Common Portfolio Pitfalls

And How to Avoid Them

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360° THINKING

1 Not Fully Knowing What You Own

- Problem
  - May be over- or underexposed in a key area
  - Unknowingly taking on too much risk

1 Not Fully Knowing What You Own

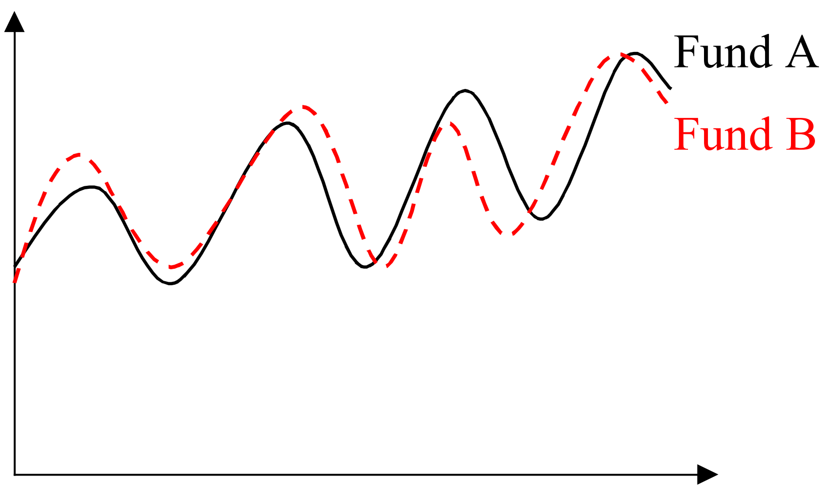
Fund	Holdings
Spectrum Canadian Stock Fund	Growth-oriented
Mackenzie Universal Canadian Growth Fund	Growth-oriented
AGF Canadian Stock Fund	Growth-oriented

- Solution
  - Understand what's in your portfolio
  - Review information about each fund's holdings

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. An RRSP Fund tracks the performance of its corresponding fund primarily by using derivatives and its performance is expected to be lower than the corresponding fund.

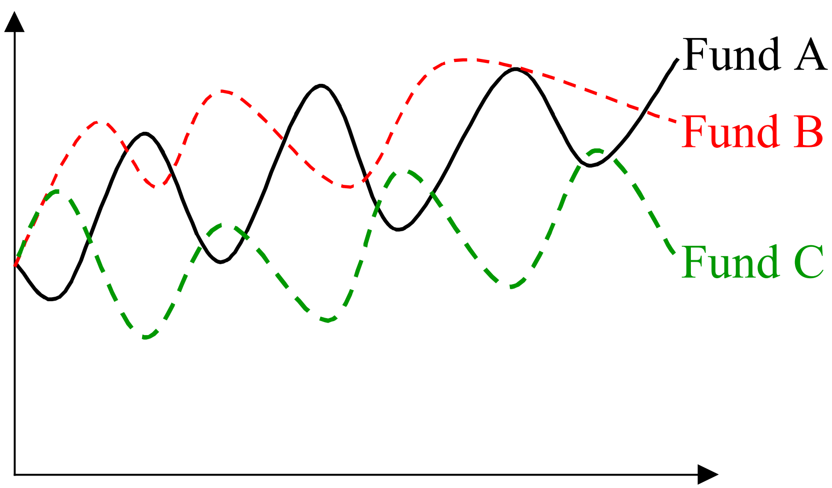
2 Holding Too Many Highly Correlated Funds

- Problem
  - May result in volatile returns



2 Holding Too Many Highly Correlated Funds

- Solution
  - Include funds that have low or negative correlation



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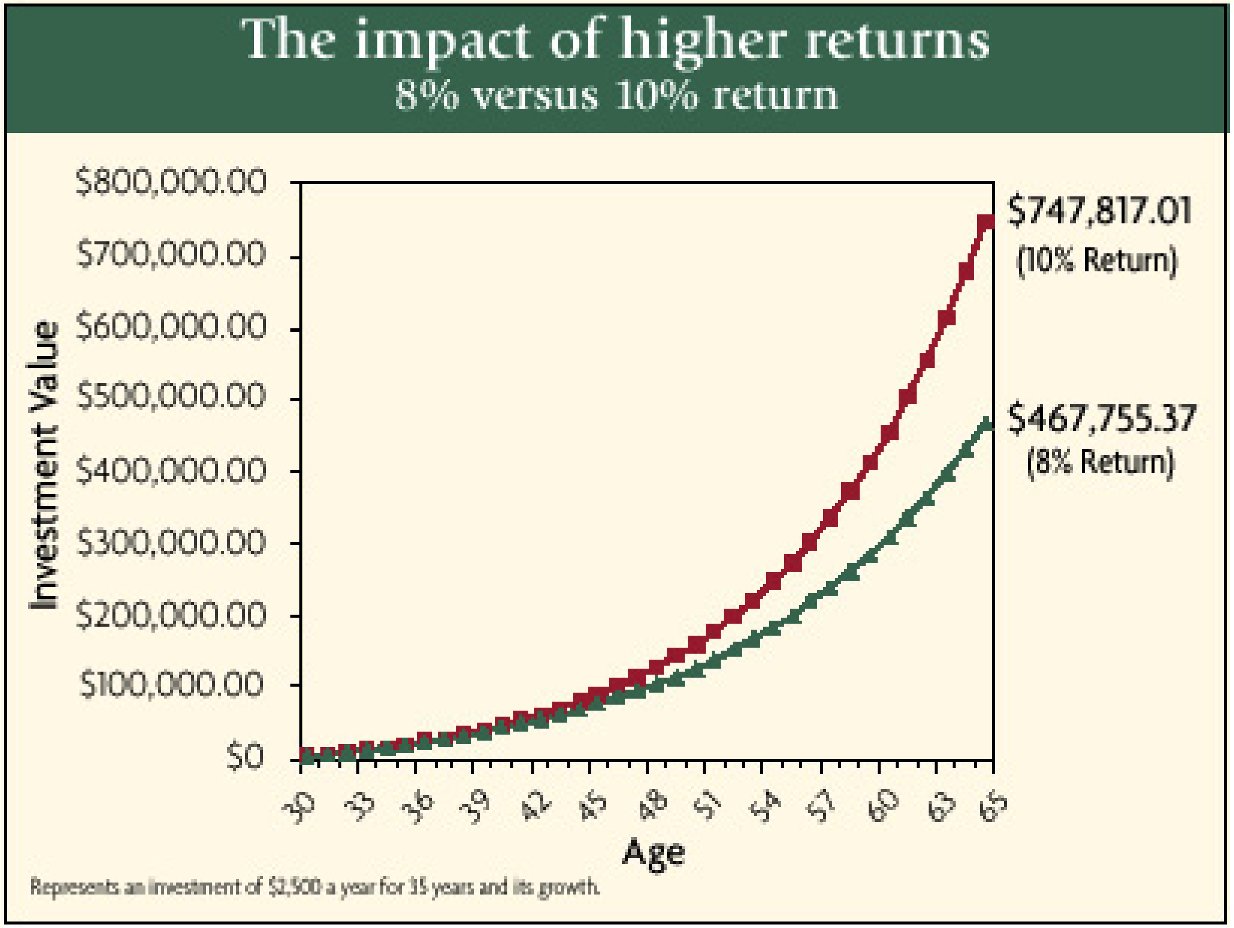
3 Misunderstanding Risk

- Problem
  - Investors emphasize short-term risk of losing money
  - Not having enough money to live on during retirement
- Solution
  - Create and maintain a well diversified equity portfolio
  - Understand that volatility can offer higher returns

3 Misunderstanding Risk



The rates of return above are used only to illustrate the effects of the compounded growth rates and are not intended to reflect future values or returns on investments

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4 Lack of Diversification

- Problem
  - High-risk investment strategy
- Solution
  - Diversify across asset classes, management styles, sectors, and geographic regions

4 Lack of Diversification

2001	2000	1999	1998	1997
Bonds **8.1%**	Bonds **10.3%**	Canadian Equities **31.7%**	U.S. Equities **37.6%**	U.S. Equities **39.2%**
Cash **4.7%**	Canadian Equities **7.4%**	Canadian Small Cap stocks **20.3%**	International Equities **28.4%**	Canadian Equities **15.0%**
Canadian Small Cap Stocks **3.4%**	Canadian Small Cap Stocks **7.3%**	International Equities **19.8%**	Bonds **9.2%**	Bonds **9.7%**
U.S. Equities **-6.5%**	Cash **5.5%**	U.S. Equities **14.2%**	Cash **4.7%**	Canadian Small Cap Stocks **7.0%**
Canadian Equities **-12.6%**	U.S. Equities **-5.7%**	Cash **4.7%**	Canadian Equities **-1.6%**	International Equities **6.2%**
International Equities **-16.6%**	International Equities **-10.9%**	Bonds **-1.2%**	Canadian Small Cap Stocks **-17.9%**	Cash **3.2%**

In the preceding chart, Canadian Equities are represented by the returns of the TSE 300 Index; U.S. Equities by the returns of the S&P 500 Index; Canadian Small-Cap Stocks by the returns of the Nesbitt Burns Small-Cap Weighted Index; International Equities by the returns of the MSCI EAFE Index; Bonds by the returns of the SCMU Index; and Cash by the returns of the 91-day T-Bill Index. Returns are calculated at year-end. Source: Spectrum Investments.

5 Avoiding Foreign Investments

- Problem
  - Undermine your portfolio returns
  - Take on higher risk
- Solution
  - Increase foreign content

5 Avoiding Foreign Investments

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6 Failing to Rebalance

- Problem
  - Portfolio will stray from initial asset allocation
  - Changes the level of risk from original target

6 Failing to Rebalance

- Barbara's asset allocation

	Income	Equity
Original Targets	30%	70%
One Year Later	20%	80%

- Solution
  – Rebalance on a semi-annual or annual basis

7 Redeeming a Poorly Performing Fund Too Hastily

- Problem
  - May miss out on subsequent upswing
- Solution
  - Be willing to wait out a poor performer
  - Evaluate the fund’s performance fairly

8 Failing to Save Regularly (or Enough)

- Problem
  - Insufficient funds to support retirement
  - Forego valuable tax benefits
- Solution
  - Maximize your RRSP contribution room each year
  - Have a clear picture of how much you need to retire
  - Set up a regular savings plan

8 Failing to Save Regularly (or Enough)

How much do you need for 25 years of retirement?

Withdrawals for 25 years at retirement in today's dollars	Nestegg Required*	
Annual / Monthly	Retire Today	Retire in 2030 (3% inflation)
$36,000 / $3,000	$385,000	$1,046,000
$60,000 / $5,000	$641,000	$1,744,000

*Assumes nestegg is earning 8% annually in a tax-deferred plan.

Source: Spectrum Investments

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8 Failing to Save Regularly (or Enough)

How do you get there?

Your goal	Annual RRSP Contribution for 30 years*
$500,000	$2,750
$750,000	$4,125
$1 million	$5,500
$1.5 million	$8,250

*earning 10% annually
Source: Spectrum Investments

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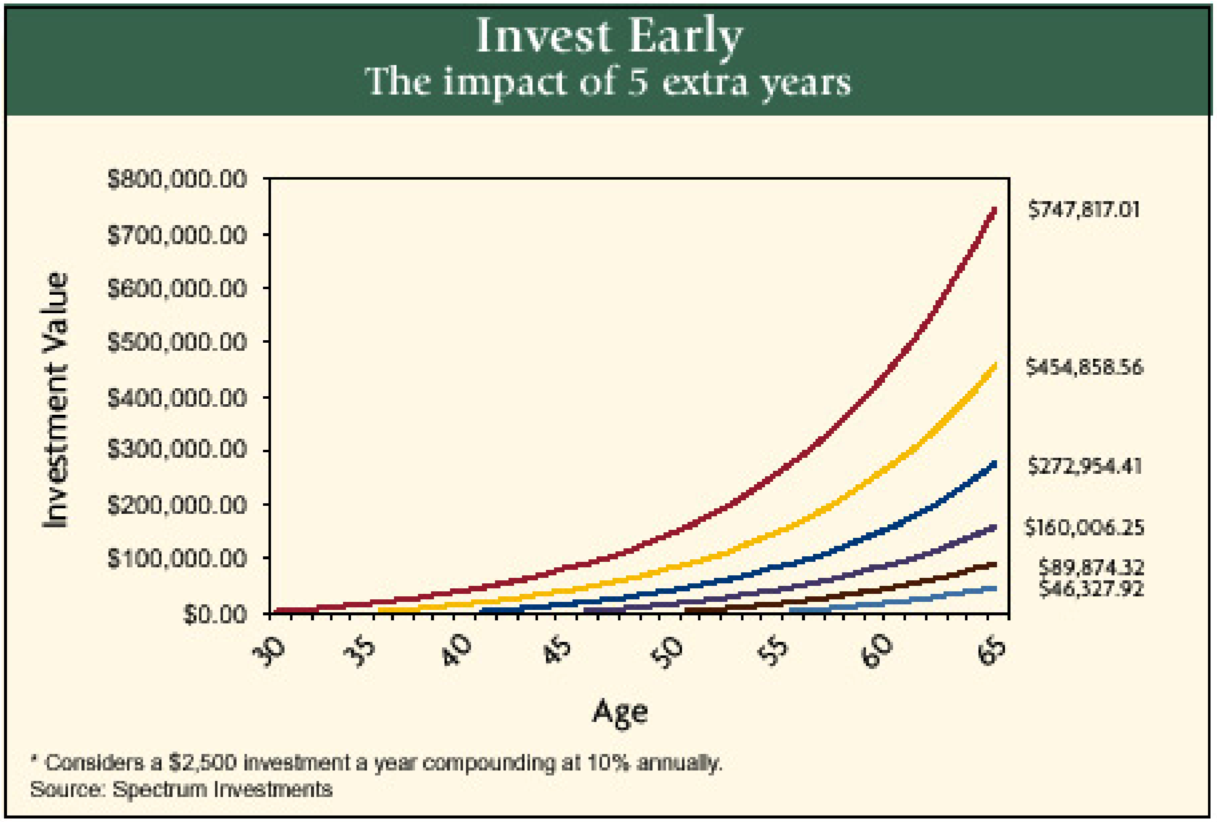
9 Not Investing Early Enough

- Problem
  - Not receiving the benefits of compounding



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9 Not Investing Early Enough

- Solution
  - –Invest Early!

10 Having Assets with Several Institutions or Advisors

- Problem
  - Difficult to put a sound investment strategy in place
  - Result is often an inefficient, higher-risk portfolio
- Solution
  - Consider consolidating your investments
  - Disclose additional investments with each advisor

Conclusion

- Avoid common pitfalls
- Focus on your goals
- Consult with your financial advisor to help you accomplish your goals