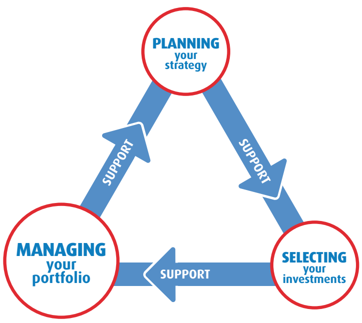
InSite
News and views for the online investor
MAY/JUNE 2005

Reach Your Goals Sooner with Ongoing, Effective Management Strategies

In the last issue of InSite you learned that a disciplined approach to investment selection goes a long way toward investing success. Now, with a solid plan in place and the right mix of investments selected, the ongoing management of your portfolio becomes essential to help you stay on track and reach your investing goals.



Although you have a clear definition of where you want to be, investing markets are fluid and the market conditions that will help you reach your destination are ever changing and ever evolving. This is where active management of your portfolio becomes the defining characteristic of a successful investor.

Just like sailing, where it is necessary to make adjustments to the sail in response to changing wind conditions, it is crucial to stay disciplined and make these important adjustments to the 'sails' of your portfolio to maximize the market power available to you at any given time.

"An effective strategy removes the emotion from the investing equation, and gives you greater peace of mind."

Consider your management approach: how many times do you want to review your portfolio in a given period? Having an active management strategy in place will help ensure that you review the gains and losses in your portfolio, as well as your asset allocation, against your plan on a regular basis. You can rebalance and make the necessary adjustments whenever appropriate. An effective strategy removes the emotion from the investing equation, and gives you greater peace of mind.

To assist you with the ongoing management process, you can take advantage of the tools and resources available. For instance, Alerts have been designed to provide you with specific market news and stock price changes from virtually anywhere. You can also use Stop Orders to help protect your profits and guard against downside risk, Automatic Purchase Plans to build your portfolio over time, and Options Chains that will give you the full picture on options contracts, and help you implement them to your strategic advantage.

Ongoing, active management strategies are important to long-term solid, portfolio performance. Through a disciplined approach to investment management, investors are able to achieve maximum results in any market conditions, and reach their goals sooner. ■

Explore Our Site

With Alerts, you can stay connected to the market, follow stock performance, breaking news and more from virtually anywhere. To set up Alerts on your cell phone, PDA or your desktop email, simply sign in to your account online and under *Trading* choose "Stock & News Alerts".

Exit Strategies Provide Peace of Mind

When it comes to managing your portfolio, selecting the right mix of assets is only half the investment equation. It is also important to know when to sell, and then have the discipline to execute it.

Hold your winners too long and you may fail to take profits off the table. Hang on to your losers too long and you could incur losses. Successful investors know that properly managing your investments means planning an exit strategy from the onset.

Your Exit Strategy

An exit strategy is simply the price point at which you choose to sell. It is a critical investing component that

helps manage risk. Setting a sell price in advance also takes the emotion out of investing.

A sell point could be as simple as when your investment rises or falls 20% off your purchase price. It can also be more complex. You might base a sell point on fundamental data, such as revenue growth, profit margins, or price-to-earnings ratios (P/E). You may, for instance buy into a business with a P/E ratio lower than its competitors — suggesting its stock sells at a discount. Your exit strategy may be to sell when its P/E rises to that of its peers.

Technical data can also trigger sell signals. For example, you might sell a stock when it crosses a specific moving average or hits a new 52-week high or low.

Triggering an Exit

There are a number of online tools to help investors plan and implement exit strategies:

Alerts: Automated Alerts can send information about specific stocks to you electronically, from virtually anywhere. Triggers for sending Alerts can be based on various criteria, from moving averages to price and volume.

Order management: Setting a Stop Order at a predetermined price can also automate the trading process and frees you from following the markets on a daily basis. For more information on Stop Orders, read *Stop! Manage Exit Strategies Automatically*, included in this issue of InSite.

Data and filters: Quote tools provide a wide range of detailed information about stock prices, fundamental data and recent news releases to help plan an exit strategy.

Portfolio tracking and performance: Know whether you are in your "sell zone" using this tool, which identifies how much you have made or lost on an investment.

Planning your exit strategy helps protect your potential gains and guards against downside risk – giving you peace of mind. Take advantage of the online management tools available to help you create and execute an exit strategy and stay on a disciplined course. ■

Contributor's Note

Spring is often a good time of the year to clean up and take stock. That exercise is particularly important when it comes to your investment portfolio. While developing a sustainable plan and selecting suitable investments are critical steps for investors, it is equally important to review your portfolio on a regular basis to ensure it continues to perform according to plan.

To help you with this essential process, this issue of InSite is filled with strategies designed to help you effectively manage your portfolio on an ongoing basis. Our lead article outlines the key elements of a disciplined approach, while another article shows how to use Stop Orders as an online management tool. You will also learn about planning an appropriate exit strategy and options investing.

I hope you find this issue both educational and informative. You can visit **bmoinvestorline.com** if you would like additional resources and tools on portfolio management.

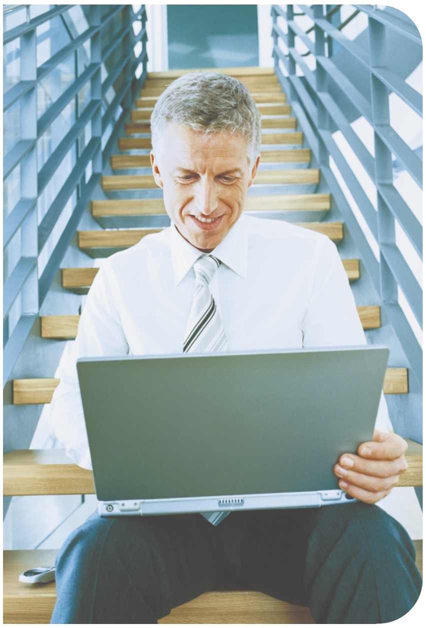
Sincerely,

Thomas A. Flanagan
President & Chief Operating Officer

Options for Protecting Your Portfolio and Enhancing Returns

by Gladys Karam of the Montréal Exchange

The options market offers investors a variety of strategies to take advantage of different market perspectives. You can use options to speculate the price movement of an underlying security, increase returns, protect a profit, or take advantage of a flat or volatile market. The use of options can be an added value to every portfolio.



There are two primary reasons for buying options: the high potential leverage and the limited risk. High leverage, since an investor stands to benefit from an increase or a decrease in the value of the underlying stock while investing only a fraction of the capital needed to buy or to short sell the stock outright. Limited risk because the maximum loss is the premium paid.

Buying call options allows investors to act on bullish views, while buying put options allows them to profit from expected declines in the market price or to protect holdings against possible drops.

For example, a bullish investor on ABC stock trading at $30, has two choices:

1) Buy 1,000 shares of ABC at $30, investing or borrowing on margin $30,000.

2) Buy a four-month call option on ABC at a $30 strike for $1.50, investing $1,500.

If four months later ABC is trading at $35, the return on the first investment is 17% and on the second one, 233%. That's the power of leverage! The maximum loss for the option investor in this case is $1,500 if at expiration the price of ABC is at or below $30.

Buying call options could also be a hedging strategy for short sellers, since they will be locking in the purchase price of their short position in case the market goes against their forecast.

A bearish investor can buy put options as an alternative to short selling the underlying stock and benefit again from leverage should the stock price decline. Most of all, buying put options allows investors to hedge against declining markets.

Let's take the example of an investor who purchased ABC at $30. ABC is now trading at $35. This investor has short-term concerns about the price direction because of merger rumours. Buying a four-month put option on ABC at a $35 strike for $1.25 allows the investor to lock in a profit on ABC without liquidating the stock position and, of course, still benefit from the upside potential should the value of ABC continue to rise. This strategy is called protective puts and can also be used to defer capital gain from one year to the other.

Finally, let's take a quick look at selling options. Writing call options against existing stock positions (covered calls) is a means of generating incremental revenues during stable price periods. The premium received by the call seller also acts as a cushion against modest price declines. The investor can do a covered call write as an alternative to an open sell order at a limit price. The strike price of the calls sold should be the target selling price for the underlying security and if assigned, the investor's final selling price will be the strike price plus the premium received. This strategy outperforms buy and hold only in flat or moderately bullish markets.

"Options offer great advantages to astute investors. They must nonetheless bear in mind that investing in options carries certain risks."

These are just a few of the many options strategies. Options offer great advantages to astute investors. They must nonetheless bear in mind that investing in options carries certain risks. A clear understanding of these risks as well as potential returns is a key to successful options trading. ■

Heavy Hitter Model Portfolio Corner by Ranga Chand

Balanced Income & Growth Model Portfolio

In the March/April issue of InSite, Ranga Chand talked about the Growth & Income Model Portfolio. In this issue he profiles another one of his seven Heavy Hitter® Model Portfolios.*

The Heavy Hitter Balanced Income & Growth Model Portfolio is designed to provide investors with a combination of income and long-term growth of capital. It is intended for those investors who can tolerate moderate fluctuations in the value of their portfolios in exchange for potentially higher long-term returns. It is not suitable for investors with a short investment time horizon.

The target allocation of the portfolio is 50% stocks and 50% 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 5-year track record and below-average management fees within their respective categories.

On the equity side, the portfolio is well diversified and currently holds about 150 Canadian stocks covering all the major market sectors and around 50 foreign stocks of which more than 90% is in developed markets and the remainder in emerging markets. On the fixed income side, about 50% is invested in short-term bonds and around 25% each in medium and long-term bonds. The average term-to-maturity of the portfolio's bond holdings is around 8 years.

The investment returns for the Balanced Income & Growth Model Portfolio are shown in Table Two. The portfolio's average annual total return for the 5-year period ending February 28, 2005, was 12.0% and on a yearly basis the portfolio has delivered positive returns for each of the past 5 years with returns ranging from a low of 1.3% in 2002 to a high of 19.3% in 2000.

The Balanced Income & Growth Model Portfolio has a moderate risk profile. Although there is a 1 in 20 chance that returns will be negative over any 1-year period, the portfolio has delivered positive returns over all 3 and 5-year holding periods. Looking at all eighteen 5-year rolling periods from September 1998 to February 2005 (Table Three) returns have averaged 11.1%, ranging from a high of 12.6% to a low of 10.5%. ■

To learn more about the Heavy Hitter Model Portfolios, visit bmoinvestorline.com/EducationCentre/MutualFunds.

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 — Growth & Income Model Portfolio

Heavy Hitter Funds	Fund Type	% of Portfolio
BMO Dividend	Canadian Dividend	20%
Dynamic Income	Canadian Bond	30%
Elliott & Page Monthly High Income	Canadian Income Trust	20%
Fidelity Canadian Disciplined Equity	Canadian Equity	20%
Trimark Fund SC	Global Equity	10%

Table Two — Growth & Income Model Portfolio Investment Performance (to February 28, 2005)

Average Annual Total Return (%)

1 YEAR	2 YEAR	3 YEAR	4 YEAR	5 YEAR
10.2	16.2	10.3	10.1	12.0

Yearly Performance (%)

2004	2003	2002	2001	2000
12.1	17.2	1.3	4.9	19.3

Source: Chand Carmichael & Company Limited

Table Three — Growth & Income Model Portfolio Risk/Return Profile (September 1998 - February 2005)

	Best Return (%)	Worst Return (%)	Average Return (%)	Frequency of Negative Returns (%)	Number of Periods
1 year	25.6	-5.6	11.4	5	66
3 years	14.2	5.6	9.6	0	42
5 years	12.6	10.5	11.1	0	18

Source: Chand Carmichael & Company Limited

Stop! Manage Exit Strategies Automatically

Stop Orders are effective online tools that give you the discipline to manage your exit strategy, helping you to lock in profits or minimize your losses early.

Simply, a Stop Order allows you to set a predetermined price point at which you would be comfortable selling your investment. There are three types of Stop Orders available at **bmoinvestorline.com**:

Sell on Stop: Helps you to minimize potential losses if the price takes a sudden downturn by setting the sell order at a point of your choosing below the current market price.

Hard Stop: Allows you to set a "hard" price at which to sell your stock and lock in your gains. Hard Stop Orders let you plan your exit strategy up front at any time and have an indefinite expiry date.

Trailing Stop: Rather than using specific price points, this flexible order exits a stock based on percentage changes. A Trailing Stop Order follows the price of a stock up and resets the trigger sell price, or stop price, each time. For example, if a stock drops, say 20%, the order to sell is executed. If it closes higher at the end of a trading day, the Trailing Stop Order resets the stop price at 20% below the new price.

"...set a pre-determined price point at which you would be comfortable selling your investment."

Stop Orders are simply market orders or instructions, so there is no guarantee you will get a specified price. However, Stop Orders take the emotion out of executing an exit strategy and help manage your risk. ■

For more information, read the Investment Safety Switch Report courtesy of The Oxford Club (www.oxfordclub.com), at ***bmoinvestorline.com/WhatsNew/trailingstop.html****.*

Heavy Hitter Update

To qualify as a Heavy Hitter Select Fund, a fund must be a consistent top performer with superior risk/reward ratios, solid management, a minimum 5-year track record, and be available for purchase.

Since the Norrep Fund (a Canadian small-cap fund) is no longer accepting both new and additional purchases, it will no longer be featured on the Heavy Hitter Select Funds list. The fund has been replaced by the Ethical Special Equity Fund, another Heavy Hitter in the same category.

To view the complete Heavy Hitter Select Funds list, sign in to your account, go to the *Research* section, select Mutual Funds, and choose "Analyst Select Funds".

Feature of the Month

Attend one of BMO InvestorLine's seminars to learn more about the Disciplined Approach to Investing, valuable investment strategies, or the latest tools and research.

To find a seminar near you, visit **bmoinvestorline.com**, go to *Quick Links* and click on "Seminars".

Update: Ultimate Golf Getaway

With over 40,000 ballots from all across Canada, the Ultimate Golf Getaway was a big success. Many of you proved your investment savvy with your knowledge of BMO InvestorLine's comprehensive tools and resources available to help you successfully plan, select and manage your investments.

Thank you to all who participated! Watch for the full winner's list, including the Grand Prize Winner, on **bmoinvestorline.com**!

CONGRATULATIONS TO OUR SECONDARY PRIZE WINNERS:

ROBERT HEASLIP
$1,000 Golf Town Gift Certificate

ROSEMARY CORNFIELD
TaylorMade Golf Clubs

MICHAEL FITZPATRICK
The Golf Gadget Bundle

JOSEPH V. LUC
Weekend Golf Getaway

My Success Story

Is there a success story you would like to share with InSite readers?

H. Michael Collins from Gooderham, Ontario, who has been an active BMO InvestorLine client for about ten years, recently shared his story with InSite.

"In the 80s, I became interested in Royalty Trusts. After some weeks of deep investigation, I decided that the route was viable. I borrowed $25,000 from a bank at 8%. I bought trusts that over the next two years averaged 18%. When the bank loan was paid off with the difference in interest versus trust payments, not only did I get a double tax benefit but a quick repayment. I repeated this strategy five times over the next ten years with increasing trust returns. By the time I was ready to retire I had increased my capital assets by 8 times. Remember, this method works when the life of the asset is greater than your own, although good trusts will keep increasing their life span on a yearly basis."

My Insight

"Spend the time necessary to completely inform yourself about the business or type of investment you are thinking of investing in. Then, when you are comfortable, you can take some risks. Your choice should be based on solid (global) research and personal investigation. Trust yourself."

Tell us your story at *insite@bmoinvestorline.com.*

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

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