



CANADIAN INVESTORS' COURSE

Session 10: 'Packaged' Investment Product Commentary



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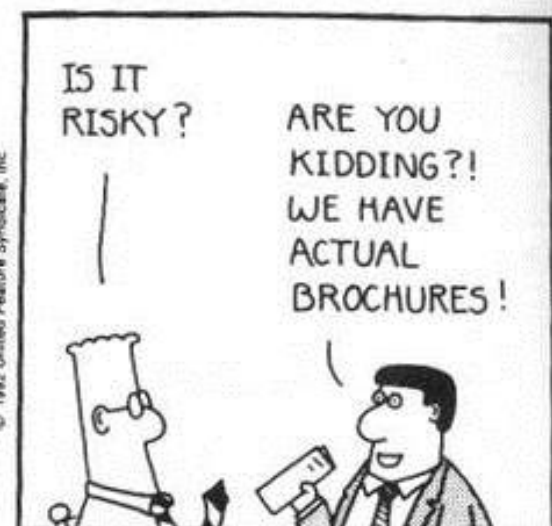
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Session 10 – ‘Packaged’ Investment Product – Commentary



Fund Humour





Why do many money managers say that Index ETFs outperform or do as well as mutual funds?

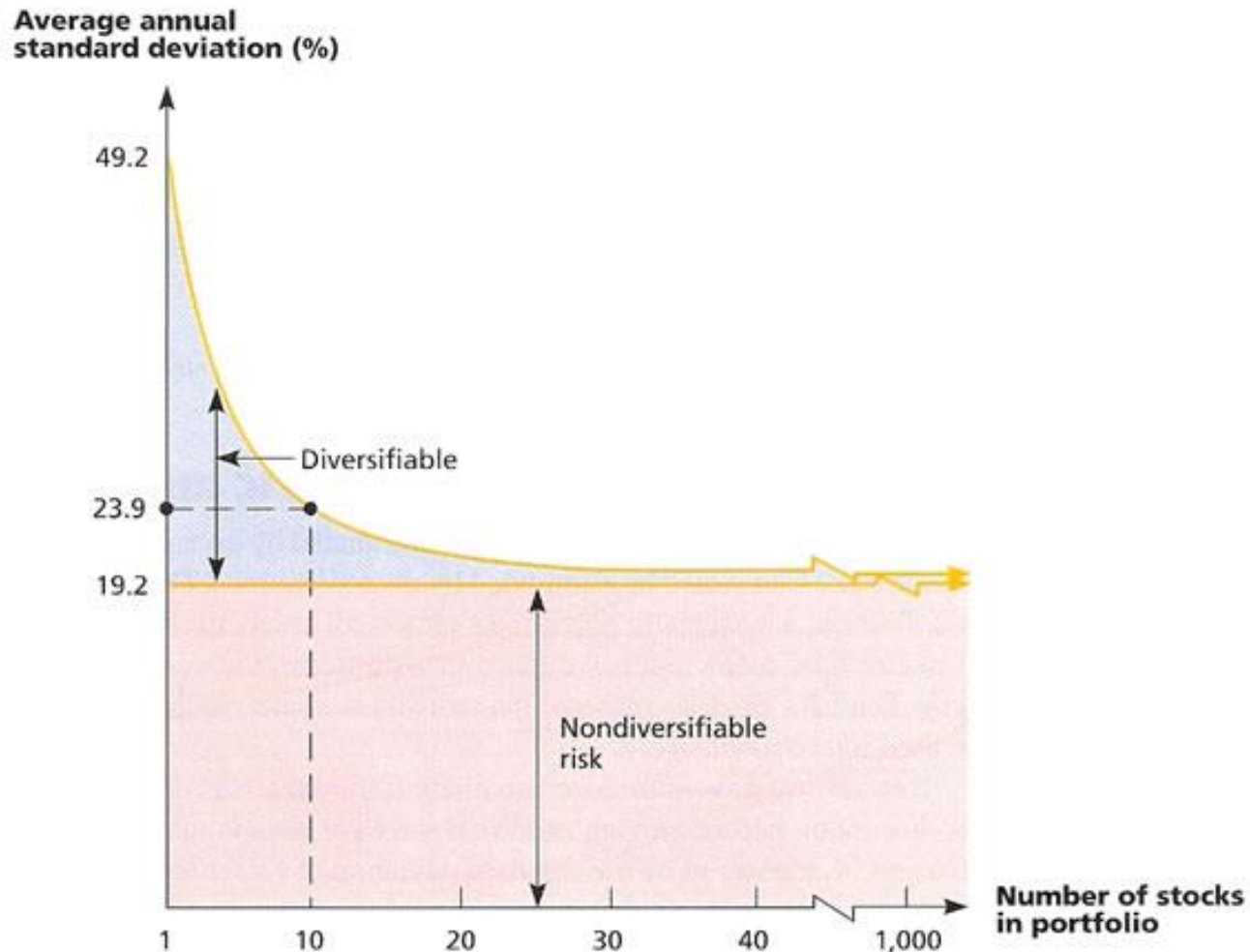
“Ninety-five percent of the benefits of diversification are captured with a 30-stock portfolio.” This is a common belief held by virtually all investment professionals. It’s based on research conducted by professors Lawrence Fisher and James H. Lorie (F&L) on NYSE-traded stocks during 1926-1965.



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How many Holdings should a Fund have?

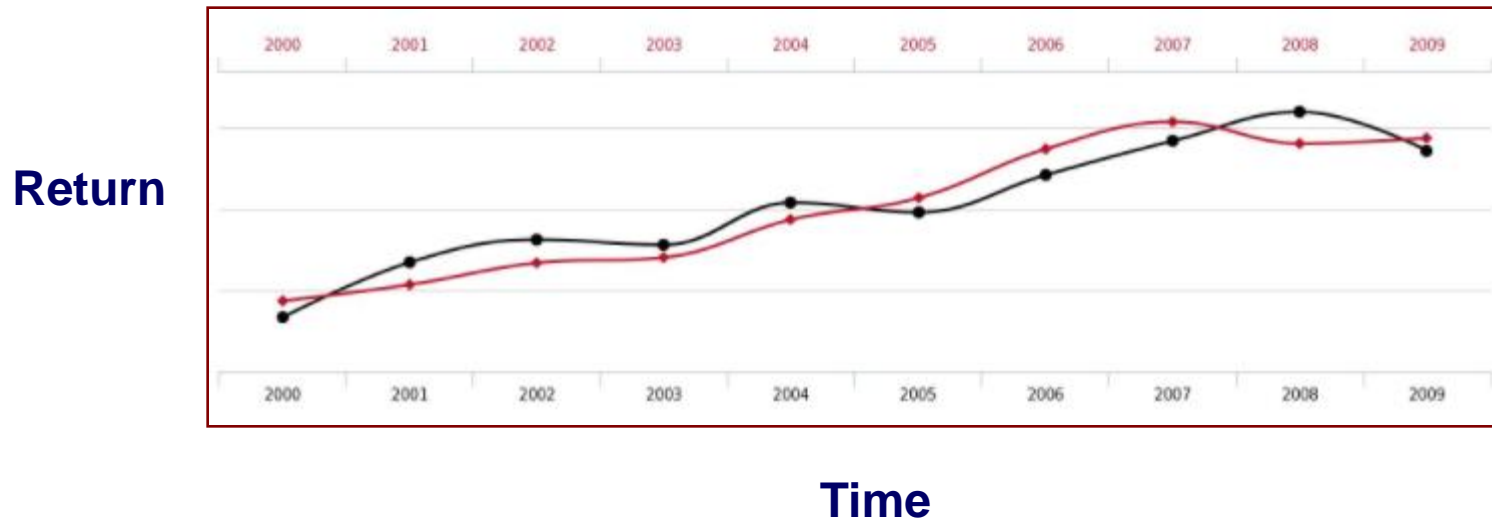




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Correlation of Mutual Funds



Two mutual funds that move Up & Down with each other are said to be correlated. If the mutual funds don't 'move together', they are said to be non-correlated.



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Ways to Diversify

1. By Asset Type
2. By Manager's Style
3. By Capitalization
 - a) Large Cap Funds
 - b) Small Cap Funds
4. By Sector
5. By Geography



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Examples of Diversified Portfolios

Example 1

International Equity fund
+ Canadian Mortgage Fund

Example 2

Equity Fund
+ Fixed Income Fund



Mutual Fund Selection

- High volatility does not necessarily equate to higher returns
- Screen for higher returns at lower volatility
- Screen for lower standard deviation
- Practice Asset Allocation:
 - Equity
 - Fixed Income
 - Cash and cash equivalents
 - Geographical
 - Sector



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Where is the Money?

• RBC Premium Money Market	\$12.4 billion
• RBC Money Market T-bill	\$3.5 billion
• RBC Bond Fund	\$4.5 billion
• RBC Monthly Income Fund	\$6.8 billion
• RBC US\$ Monthly Income	\$62 million
• RBC Global Bond	\$1.2 billion
• RBC High Yield	\$200 million
• RBC Cdn. Dividend Fund	\$9.5 billion
• RBC Cdn. Equity Fund	<u>\$4.4 billion</u>
Total	\$42.56 billion
• RBC Life Science & Health	\$92 million
• RBC Global Health	\$8 million
• RBC Global Resources	\$220 million
• RBC Global Technology	\$13 million
• RBC Global Energy	\$320 million
• RBC Global Precious Metals	<u>\$700 million</u>
all others	\$1.35 billion



Is a Balanced Fund a Good Investment?

Canadians love 'Balanced' funds ... a good idea?

- Typical Balanced Fund mandate: 60% stocks and 40% fixed income
- How much could I earn?

Balanced Fund	Assumed Return	Proportional Return
60% stocks	7%	4.2%
40% bonds	2.0%	0.8%
	Total	5.0%

Q. IS THIS A SATISFACTORY RETURN?



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Q. Is a Balanced Fund a Good Investment?

WHAT ABOUT THE MER ...???

$5.0\% - 2.25\% = 2.75\%$ net return
(with equity RISK!)

MER robbed approximately 45% of return!

**KNOW WHAT A FUND IS MADE UP OF, AND
ASK FOR THE INVESTMENT GUIDELINES**



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