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Top Ten Fund Myths

Fund Myths Uncovered

Bear Market Recoveries

Fund News

There seems to be some confusion and misinformation surrounding Mutual Funds, so we here at the Mutual Fund Reporter have compiled a list of common misconceptions surrounding Mutual Funds (in no particular order) to aid in dispelling these myths.

1. Index funds always outperform traditional funds.
Index funds do often outperform actively managed funds in rising markets. But they also decline more than managed funds in down markets.

Since most people hate losing money much more than they like making money, active funds are still better for the majority of investors. Recall that after a 50% decline (say from $100 to $50), you need to make 100% (on the remaining $50) to break even and get back to $100. With the recent market downturn, (see article on the back page) index fund holders have seen sharper declines than investors with actively managed funds. The Synergy Canadian Style Management fund, which we often recommend over index funds, has suffered less than index funds and the TSE 300 in general. (Note: having a portion of a portfolio in index funds is fine, just don't overdo it.)

2. Bond funds are ideal because they provide diversification in fixed income holdings.
This is only true for high yield corporate bond funds. You do not need diversification if all your bonds are government guaranteed. In fact, a bond fund manager has no idea what YOUR investment time horizon is, and charges between .5% and 1.5% to manage your bonds. You are much better buying and holding a laddered set of bond maturities yourself with no ongoing management fees.

3. Wrap (or Managed Asset) accounts are better than mutual funds for high net worth investors.
The newly popular wrap accounts or managed asset programs have some significant benefits. Usually they include a financial plan, and a thorough discussion of risk, return and diversification. However, fee savings, and tax efficiency are not among the benefits. The wrap accounts charge management fees that are tax deductible, against your gross returns. So essentially, you pay higher tax on your returns, and deduct fees from that. But the returns of normal mutual funds are calculated after all fees so essentially you are only paying tax on the real growth of your investments. Another disadvantage of wrap programs is that they also charge fees on your bond holdings. A wrap program typically charges 1.75%-2% on all your holdings. We would recommend paying the regular 2%-2.25% on your equity mutual fund holdings, and then hold all your bonds directly with no fees. In a 50% bond 50% equity portfolio, that means your fees are almost half that of a wrap account.

4. Mutual funds are not tax efficient
Not all funds can be painted with this brush. A fund that often trades its portfolio can issue taxable gains to unit holders on an annual basis since the manager is doing what you want, which is incurring capital gains over time. However there are many funds, AIC Advantage is a well publicized example, where their buy and hold philosophy results in little or no taxable distributions. And with new sector classes of funds, more fund companies are working to minimize taxable distributions, which is a good reason why it's important to be aware of the style and after-tax returns of your funds

5. Index funds are tax efficient
As index funds are essentially buy and hold investments, this should be true in the long run, but it is not always true. In fact, since many individual index fund investors may be market timers, cash flows in and out of the index funds have sometimes resulted in very large taxable distributions for the remaining unit holders. This is because the Fund Company may need to sell investments to satisfy client redemptions. Consider Exchange Traded Funds like I:Units if you really want to go the index route in a taxable account.

6. Overdiversification is good, the more funds the better.
We do believe that in an ever-changing economy, diversification is one of the key strategies to a successfully balanced portfolio. But there is such a thing as overdoing it. If you have so many funds that it is difficult to examine a performance summary to determine which funds are contributing to your returns, it may be time to consolidate holdings.

7. Change is good.
If you consistently switch your positions around, especially selling after a fund

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1 Year Total Return

1	CI Global Energy Sector	57.7%
2	Talvest Global Health Care	55.3%
3	AGF International Value	42.9%
4	Fidelity Focus Financial Servs	42.8%
5	AIC American Focused	41.3%
6	O'Shaughnessy US Value	38.7%
7	Fidelity Focus Natural Res	35.3%
8	Trimark US Companies	33.0%
9	Mac Cundill Value A	29.5%
10	Mac Cundill Value C	29.0%

3 Year Total Return

1	Talvest Global Health Care	46.7%
2	Altamira Science & Technology	40.9%
3	BPI Global Opportunities	36.5%
4	Talvest Global Sci & Tech	36.0%
5	Talvest Global Small Cap	35.9%
6	Talvest China Plus	35.3%
7	AGF Aggressive Growth	32.4%
8	AIM Global Technology	25.9%
9	CI Global Consumer Products	25.8%
10	Orbit World	25.3%

5 Year Total Return

1	BPI Global Opportunities	36.7%
2	Altamira Science & Technology	33.0%
3	AGF Aggressive Growth	24.5%
4	Orbit World	22.6%
5	MB Pooled American Equity	21.8%
6	AGF International Value	21.3%
7	BPI American Equity	20.8%
8	Spectrum European Growth	19.7%
9	Fidelity Small Cap America	19.2%
10	Scudder Greater Europe	18.4%

10 Year Total Return

1	MB Pooled American Equity	19.1%
2	Spectrum American Growth	18.3%
3	CI Signature Amer Small Cos	18.2%
4	GBC North American Growth	17.7%
5	BPI American Equity	17.4%
6	TD US Index Fund ($US)	17.4%
7	AGF International Value	17.0%
8	Trimark Fund	16.9%
9	AGF Amer Growth Class	16.7%
10	Fidelity Growth America	16.2%

1 Year Total Return

1	Altamira e-business	-66.8%
2	CI Global Technology Sector	-63.9%
3	Trimark Discovery	-60.9%
4	CI Global Telecom Sector	-58.9%
5	AIM Global Technology	-58.7%
6	Mac Univ Wld Science & Tech	-56.4%
7	Spectrum Global Telecomm	-54.1%
8	AGF Aggressive Growth	-54.0%
9	TD Science &Technology	-53.8%
10	Clarington Globl Communication	-53.7%

3 Year Total Return

1	Ethical Pacific Rim	-13.1%
2	AGF Latin America	-8.6%
3	Dynamic Real Estate Equity	-5.9%
4	CI Latin American	-5.0%
5	Zweig Strategic Growth	-4.3%
6	Clean EnvironmentGlo Equity	-3.8%
7	Templeton Emerging Markets	-3.7%
8	Fidelity Latin American Growth	-3.4%
9	TD Emerging Markets	-3.3%
10	Mac Univ World Emerging Grth	-3.1%

5 Year Total Return

1	Ethical Pacific Rim	-14.4%
2	Royal Asian Growth	-8.4%
3	Mac Universal Far East	-7.9%
4	AGF Asian Growth Class	-7.9%
5	CI Pacific Sector	-5.7%
6	Talvest Asian	-5.5%
7	CI Pacific	-4.6%
8	TD Japanese Growth	-3.0%
9	TD Asian Growth	-2.8%
10	TD Emerging Markets	-2.3%

10 Year Total Return

1	Royal Japanese Stock	1.0%
2	AGF Japan Class	1.9%
3	CI Short-Term Sector	3.6%
4	CI Pacific Sector	3.9%
5	Royal $US Money Market	4.1%
6	Merrill Lynch US Money Mkt	4.1%
7	AGF US Dollar Money Market	4.3%
8	CI Pacific	4.6%
9	Talvest Asian	5.5%
10	CI Canadian Sector	6.0%

COMMENTARY

ScotiaMcLeod would be pleased to provide you with further detailed information on the above mutual funds, however we cannot provide information on the funds marked #. These are historical performance rankings, and are not indicative of future investment performance. When analyzing particular funds, stress longer term performance.

These rankings are not sales advice and ScotiaMcLeod does not recommend simply selling bottom past performance funds and buying top past performance funds. Purchase or redemption fees may be involved. Please call (416) 863-7777 or 1-800-387-9273 for specific recommendations tailored to your individual needs.

* Increased to 30% effective January 1, 2001

Important information about any particular fund is contained in its prospectus. You may obtain a copy of the prospectus by calling (416) 863-7777. You should read the prospectus carefully before investing.

1 Year Total Return

1	TD Energy	50.6%
2	Royal Energy	50.2%
3	Merrill Lynch Cdn Inc Trust	49.5%
4	Dynamic Wealth Mgmnt	48.4%
5	CI Signature Cdn Resource	47.9%
6	GGOF Guardian MonthlyHiInc	46.8%
7	PH&N Dividend Income	45.7%
8	Fidelity RSP Focus Fin Service	42.2%
9	AIC RSP American Focused	40.3%
10	Talvest Millennium High Income	37.6%

3 Year Total Return

1	StrategicNova Cdn Technology	28.7%
2	Working Opportunity (Balanced)	22.0%
3	Dynamic Venture Opportunities	21.5%
4	VenGrowth Fund	18.2%
5	Capital Alliance Ventures	17.7%
6	AIM Canadian First Class	16.1%
7	AIM Canadian Premier	15.9%
8	Synergy Cdn Momentum	15.7%
9	B.E.S.T Discoveries	15.5%
10	AIM Canadian Balanced	13.9%

5 Year Total Return

1	PH&N Dividend Income	24.3%
2	AIC Diversified Canada	20.8%
3	AIC Advantage	19.9%
4	Royal Dividend	18.7%
5	Scotia Cdn Dividend	18.5%
6	MB Pooled Cdn Equity Growth	18.1%
7	MAXXUM Dividend	16.4%
8	Working Opportunity (Balanced)	16.4%
9	Fidelity Cdn Growth Company	16.2%
10	TD Dividend Growth	16.1%

10 Year Total Return

1	AIC Advantage	21.4%
2	ABC Fundamental Value	18.1% #
3	Dynamic Power Canadian Growth	17.1%
4	PH&N Dividend Income	17.1%
5	GBC Canadian Growth	16.7%
6	Altamira Equity	15.8%
7	MAXXUM Dividend	15.8%
8	Northwest Specialty Equity	15.5%
9	MB Pooled Cdn Equity Growth	14.9%
10	PH&N Vintage	14.7%

1 Year Total Return

1	Altamira RSP e-business	-67.0%
2	CI Global Technology RSP	-64.0%
3	Trimark Discovery RSP	-61.7%
4	CI Global Telecom RSP	-59.0%
5	AIM RSP Global Technology	-58.5%
6	TD Nasdaq RSP Idx	-56.8%
7	Mac Univ RSP World Sci & Tech	-56.6%
8	TD Nasdaq RSP Idx Fd E	-56.5%
9	Spectrum RRSP Global Telec	-54.3%
10	TD Sc & Tech RSP	-53.7%

3 Year Total Return

1	AGF Managed Futures Value	-21.7%
2	Global Strategy Cdn Small Cap	-14.7%
3	Spectrum Canadian Resource	-13.3%
4	Scotia Precious Metals	-13.0%
5	Global Strategy Gold Plus	-12.3%
6	AGF Canadian Aggressive AllCap	-11.9%
7	Royal Precious Metals	-10.4%
8	Mac Industrial Growth	-10.1%
9	Dynamic Precious Metals	-9.2%
10	Northwest Specialty Equity	-9.0%

5 Year Total Return

1	Global Strategy Gold Plus	-18.2%
2	Dynamic Precious Metals	-17.1%
3	Scotia Precious Metals	-15.7%
4	Royal Precious Metals	-14.4%
5	AGF Managed Futures Value	-11.2%
6	Mac Universal Precious Metals	-9.2%
7	TD Precious Metals	-8.9%
8	Altamira Resource	-8.2%
9	Industrial Equity	-7.3%
10	TD AsiaGrowth RSP	-6.6%

10 Year Total Return

1	Dynamic Precious Metals	1.2%
2	Mac Industrial Growth	2.5%
3	Industrial Equity	2.6%
4	Working Ventures Canadian	2.7%
5	TD US Money Mkt ($US)	4.1%
6	Dynamic Global Bond	4.2%
7	Merrill Lynch Canadian T-Bill	4.3%
8	AGF Canadian Money Market	4.5%
9	Fidelity Cdn Money Market	4.5%
10	Ethical Money Market	4.6%

NOTES TO THE PERFORMANCE TABLES

-ScotiaMcLeod is unable to provide information on funds marked #
-Figures are average rates of return for the periods ending Feb.28, 2000
-Source data from Bell Charts, including over 3700 funds
-Funds with total assets under $25 million are not included
-Only "totally public" funds are ranked
-RRSP eligible funds are at least 70% Canadian content and can also be held outside RRSPs
-Performance figures include reinvested dividends and management fees have been subtracted
-Non RRSP eligible funds can be held inside a ScotiaMcLeod RRSP to a maximum of 30% of book value

goes down, you will, by definition, experience losses. It is extremely difficult to time the market, and nearly impossible with mutual funds, which are only valued at the end of each day. Look at the big picture. A mutual fund that holds 100 different companies can have a bad day, but to try and predict what each company within the portfolio will do on a daily basis is next to impossible. Over the long term, the philosophy to buy and hold is really the only way to go. If you really want some part of your portfolio to be actively switched between asset classes, we recommend Fidelity Canadian Asset Allocation fund or AGF Canadian Tactical Allocation fund.

8. The price of my fund is almost the same as when I first bought it! I haven't made any money!
Again, this can be deceiving. If your mutual fund pays a dividend this will bring the price of the fund down, by the exact amount of the dividend. The reason being, money is being distributed. If you are reinvesting the dividend, the fund gives you more units of the fund therefore adding to your position and retaining the exact value you had the moment before the dividend distribution. In an extreme case, a money market fund is always priced at $10, yet yields approximately 5% which is always paid as additional units. Check out our website at www.mutualfundreporter.com/statement/dividend for more details and an example of why average cost is not really useful for assessing performance.

9. Now that there are 100% RRSP eligible foreign content funds, I should go 100% foreign.
While it is possible to be 100% foreign, that would not provide true diversification. As important as it is to invest in world markets, the Canadian markets cannot be discounted. If you hadn't invested in Canadian based equity funds last year you could have missed out on some significant growth opportunities. It's best to take advantage of all investment opportunities, which reduces risk and enhances returns.

10. Jump Ship when a Manager Leaves
While it is important to keep track of who is managing you funds, a change in management can be a positive event for a fund. We monitor fund manager changes, and will advise you if we think that a manager's departure will negatively affect performance. Often, a manager is actually replaced after some underperformance, leading to opportunity for enhanced returns under new management.

And one more fund myth for you at no charge, the ***BONUS MYTH***

11. "No-load" funds are better because they are free.
We couldn't keep it down to ten!

While no-load funds do not have fees to enter or exit the funds, no-load funds still have annual management fees although you don't see them. There is a total management expense ratio, which includes all costs of running the fund. MERs may be slightly lower on the Bank no load funds we offer from TD, Royal and Scotia, however, it is still most important to look at your net returns after management fees. Our top ten funds listed inside would only contain low MER funds if cost was the only issue. For a long term buy and hold investor, investment performance after fees is still the most important consideration.

Bear Market Commentary

As in September 1998, we are now again into a full bear market correction. As we did then, we are also now recommending a buy and hold, steady as she goes approach. Hopefully the following 6 and 12-month post bear market recovery statistics will help show that this could be a great buying opportunity, and is certainly not a time to sell.

TSE 300 Index

Start Date	Duration	Magnitude	End Date	Subsequent Returns 6 Months	1 Year
1-Feb-74	9 Months	-32%	1-Nov-74	21%	10%
17-Jul-81	11.7 Months	-43%	8-Jul-82	53%	84%
14-Aug-87	2.5 Months	-29%	28-Oct-87	18%	20%
6-Oct-89	12.3 Months	-25%	16-Oct-90	18%	15%
17-Apr-98	5.6 Months	-29%	5-Oct-98	26%	31%
1-Sep-00	6.4 Months	-31%	TBA	TBA	TBA
Average	**8.2 Months**	**-31.60%**		**27.10%**	**31.80%**

* Source: Wall Street Journal, Scotia Capital

Fund News

CI Group of Funds has announced their intention to cap their CI Signature Dividend Income Fund to new purchases. As an alternative, CI has advised that they are offering their Signature Dividend Fund as a fund for clients 'looking for low volatility and tax advantage yield'. It will be run by the same managers, Eric Bushell and Ben Cheng, using the same investment strategy this fund is essentially "Dividend Income II".

C.I. Group of Funds has also changed managers on a few of their funds such as C.I. Canadian Growth, C.I. Canadian Balanced. The former manager of these funds J. Zechner and Associates has been replaced by their in-house Signature Funds group.

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