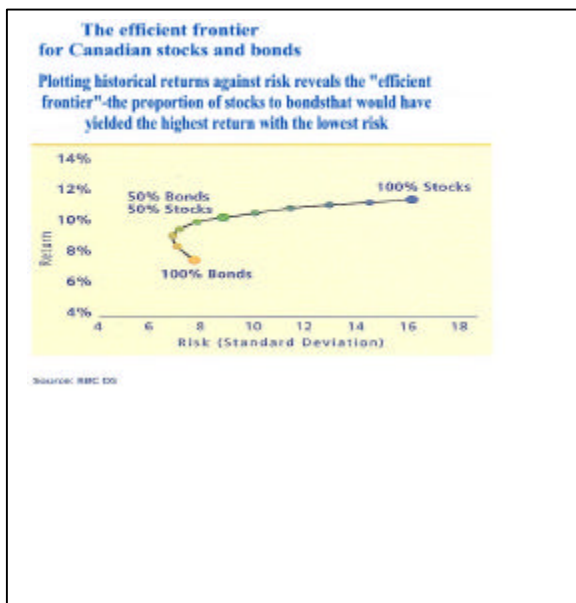
assessment of the funds price-earnings ratio (P/E) and a review of the year- by -year Net Asset Values and returns should be adequate.

Risk and Return

Risk is the chance that your mutual fund investment will decrease in value or fail to meet performance objectives depending on a number of random or unexpected factors .A high-risk fund can sometimes lead to *negative* returns thereby reducing your capital base. Risk is probabilistic, meaning that its exact state in the future is unpredictable not deterministic.

A number of indicators have been developed in an attempt to estimate/measure risk of which volatility is one. Other indicators include bear market performance, worst 1 or three years, Risk-Adjusted Return etc. Risks come in many forms to unwary unitholders. These include credit risk on debt securities, currency risks, inflation risks, foreign investment risk, political and regulatory risks, interest rate risk, market risks either company -specific or economic, terrorist risks and small cap risk. Even bad weather risk can affect certain market sectors such as retailers, agriculture, forest products, insurance, airlines and tourism. Risks specific to the fund include style drift risk, closet indexing risks (paying a higher MER than needed), tax liability risk (re: distribution of unrealized capital gains), conflicts of interest risk, U.S. estate tax risk and fund class risk (each fund class has its own fees which are tracked separately; if one class is unable to meet its financial obligations the other classes are legally liable for making up the difference). There is also the risk (some say minute; perhaps the same folks who thought that Enron was a pillar of strength) of insolvency of the fund company due to fraud or such gross negligence amounting to fraud. Unlike bank savings deposits there's no investor protection fund for mutual fund unitholders at this time. (Stock investors do have the protection of the Canadian Investors Protection Fund).

Generally, the higher the level of risk the greater the anticipated return. Risk is reduced by diversification.



Time to decide

Your risk tolerance and market conditions will determine your asset /sector allocation between cash, fixed income and equity investments. Mutual funds provide an array of opportunities in each category but each would have to stand up against alternative investments. For instance, many bond funds have excessive MERs that eat away at what is essentially a fixed level of return; in this case if you have sufficient capital it would be wiser to buy bonds directly. Since most U.S. equity funds don't even match the benchmark index, it would be far cheaper to buy a low MER exchange traded index fund. If you're concerned about taxes consider purchasing a buy –and–hold fund {or hold your funds in a sheltered account} -- but be sure to compare it to royalty trusts or tax-deferred REITs first.

Managing your portfolio

A fundamental theorem from Operations Research is that local optimization of subsets of the system (portfolio) is effective, if and only if, the subsets are *independent* of each other. For instance a firm may unduly cut its customer service budget and the customer service manager could be a hero for a short while. Unfortunately, reduced customer service may impact sales and profits so that overall, profits of the company fall. This is the pitfall of local optimization. In the case of a portfolio consisting of various investments, true optimization can only be achieved by looking at the entire situation in perspective, not piecemeal. Specifically, looking only at the mutual fund portion of your investments is inadequate.

Here are some concrete examples:

1. You may have taken a loss on a rental property so it might be a good time to take some capital gains on your mutual funds and optimize taxes payable
2. You may be worried about market valuation and decide to short sell an ETF
3. you're expecting a large bonus check or inheritance and decide to reduce your risk profile since your financial needs can now be met without taking on undue risk
4. You are 85 or in ill-health and decide to adjust your overall investments to optimize estate exposure to probate fees and taxes
5. You feel real estate is trending up and mortgage rates are currently low so you reduce other investments and put more money into your principal residence as a tax-advantaged retirement “nest egg”
6. You're unsure of market direction so you direct some investments into a true hedge fund (With hedge funds, the benefit and risk derives from the techniques they use, such as short- selling, and the investments they target, such as futures contracts. See www.hedgefundwatch.ca)

With your homework done, it's now time to decide if mutual funds fit in your portfolio. Don't be in a hurry to make money. You will not be successful in mutual fund investing if you think only short-term. Notwithstanding the high fees and below benchmark performance the fund industry has by- and-large given the GIC refugees and many financially challenged Canadians greater net returns than they would have achieved in Canada's Savings Bonds, bank deposits or GIC's.

Buying a mutual fund is not the same as buying a common stock. This financial product has its own set of rules, an extensive specialized terminology and a different regulatory regime. Make sure you understand the differences. Picking the right funds for your portfolio is not easy as there are now more funds than Companies listed on the TSX. It will require work and discipline. Carefully seek funds that satisfy the following criteria of a good mutual fund investment:

- **Fund objectives that match your goals**- this is key so be sure to read the funds objectives in the Prospectus
- **A stable management team**-look for stability and a track record
- **Low management fees**- review all loads, fees and terms and conditions. As a general rule, buy the fund with the lowest MER but don't be oversensitive if a higher MER fund has delivered real value (a rarity but a few do exist); consider ETF's or an index fund if it meets your needs. Note also that the MER *excludes* trading commissions which sometimes can equal or exceed the MER. Extra fees such as account set-up fees, switch fees, transfer fees, RSP fees and early redemption fees can whack returns. Make sure you understand them or have them explained to you. **Read the Prospectus** to avoid nasty surprises.
- **Stick to no-load funds**-there are plenty of no-load funds to choose from. Front-end loads reduce the capital going to work for you. Back -end loads inhibit your ability to sell and gnaw away at returns. DSC sold funds are not conducive to good performance. Be on the alert for" no load" funds that have unduly high- MER's. *Remember though, if you stick to ETF's, no-loads and other low fee products you'll only get advice if you pay for it.* **There's no free lunch.**
Ask your adviser to explain all fees and the manner in which he/she is compensated. NOTE: Loads/fees (and taxes), other than the MER, are *excluded* from the calculations when fund companies publish performance data, thereby implicitly overstating returns you will actually experience.
- **A risk level with which you are comfortable**- look at the year-by-year returns over five years at least. Are they consistent or too volatile for your appetite?
- **Funds that have ranked among the most consistent moneymakers** –look for positive signals; low portfolio turnover, orderly growth of assets and holdings your comfortable with (available in the Annual Report). Be careful of annual fund ratings and rankings, as they have not proven to be reliable predictors of future performance. Don't chase last year's "hot funds".

- **Funds that have averaged at least 10 percent annualized growth over the past five to ten years**-examine the form and amounts of the distribution -- if they are primarily capital gains, you'll pay less tax. If they're primarily interest income, you'll have maximum tax exposure unless held in a sheltered account such as an RSP. High portfolio turnover funds by their nature are not tax- efficient. Make performance comparisons against *your* benchmark not the funds -one possible benchmark could be the retention of capital and a 8 percent pretax threshold return. Don't be taken in by fund names -- they are notoriously unrevealing.
- **Funds that provide a range of services**-services include distribution reinvestment, switching rights, monthly investment plans and RSP's.

“A study done in 2001 by Financial Research Corp. (FRC) found that on average funds do about 20 percent better than most fund investors in those very same funds. How is that possible? It's the phenomenon of chasing returns. Most investors jump into a fund after it has made most of its gains, so a fund can have, say a 15 percent Annualized rate of return yet most of its investors will see only a 12 percent annual gain or last. It's long been known that investors don't hold their funds long enough, and have a nasty habit of investing just after a fund's top performing quarter, when most of the gains have been made. The FRC study found on a three-year rolling return basis from January 1990 to March 2000 the average U. S. mutual funds' mean three-year return was 10.9 percent while the average invested dollar gained only 8.7 percent. F RC also reports that American fund investors hold their funds for a fraction under three years. Four years ago, their patience lasted five and a half years. There's no reason to think the Canadian experience is much different.”

-Source: The New Investment Frontier

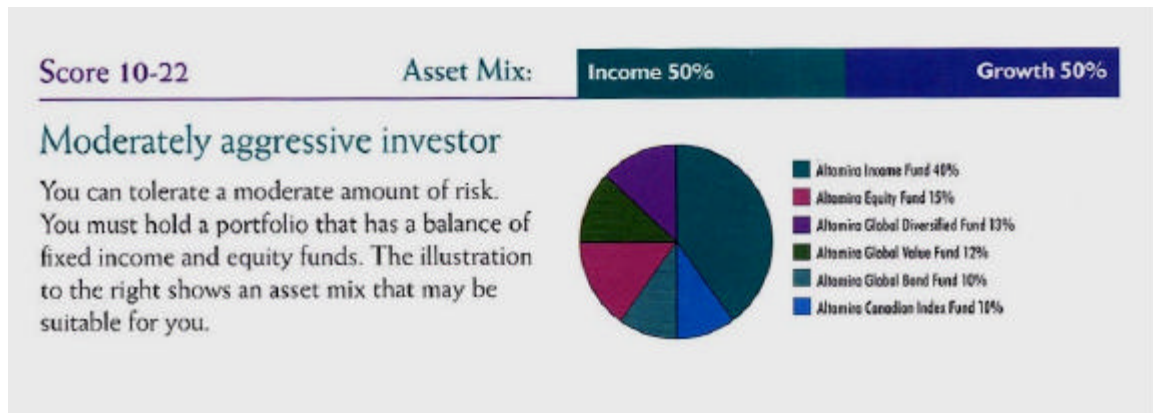
How many funds to buy?

You should be able to get adequate diversification with as little as 5 and no more than 8 properly selected funds.

1. a money market fund
2. an income fund
3. a Canadian equity fund
4. a U.S. equity fund
5. an index fund

And perhaps a global fund depending on the size of your portfolio. Each portfolio needs to be tailored to your needs, timelines and risk-tolerance. Other fund types can be added as your sophistication and assets grow. For instance, Dominion Securities has a managed portfolio Focus List fund (FTC 463) that includes a small number of equities recommended by their analysts and updated quarterly. Minimum investment \$1500. It has a cap so not everyone will be able to buy it.

Altamira, a no-load fund Company suggests six for the moderately aggressive investor as shown below:



Source: Altamira, Solutions for Successful Investing

“A financial planner or broker should have the courage to advise clients to be invested in sectors which are either friendly to the underlying fundamentals, or exit the market when it becomes obviously overpriced. An advisor’s job is to temper the herd mentality, to move into a safer sector-allocation model. Traditional asset allocation is a simplistic notion of handling the market. An investor should remain content to sit in cash or in fundamentals-friendly sectors.”

-Hans Merkelbach, Financial Advisor

Where to buy

The industry has provided a wide variety of routes you can take to buy a mutual fund. These include stock brokerage firms, discount brokers, financial advisors and planners, mutual fund brokers, fund company salespersons (e.g. Investors Group), banks and trust companies, insurance salespersons (segregated funds), fund companies such as Altamira (a pioneer of telemarketing) and online brokers such as E-trade Canada. You can buy funds by phone, by mail, in person or via the Internet if you know the fund code. Other types of investment funds are traded on exchanges- these include ETF’s, REIT’s and income trusts. Each channel has its own advantages, fee structure and limitations.

Some of the channels have limited knowledge of the universe of funds available so advice is restricted and partial. Certain channels are restricted to selling only mutual funds, even excluding Elf’s, unduly reducing alternatives. Advisors and planners may be biased due to commission and trailer payment influences. Banks sell only their own funds, few are regular quartile 1 performers. The quality of training, knowledge and professionalism is mixed. Note that a licence to sell mutual funds can be obtained by correspondence training in about 3 months. Be sure to read the Prospectus before purchasing a fund for your investment portfolio. Don’t be afraid to negotiate fees. Open an account and your ready to join the millions of Canadians that own mutual funds.

An innovation from ASL Direct (www.asldirect.com) could be of interest to investors with sizable fund portfolios. For a fixed monthly charge the firm will rebate the trailer fees plus offer some other goodies. (the idea is based on the fact that trailer fees don't often yield the services originally hoped for and therefore are an avoidable cost) Assuming an annual average trailer of 0.5%, a \$100,000 portfolio would get about \$500 back which would more than offset the annual charges. Larger accounts would do even better. This aggressive and creative company is definitely worth checking into.

Borrowing to invest

Leveraging is a strategy, not unique to mutual funds, that investors can use to boost their potential returns by borrowing money (and paying interest) to invest. This clearly increases risk. Investing with borrowed money can be a powerful financial tool to magnify potential returns and losses. Interest paid on borrowed money used in this way is normally tax deductible. Keep in mind that to make money your investment must increase more than your interest expense if you are to have a net positive return. With leveraging, movements of interest and inflation rates, as well as the actual investment, must be closely watched. When interest rates increase, they can increase your cost, quickly eating into any gains on an investment. As well, an increase in interest rates will often result in a decline in the value of the mutual fund units. Seniors, the infirm and the financially challenged have regrettably been especially targeted by some unscrupulous fund salespersons. Unlike ETF's, traditional mutual funds do not have a provision for placing stop-loss orders-a key tool in leveraged investment risk management. Unless you can absorb or mitigate a large decline stay clear of leveraged investments.

Reduced capital gain tax rates, RESP's, ETF's and other tax-efficient investment vehicles have reduced the cited benefits of maintaining an RRSP. Too often unitholders are not aware of alternatives. Loans have sometimes inappropriately been promoted as a means of capitalizing on this tax-deferred plan and even on non-registered investments. Take the case of 72-year-old David Meal who in 1999 leveraged his \$10,000 savings with a \$90,000 loan from his bank to invest in the bank's NASDAQ index mutual fund. After the market tanked, this pensioner of modest means and poor health, owes the bank a lot of money but his high-risk asset base has significantly eroded. FiftyPlus magazine was right to highlight the issue of suitability/Know-your Customer. This is surely a case of unethical, perhaps illegal over-selling.

Buying some pizzazz

Unless you have more money than you know what to do with, let others invest in gimmick funds (ethical funds," new economy" funds, fund of funds and Internet funds). Absolutely avoid toxic funds. These funds have high MER's, chronically low returns, high volatility and poor investor communications. If you insist on some excitement, you might want to put a little money into niche funds like e- business

funds, small caps or health and biotechnology funds. Avoid resource funds unless you want to do some trading.

Some guidelines

Consider putting up to 40 % in U.S. and international funds to achieve diversification. Keep the number of funds between 5 and 10; you should not need more to obtain asset, class, style and geographic diversification. Never forget the time- proven rules of successful investing:

- buy low and sell high
- avoid loss of capital
- don't try to time the market
- if you don't understand it, don't buy it
- if the results are too good to be true, be on the alert for a bubble burst
- risk and reward are partners
- buy & hold does not mean buy & forget
- emotion is your enemy
- never be rushed into an investment

Benchmarks are used by funds to compare their performance. For instance, the TSE 300 Total Return index would be used by a Canadian equity fund.

Market Benchmarks to May 31,2002:

Benchmark	Avg.compound rate of return-3 yr.	Avg. compound rate of return-5 yr.	Avg. compound rate of return-10 yr.	Std. Deviation-3 yr.
TSE 300 Total Return	5.3 %	5.3%	10.7%	5.5
S&P/TSX 60 Total Return	4.0%	--	--	5.9
BMO Cdn. Small cap	11.1%	4.2%	9.5%	5.3
Nasdaq Composite	-12.1%	5.1%	13.4%	11.1
MS World index	-3.9%	5.4%	11.2%	4.2
Scotia Cap Long Term Bond	5.1%	8.2%	10.6%	1.9%
3 month Canada T-bill	4.3%	4.3%	4.8%	---
DJIA	-0.8%	8.5%	14.0%	4.2
Canadian Consumer Price Index	2.5%	2.0%	1.7%	0.4

(CPI)				
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Standard deviation is a measure of risk, so Nasdaq over the long term has much more risk than the Dow Industrials and slightly less return. The CPI is generally understood to be the rate of inflation.

The facts on Dollar Cost Averaging (DCA)

This is the process promoted by fund companies of regularly investing small amounts regularly and therefore buying more units when prices are low and fewer units when they're high. It is based on buy, buy and buy still more. DCA does provide a disciplined approach to saving and can be a way to accumulate wealth for the small investor with \$50 or \$100 to invest per month.

Many academics, such as Dr. Moshe Milevsky at York University, have been decrying the mythology, inefficiency and outright abuse of this strategy, for about as long as DCA has been preached as gospel. The DCA approach is essentially a "bearish" bet on the markets. You are buying a few units now, in the hope that you will be able to buy even more units when they get cheaper. That boils down to market timing, plain and simple. Other independent researchers are skeptical as to whether dollar cost averaging actually means better returns. If the strategy worked it would be expected to produce the best results with volatile funds (those whose unit prices bounce around the most) because you'd be buying lots when they were in the dumps and very few when they were riding high. In fact, studies have shown that the less volatile funds produced the better returns about 70 percent of the time. The evidence seems to be that the best way to make money in the stock market long term is simply to invest your cash as early as possible and let time and compound returns work their Magic.

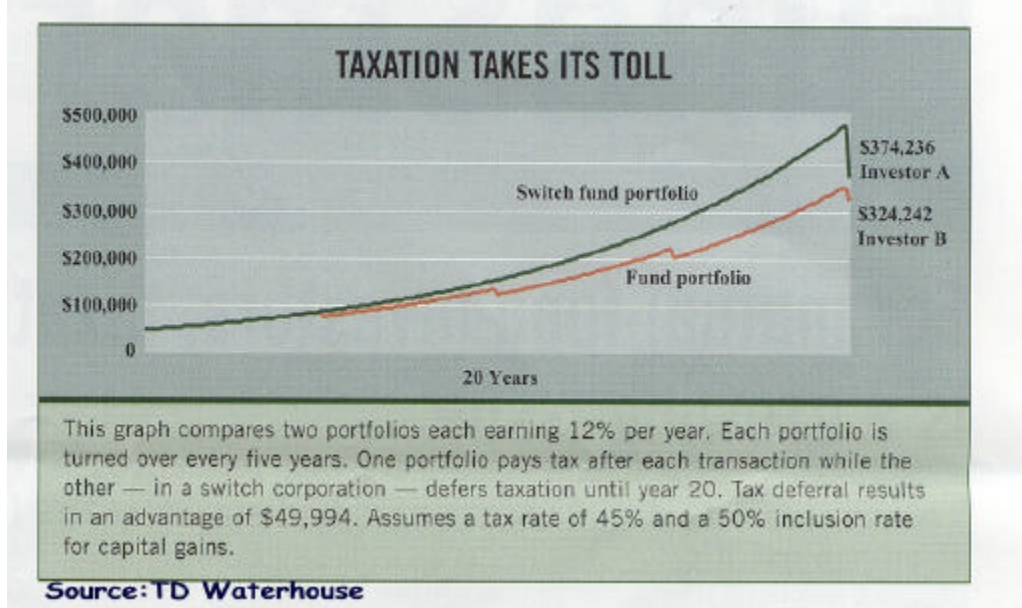
Alan Newman of HD Brous & Co. analyzed the effect of investing \$500 per month since Jan. 1997 in S&P 500 stocks (with index as the proxy). The total investment was \$31,000. At the end of Feb. 2002, 5 years later, the value was \$31,162! The reason DCA lost out was that the price remained high for a while before tanking. Most of the purchases were made when prices were high.
Source: Money Digest, April, 2002

The Tax Man Cometh

Canadians are one of the most taxed people in the world. Taxes must be factored in when analyzing Investments outside of a registered account. A May 2002 survey conducted by Decima Research for Investor Group Inc. found 46 percent of investors aren't tax-smart in the way they structure their Registered and non-registered portfolios. If you treat your combined holdings as a personal pension plan - Say with an equity/bond mix of 60/40--try to put the fixed income (Interest income) into your RRSP (also RRIF or RESP) and your stocks (Capital gains and dividends)

into the non-registered account .It can be helpful to maintain your RRSP and taxable portfolios at the same financial institution so you can readily” swap “investments back and forth to minimize taxes (Swap out securities with major gains Not losers.) Canadian tax-smart investing pioneer Kurt Rosentreter says portfolio turnover (Delineated in the Prospectus) is the number one variable affecting tax efficiency. ETF’ and index funds are more tax efficient than most mutual funds since they have less turnover and lower capital gains distributions. Actively traded equity funds that are tax inefficient are best held inside the RRSP. So are money market, and most balanced funds.

Labor sponsored funds are unlikely to generate any gains or income in their early years so they can be held outside your RRSP. As they mature, you can make “in kind” contributions to your RRSP. REIT’s may also be tax effective outside. The ever clever Mutual fund industry has also invented non-registered corporate structures (“umbrella” funds) which claim to be more tax efficient for switchers as well as a handful of money market and bond funds taxed like capital gains outside RRSP's. In all cases, be sure to read the Prospectus and be on the lookout for high fees or restrictive covenants. Hold RSP/”Clone” funds only in your RRSP.



Note that most loads and fees are at least tax-deductible if held outside an RRSP. However this is not the case if held inside an RRSP-these expenses simply subtract from your pension assets with no chance of even partial recovery.

One final word of caution. Never buy a mutual fund near Year-end outside a registered plan. You'll be liable for the Taxes on any capital gains distribution a few months later although you may not have benefited from the capital gains which may have accumulated over many years in the funds. This is one of several queer aspects of mutual fund investments that often shocks unsuspecting unitholders.

Caveat Emptor

When buying mutual funds it might be wise to recall the old industry adage “Mutual funds are sold, not bought”.

“Churning” occurs when a adviser or sales representative *unduly* advises clients (or uses a Power of Attorney that they have obtained) to redeem units (either during the no cost redemptions period where up to 10 percent can be redeemed or upon expiry of the period during which redemption mutual fund units would give rise to a deferred sales commission) and reinvest the proceeds either in the same funds on a zero front and sales commission basis or in another fund on a deferred sales charge basis. Investing the redemption proceeds on a zero front and sales commission basis can result in the doubling of the ongoing trailer commission that the salesperson or adviser receives. This self-serving unethical practice of switching and churning can trigger a capital gains liability, reduce unitholder returns and add to the paperwork burden of the unitholder and unnecessary costs to the mutual fund. The industry's competitive commission structure is the root of the issue. DSC (back-end load) sold funds account for about 70 percent of load fund sales sold, so the issue is significant. (see Sections 17.8 and 17.9 of the Stromberg Report for more details)

“ Remember, trailers are paid to whoever sells you a fund-even an on-line broker. This is controversial because on-line brokers provide no ongoing service , other than statements and record-keeping. Also, these commissions are not a item on your fund statements.”
-Rob Carrick, Globe & Mail, “Fees, Fees, Fees”

A February 2002 study for the Ontario Securities Commission showed that among investors who dealt with either a financial adviser or a financial institution only 53% of respondents said they receive information about fees and costs. According to an OSC survey of 400 Ontarians by the Consumers Council of Canada, a disappointing 30 percent of investors receive information about how their advisers are compensated.

A numerical fact of the small Canadian equity market is that funds with very large assets tend to reflect the overall market. According to statistical sampling theory, gross fund returns will naturally tend to ultimately approximate TSE/ S&P index returns. Because of this effect, they are perhaps unfairly called” closet indexers.” Whether intentional or not, smart investors should not pay 2.3 percent MER when they can get virtually the same results from a low-cost ETF index fund. Additionally investors can write covered call options and collect an option premium for extra income. Also, as a fund increases in size it must move down the attractiveness list in its choice of investments. This could impair long-term returns.

Make your own decisions based on FACT and analysis. Until you see contrary evidence, you should assume every sales pitch is biased or incomplete and driven by factors other than your financial health.

Abraham Maslow the noted scientist observed, “ If the only tool you have is a hammer, everything looks like a nail.” A salesperson licensed to sell only mutual funds is not likely to propose ETF’s, income trusts or other alternatives. Advisers, mutual fund salespersons,” independent “authors”, fund companies and Bay Street in general have a spotty record. Greed and conflicts of interest abound. There are some excellent advisers and funds but they are a very small minority among a large population. Do your homework. Be sure to use Joe Killorans’ wonderful point- of - sale checklists at www.investorism.com. Control your own destiny or somebody else will.

Your rights as a unitholder

You have very limited rights other than to vote on a fund mandate change, an auditor change or a change in the fee structure. In most provinces and territories, you have the right to cancel your mutual fund purchase (right of rescission) by giving written notice to your dealer within 48 hours of receiving your written confirmation of purchase. If you exercise this right you will receive the full purchase price you paid or the net asset value for each unit whichever is lower. Your sales charges, if any, will be returned to you. Additionally you can cancel your agreement to purchase a mutual fund by giving written notice to your dealer within two business days after receiving the fund's prospectus. This is known as the right of withdrawal. If you exercise it you are entitled to receive the full price you paid plus any associated sales fee or commissions.

If you feel you have been wronged, you can file a complaint with the fund company’s compliance officer or if a bank, the bank ‘s ombudsman (and then the national bank ombudsman), with the Provincial Securities Regulator or finally, use the legal system to obtain justice or to arbitration if the firm is a IDA member.

In April 2002, the OSC has proposed a “fair dealing model” aimed at improving information and safeguards for small retail investors. This model goes further than the current “know-your-client” form in getting both parties vital information in understanding their mutual obligations. If passed, the new rules should help protect mutual fund and other investors.

Where to find information

There is a wide range of information sources available. These include the fund company's literature and websites, www.investorlearning.ca run by the Canadian Securities Institute, guidebooks (some book writers may contain an industry bias so keep your eyes and ears open), Newspapers, books, mutual fund newsletters, websites like www.morningstar.ca, www.globefund.com and investorism.com, ROBTv, bank branches, brokers, SEDAR (www.sedar.com), financial planners and

even Maclean's Annual ranking of funds. Paid subscription sites (e.g. Ed Bugos, www.safehaven.com) may well be worth the money. The Internet sites often include filtering and charting tools that permit you to select a fund based on certain user-determined criteria or fee calculators such as that provided by the Ontario Securities Commission (www.osc.gov.on.ca- Investor Resources/Tools-Mutual fund Fee calculator) that allow you to determine the impact of loads and fees. In this day and age, there is absolutely no reason not to be able to X-ray any fund.

Conclusion

Investing in mutual funds like any major investment decision merits time and effort. To be successful you need a financial plan based on *quantitative goals*. Don't be greedy, impatient or unwilling to work for long-term results. Be sure to comparison shop. The law of compound growth is on your side. Conduct at least a semi-annual checkup of the "health" of your financial plan- revalidate fund objectives, compare performance, rebalance portfolios, re-assess risk /volatility, check that there has been no escalation of fees/expenses or a tightening of minimum investments and that services provided continue to meet your needs. When properly done, your homework should payoff in satisfactory returns until your asset base is big enough to explore other alternative investments.

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Acknowledgements: Thanks go to IFIC, the OSC, TD Waterhouse Funds, Altamira, www.morningstar.ca, www.independentfinancial.on.ca, the Globe and Mail, Dr .M. Milevsky, Michael Thorfinnson of TD Asset Management, prominent Investment Advisor Hans Merkelbach, Dan Hallett of Sterling Mutuals Inc. and especially investor advocate Joe Killoran for helping me put this educational piece together.

Suggested web-site visits

Treat web sites as an information-gathering *tool* not as your primary source of advice.

(a) The Fund Library <<http://www.fundlibrary.com/>> is

Kenmar
Mutual Fund Education Series

Canada's original web site dedicated to mutual funds. Visitors will find lots of content contributed from a variety of experts, most of which work for firms sponsoring the site. Resident fund analyst, Steve Kangas, pens his weekly musings on the fund industry and other relevant investing issues in a section named "Investment Cafe".

(b) Globefund.com <<http://www.globefund.com>> has much of the same fund-specific information found at the other sites listed. It's unique features include easy-to-use fund charting functions, a quick link to relevant Globe and Mail fund articles, and links to their monthly report on mutual funds.

(c) Fundmonitor.com <<http://www.fundmonitor.com>> is dedicated to supporting financial advisors with a host of powerful online tools. This is a fee-based service but individuals can participate for free in fund picks, news and discussion forums. A user ID and password is required.

(d) Fundalarm.com <<http://www.fundalarm.com>. This is a U.S. site run by Roy Weitz. It provides terrific insight into the U.S. Fund industry (the relevance to Canada is very obvious). "FundAlarm is a free, non-commercial Website. Our view of the mutual fund industry is slightly off-center. We help you decide when it's time to sell a fund, instead of when it's time to buy. The mutual fund industry is full of broken promises, arrogance, greed, hypocrisy -- the list goes on. We try to shine a light in the darker corners, and poke holes in balloons that could use some poking." A typical commentary on the 6-year-old site follows:

A broken watch tells the correct time twice a day and most mutual funds, even the worst ones, eventually hit a hot streak..... American Heritage is the latest broken watch to look like a Rolex. Historically, American Heritage has been a fund of almost comically inept proportions, yet it gained 75% in the first few days of 2002, and it was up even more (87.5%) as of January 29. So, did manager Heiko Thieme finally figure out how to run a mutual fund?.... Hardly..... In fact, it's almost the exactly the opposite story. During early January, 80% [!] of this fund's assets were invested in Senetek PLC, and Senetek stock got a huge boost when one of its products (an "anti-aging compound") was licensed to several large retailers. Morningstar.com reports a "surge" in readers viewing the American Heritage profile page, which presumably will be followed by a surge of investors. As Morningstar says, rather succinctly, "Don't Buy This Fund!"
January 10, 2002

The mutual fund world offers something for almost everyone. For example, let's say that you were formerly an investor in Vanguard U.S. Growth, and you were disappointed when Vanguard fired that fund's under-performing manager. Good news. That same under-performing manager, Lincoln Capital Management, has been hired to run a new fund, Ariel Premier Growth. Send in your money to Ariel,

and we're sure that Lincoln Capital Management will be glad to start trailing its benchmark once again.

FundAlarm has often been accused of taking a simplistic approach to complex issues. In keeping with that tradition, here's our analysis of one current controversy within the mutual fund industry:

- Virtually no mutual funds disclose their proxy votes;
- Using the Internet, it would be extremely easy for mutual funds to disclose their proxy votes if they wanted to;
- Therefore, mutual funds have something to hide.

What do fund companies have to hide? Well, let's say that General Motors is looking for a fund company to service its 401(k) plan, and Fidelity discloses that it has voted an important proxy issue against General Motors in the past. Isn't it likely that General Motors might decide to give its business to a friendlier fund company? Examples like that are probably rare, so we suspect that the fund industry opposes proxy vote disclosure for a more basic reason: Fund companies don't want to tell the rabble any more than they have to... If funds routinely disclosed their proxy votes, investors might have one more reason to tie up the toll-free telephone lines, or write an e-mail, both of which require "customer service". And, of course, any given proxy vote is likely to antagonize someone, and fund companies have a hard enough time getting customers without disclosing what they really think or do. Mutual funds control nearly one-third of the equity voting power in the U.S., and failure to disclose mutual fund proxy votes makes a charade of corporate democracy. But mutual funds are allowed to get away with non-disclosure, so of course they don't disclose.

"Activists renew push for proxy disclosures," Sarah O'Brien, Investment News, January 14, 2002

(e) Fundmonitor.com < <http://www.fundmonitor.com> > is dedicated to supporting financial advisors with a host of powerful online tools. This is a fee-based service but individuals can participate for free in fund picks, news and discussion forums. A user ID and password is required.

(f) www.investorism.com Visitors will find on the right hand side an html version of Investor Advocate Joe Killoran's investment fund Just-in-Time (J-i-T) point-of-being SOLD/purchase adult" beginning" education in "Financial Literacy" Checklist one-pager that prints 6 to 8 pages, while in the left hand menu column, investors can click on the one-page PDF versions of:

- (i) Killoran's same investment fund J-i-T point-of-being SOLD/purchase Checklist one-pager. Killoran's Checklist follows and adheres to the educating thesis contained in the Ancient Chinese Proverb:

**Tell me and I forget.
Show me and I remember.
Involve me and I understand.**

Killoran's interactive Checklist is a simple educating, decision facilitating, advice validating, safety enhancing and fairer play / Field-leveling process when the advisor and investor fill in the blanks together.

(ii) Killoran's investment fund Redemption / Switch Disclosure one-pager (Note: the lion's share of Canada's annual \$120+ billion in fund sales involves advisors recommending new DSC 5% Sales Solution transaction commission Redemption / Switch transactions!)

(iii) Killoran's "Advisor PROFILE: DON'T trust any advice until you autopsy the PROFILE of the practitioner behind it!" The lion's share of our financial advisors don't have either the extensive education and / or professed Hippocratic Oath that our medical practitioners must obtain and promise to adhere to before they are allowed to take care of our medical Well-being.

(g) Morningstar.ca <<http://www.morningstar.ca>> is one of the more informative mutual fund sites in Canada. Getting the best of their free information only requires a registration. You'll get detailed information on most funds and analyst opinions on many. The most useful information on this site is something called Manager Monitor - profiles of mutual fund managers.

(h) www.wealthyboomer.com is a great site. The lively Wealth discussion forum is moderated by Jonathan Chevreau, consumer-friendly personal finance columnist for the National Post. The discussion forum is moderated by Chevreau and is lively

Suggested Reading

The list below provides a cross-section of useful information. Obviously the industry web-sites may be biased in how they discuss mutual funds.

Altamira, "Solutions for Successful Investing", 07/01-154, contact 1-800-263-2824 or www.altamira.com

Atkinson, H.J., "The New Investment Frontier-A Guide to exchange traded funds for Canadians", ISBN 1-894663-14-4, Insomniac Pres, 2001

Bell, Andrew "Mutual Funds for Dummies For Canadians", CDG Books, ISBN I-894413-01-6, 2000

Carrick, Rob, "Fees, Fees, Fees", the Globe and Mail, April 26,2002

Chevreau, Jonathan "the Wealthy Boomer-Life After Mutual Funds"; Key Porter Books, ISBN I-55263-006-4, 1998

Hallett, Dan, CFA is the Senior Investment Analyst with Sterling Mutuals Inc. <<http://www.sterlingmutuals.com>> He can be reached at dhallett@sterlingmutuals. "Reasons to sell: Dumping a fund doesn't mean it's bad", The Stingy Investor, 5/19/2002

Heinzl, Mark J. " Stop buying Mutual Funds"-The book Bay Street *Still* Doesn't want You to Read (2' nd edition); John Wiley and Sons Canada Limited, ISBN 0-471-64613-X, 2001

IFIC (www.ific.ca), "MUTUAL FUND FEES", Fact Sheet, Mar. 2001,Available by phone (416)-363-2158

Investors Group (www.InvestorsGroup.com),"Strategies to Manage Wealth", 2002

Jacobs B.," All about Mutual Funds", ISBN 0-07-137678-X, McGraw Hill, 2001

Kivenko, Ken "Disadvantages of Mutual Funds", available from kenkiv@sympatico.ca, Doc. # MF101, Feb, 2002

Kivenko, Ken,"Mutual Fund intelligent Glossary", available from kenkiv@sympatico.ca, Doc.# MF102, Jan., 2002

Lukko R., "Buy more, Pay less", IE: MONEY, July/August 2002(Excellent article on negotiating mutual fund fees)

Milevsky, M.A.," Money Logic: Financial strategies for the smart investor, ISBN 0-7737-3171- 7,Stoddart Publishing, 1999 (uses logic and basic math to analyze common financial issues/questions)

NI 81-105:This National Instrument entitled "Mutual Fund Sales practices" issued in 1998 establishes the rules for the sale of mutual funds in Canada. It includes sections on marketing and educational practices, commissions, sales practices, Prospectus and point of sales disclosure and other related details. It is available on the OSC web-site which has a printer-friendly version.

Ontario Securities Commission, "Investors Education Package includes Mutual Funds: What you need to know, Getting Started, Choosing your Financial Advisers and The Prospectus: What it is and why you should read it". These free pamphlets can be ordered by phone or via the internet

Pape, Gordon, "Avoid mutual fund traps "June, 2002,available at www.50plus.com

Pape, Gordon,"Clone funds cut your returns", May 2002,available at www.50plus.com

Stoneman T.P and Schultz D.J.," Brokerage Fraud", Dearborn Trade, ISBN: 0793145554; 1st edition (November 15, 2001). Stoneman, an attorney who specializes in U.S. securities cases, and Schulz, a former broker turned securities fraud consultant, have produced a guide to fraud in the U.S. securities industry for the individual investor. They describe the common types of misconduct, how to detect fraud, the actions to take, the role of regulatory bodies, and how arbitration works. Though the book includes two chapters on online trading and concludes with several chapters on choosing investments and financial advisers, it focuses on dealing with brokerage fraud; the authors even provide their phone numbers and web sites for prospective clients. The writing style is straightforward and somewhat informal, but a lot of technical information is provided.

Royal Mutual Funds," Taxes and Investing in Mutual Funds", Royal Mutual Funds doc. 08280 (05-2001), available in branches or by contacting funds@royalbank.com

Stromberg, Glorianne, "Investment funds in Canada and Consumer Protection: Strategies for the Millennium". This Report was prepared for the Office of Consumer Affairs, Industry Canada. It was dated Oct. 1998 but its public release was delayed to Jan. 7,1999 (ISBN-0-662-27425-3/code 52487E) .It examined the requirements for the reasonable protection of investors and made recommendations to enhance consumerism about investors. It is available from the OSC (www.osc.on.ca) and Industry (<http://strategis.ic.gc.ca>) Canada Web sites.

Tafler D. and Yee J." Financial disaster shouldn't be this easy". FiftyPlus, June, 2002

TD Waterhouse," For mutual fund investors, taxation is a growing issue ", FundSmart Quarterly, April 1,2002

Thorfinnson, Michael "The overlooked Piranha", Canadian Investment Review, Fall 1996