InSite
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Spring Cleaning Your Mutual Fund Portfolio

by Ranga Chand

If your mutual fund portfolio is not performing as well as you would like it to, a little spring cleaning may be in order. Like your house, garage, or basement, your investment portfolio will benefit from an annual spring cleaning, which should include reviewing your individual investments and making any necessary adjustments.

When you review your funds, it's important to remember that not every fund will deliver above-average returns every single month. In fact, quite often funds under-perform for a while before bouncing back. However, if you are holding a fund that has been under-achieving for an extended period and its performance is negatively impacting the overall performance of your portfolio, it may be time to cut your losses and consider moving on. This process of cleaning up your portfolio requires elimination of overlapping holdings and filling gaps in your asset allocation. In order to do this, there are some key factors to take into account.

"Rebalancing your portfolio annually will help keep your asset allocation in line with your original plan."

Start with your goal—are your investments helping you achieve it? Rebalancing your portfolio annually will help keep your asset allocation in line with your original plan. Having said that, make sure your asset allocation plan reflects your current goals. If you've experienced some life changes, your goals may have changed and you may need to alter your asset allocation.

Since you can't predict which fund will be the best performer, make sure you have enough diversification in your portfolio to protect you from risk. Also, make sure your investments are held in the right tax vehicles depending on their profile—capital growth or income producing. For example, you probably wouldn't hold a bond fund in a taxable account because the fund creates income on which you would be taxed.

Monitoring your portfolio is a key element in deciding what is working for you and what isn't. While you probably already keep on eye on the performance of your mutual funds on a consistent basis, a more in-depth review is sometimes necessary to ensure that you are getting everything you want out of your portfolio.

To read more about cleaning up your mutual fund portfolio, visit ***bmoinvestorline.com/EducationCentre/InSite/MayJune/index*** *where you can find a more in-depth version of this article.*

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> SOCIALLY RESPONSIBLE INVESTING: IS IT FOR YOU?

The beauty of traditional mutual funds is that your investment dollars give you access to a wide spectrum of industries, sectors and regions. In fact, there could be hundreds, or even thousands of different stocks in any one fund—and you reap the rewards of diversification. However, if you often wonder about where your money is being invested, and if you're one of the growing number of investors who are becoming increasingly concerned about how companies use their investment dollars, investment research becomes all that much more important.

One of your options is socially responsible or ethical mutual funds. These funds apply certain standards to companies' business objectives and practices before they make an investment decision. Their priorities include environmentalism, social justice, public health, and more.

There are currently about 60 socially responsible investment funds in Canada across 12 different recognizable fund categories, such as Canadian balanced, Canadian bond, global equity, and money market.* That's up substantially from a handful of such funds that were available to Canadian investors 10 to 15 years ago.

How do socially responsible funds choose their investments? It's a two-stage process: first, a fund establishes a priority, and then it applies its own system of filters to screen out undesirable companies and/or promote responsible companies. Here are some of the more commonly used criteria:

Positive filters: Good employers. Good corporate citizens. Environmentally responsible. Beneficial products or services.

Negative filters: No animal testing. No arms production. No nuclear power. No exploitation of workers. No tobacco, alcohol, gambling or exploitation.

The social benefits to ethical investing are obvious, but there are also two major criticisms levelled at socially responsible funds.

1. Assets invested ethically are not substantial enough to change corporate behaviour; and

2. Responsible funds under-perform traditional funds.

Socially responsible investors have counter-arguments for both. In the first case, they believe their voices are being heard; more companies are coming to understand that responsible business is good business. In the second case, the track record speaks for itself: socially responsible funds are garnering about the same returns as other mutual funds. For example, the 12 ethical Canadian equity funds averaged 16.1% over the past three calendar years.

"These funds apply certain standards to companies' business objectives and practices before they make an investment decision."

The proliferation of socially responsible funds also means that your portfolio can be properly diversified among asset classes, world regions, cap sizes (small/mid/large), investing styles (growth/value), and management styles. In other words, you can be a socially responsible investor and still be a sound investor. And that can feel like gaining back a little control in a world where you may feel you have so little.

**Social Investment Organization, Toronto, at Dec. 31, 2005*

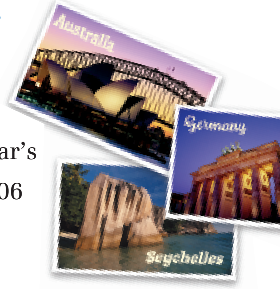
CLEANING UP MADE SIMPLER

To make your mutual funds selection easier, you may want to check out the list of Heavy Hitter Funds®* at bmoinvestorline.com. This list includes funds from all the major asset categories ranging from bonds to income trusts to domestic and foreign equities. All the Heavy Hitter Funds listed have a strong performance history, superior risk/reward ratios, a minimum 5-year track record and below average management fees within their respective categories. The bonus here is that these funds are regularly monitored for you.

If, on the other hand, after reviewing your investments you have concluded that a major revamp is in order, you may want to consider one of the Heavy Hitter or ETF Model Portfolios. These Model Portfolios are specifically designed by third-party experts for investors with different risk tolerances and objectives and range from capital preservation to aggressive growth. For every investment objective—security, balanced, growth or aggressive growth—you will find a Model Portfolio that will suit your particular needs. Again, as with the Heavy Hitter Funds, all of the Heavy Hitter Model Portfolios are regularly monitored and a monthly **Performance Update and Commentary** is provided.

The Ultimate Golf Getaway

We have a winner!



Thanks to all who participated in this year's contest. The 2006 Ultimate Golf Getaway was another success with more entries than ever before. It's clear that your knowledge of BMO InvestorLine's tools and resources is rising to new heights.

Now that the winning ballot has been drawn, spring is extra sweet for one lucky BMO InvestorLine client this year.

This year's Grand Prize Winner is…

JUDITH LUKAN FROM COCHRANE, ALBERTA.

We'd like to congratulate all of this year's winners.

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AccountLink pulls your investing and banking information together in one simple solution by linking the benefits of a trading account and a chequing account. AccountLink lets you write cheques, use the bank machine and online banking, and set up pre-authorized deposits and payments. You also get competitive interest rates on cash balances, and one consolidated monthly statement for banking and investment transactions.

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Effective July 1, 2006, when you qualify for the Active Trader Program you will enjoy reduced commission rates and access to our Online Service Package.

To help you stay on top of the markets and make better informed investing decisions, the Online Service Package gives you access to Level II, Real-time and Streaming Quotes throughout the website, as well as Real-time Charting and more.

To qualify for the Active Trader Program you must execute 30 or more equity or option trades per quarter and sign up for eServices. Your status for the Program will be automatically evaluated each month based on your trading activity for the previous three calendar months.

To find out more about the new Active Trader Program, visit **bmoinvestorline.com.**

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