



# INVESTING IN MUTUAL FUNDS

*Many investors have discovered that mutual funds offer a variety of advantages. Today, they are a core element in the savings and investment programs of many Canadian households.*

Despite their popularity, mutual funds are still not clearly understood. For some, the number and types of funds available can be confusing and intimidating. Other investors are unsure how to go about purchasing a mutual fund.

The purpose of this brochure is to provide you with information about mutual funds which will assist you in making appropriate investment decisions.

## WHAT ARE MUTUAL FUNDS ?

Mutual funds provide a way for many individuals to combine their savings in order to achieve greater impact with the amount they have to invest. Your contribution is pooled with that of other investors, and “units” representing your ownership in the fund are received in exchange.

The funds raised from the sale of units are invested by professional money managers in a diversified portfolio of securities. Each fund has a clearly defined set of investment objectives and securities are bought or sold for the fund with these objectives in mind.

## WHY OWN MUTUAL FUNDS ?

Mutual funds can fit any investment strategy. By selecting from a variety of funds, you can fine tune your portfolio for your specific investment strategy while retaining all of the benefits available from pooling resources with other investors. Mutual funds also offer the following features:

### Diversification

One of the leading advantages of mutual funds is their ability to invest in different sectors of the market and of the economy. By holding a variety of securities through a mutual fund, your exposure to the risk associated with owning individual securities is reduced. This is an advantage that can't be duplicated by small investors managing their own portfolios.

### Professional Management

Mutual fund investments are selected by skilled, professional managers. The expertise of these fund managers is valuable and not readily available to most individual investors.

### Small Amounts of Money

Another key benefit is the ability to achieve diversification and professional management with relatively small amounts of money.

### Liquidity

Most mutual fund companies will repurchase the units you own on any business day. This is different from selling individual securities where a purchaser and an agreed upon price have to be found before you can sell your investment.

## Compounding

Mutual funds earn dividends, interest and capital gains. This income is distributed to you at pre-determined intervals.

You have the option to re-invest this income in additional units of the fund at their current market value. This removes the difficulty you may have in re-investing relatively small dividend and interest payments. It also allows you to enjoy the benefits of compounding which over time is a key element in successful wealth building.

Your BMO Nesbitt Burns Investment Advisor can help you identify the specific benefits mutual funds may have on your portfolio.

## TYPES OF FUNDS AVAILABLE

There are many different types of mutual funds available. The basic types are outlined below:

### Growth/Equity Funds

These funds invest in Canadian, U.S. or other foreign equities and aim to provide capital growth. All equity funds fluctuate in response to market conditions. As a

result, this type of fund is appropriate for the investor who is able to take some risk and is investing for the longer term.

### Dividend Funds

These funds invest primarily in conservative, high-yielding common stocks or preferred shares of Canadian corporations. When held outside an RRSP, these funds receive favourable tax treatment due to the dividend tax credit.

### Bond/Income Funds

Bond funds generally invest in government or government guaranteed bonds, and in bonds and debentures issued by the strongest banks and corporations. Since the income from these investments is usually pre-determined, the rate of return is generally more stable than that received from growth funds.

### Balanced Funds

These funds usually contain equities, bonds and money market instruments in proportions that are determined by the portfolio manager. The manager's objective is to provide regular income, moderate growth and safety of capital to the fund's unitholders.

## International/Global Funds

Increased interest in investing abroad has created a demand for funds which invest in world markets. There are international equity and bond funds available to investors wanting a portion of their portfolio invested outside of Canada.

## Money Market Funds

These funds are usually comprised of government treasury bills, corporate certificates of deposit, and other short-term notes having maturities of less than six months. Money market funds return a higher yield than savings accounts with very little risk. As a result, they have a particular appeal to investors with short-term objectives or low risk tolerance.

## Specialty Funds

These funds invest in specific asset classes or specific markets and include technology funds, country-specific funds and natural resources funds. The investment objectives of these funds are specific and they tend to be more volatile than other types of funds.

## HOW TO CHOOSE A FUND

Each mutual fund registered for sale in Canada must have a simplified prospectus. A prospectus is a legal document that provides important, detailed information about the fund. You should read it before you invest.

Your BMO Nesbitt Burns Investment Advisor can obtain a copy of the simplified prospectus and can assist you in determining how well a fund fits your particular investment goals and objectives.

You should consider the following when selecting a fund:

### Past Performance

While past performance is not a guarantee of future returns, it is one way to evaluate the ability of the portfolio manager to achieve the fund's objectives. Comparison of past returns for the short and long-term should be made with other funds of the same type and similar objective for a clear indication of how a fund has performed. However, past performance is only one of many things you should consider before choosing a fund.

## Management of the Fund

When reviewing the past performance of a fund, make sure that the manager responsible for the performance is still managing the fund. Your Investment Advisor can confirm this for you.

## Fees/Charges

The simplified prospectus will outline the fees you must pay to buy and hold the fund. It is wise to review these before you make your purchase. There are two types of fees that you will want to know about: management fees and acquisition charges.

The management fee is a fixed amount deducted from the fund to pay the portfolio managers and other operating staff. This fee will usually range from one per cent to 2.5 per cent annually, depending on the type of fund. The expenses of operating the fund, such as legal and audit fees, are also charged to the fund. The management fee plus the expenses are expressed as a percentage of the assets of the fund and referred to as the management expense ratio.

There are three types of acquisition fee structures:

### 1. Purchase Fee or Sales Charge –

The traditional method of purchasing a fund is by paying commission immediately upon purchase. This is commonly known as a “Front-End Load”. The fee is deducted from the amount invested. It varies from fund to fund and can usually be negotiated with your Investment Advisor.

### 2. Selling Fee or Redemption Charge –

Some funds charge a fee to sell instead of a purchase fee. No fee is paid at the time of purchase. Instead, a fee is charged when the fund is redeemed. Selling fees are set on a declining schedule and are based on the amount of the fund redeemed and the length of time the fund was held. This is commonly known as a “Deferred-Load” or “Rear-End Load”.

3. **No Fee** – No fees are charged when you purchase or sell a fund. These are referred to as “No-Load” funds.

## Before You Buy

Before making any investment, there are a number of things you should consider. Your personal investment objectives must be reviewed to determine what type of investment best meets your goals. The length of time you plan to

invest, the purpose for which you are investing and your expectations of return are also key considerations.

A clear understanding of your risk tolerance is also important. Every investment has an element of risk associated with it. Usually the greater the potential return, the greater the potential risk.

A BMO Nesbitt Burns Investment Advisor can help you focus on these key questions before recommending an appropriate investment.

## LEADING MUTUAL FUND RESEARCH

Excellence in research is the hallmark of BMO Nesbitt Burns. The Mutual Fund Research Group at BMO Nesbitt Burns is viewed as a leader in the industry. Our extensive quantitative and qualitative research analyzes mutual funds based on many criteria. Our Recommended List of Mutual Funds is widely respected as a source for selecting some of the best mutual funds in each category.

## A FINAL WORD

Although making an investment in mutual funds is a little more involved than making a deposit in a savings account, the rewards can be greater. This brochure is an overview of some of the many features and benefits mutual funds offer and some general insights into the areas you need to consider.

The next step is to identify your investment objectives, evaluate your risk tolerance level and identify the funds that best fit your needs. Your BMO Nesbitt Burns Investment Advisor will be pleased to help you reach the right investment decision.

Simply contact your Investment Advisor or the BMO Nesbitt Burns office nearest you.

Visit us on the World Wide Web at [www.bmonesbittburns.com](http://www.bmonesbittburns.com).

BMO Nesbitt Burns Inc., and BMO Nesbitt Burns Ltée, are wholly-owned subsidiaries of The BMO Nesbitt Burns Corporation Limited, which is an indirect wholly-owned subsidiary of Bank of Montreal. The information contained herein has been compiled or arrived at from sources which we believe reliable but is not guaranteed by us for accuracy or completeness. BMO Nesbitt Burns accepts no liability whatsoever for any loss arising from the use of this report. Any opinion expressed herein is based solely upon our analysis and interpretation of such information and is not to be construed as an offer or the solicitation of an offer to buy or sell the securities mentioned herein. The firm may act as financial advisor, fiscal agent and underwriter for certain of the corporations mentioned herein and may receive remuneration for same. The firm and/or its individual officers and/or its directors and/or its representatives and/or members of their families may have a position in the securities mentioned and may make purchases and/or sales of these securities from time to time in the open market or otherwise as principal or agent. To U.S. residents: BMO Nesbitt Burns Securities Inc., an affiliate of BMO Nesbitt Burns Inc., accepts responsibility for the contents herein, subject to the terms set out above. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Nesbitt Burns Securities Inc.

\* “BMO” is a registered trade-mark of Bank of Montreal, used under licence.

“Nesbitt Burns” is a registered trade-mark of BMO Nesbitt Burns Corporation Limited, used under licence.

™ The “M-bar roundel symbol” is a trade-mark of Bank of Montreal, used under licence.

