KEEP IN MIND THAT THE OBJECTIVE IS TO INVEST IN TWO OR MORE MUTUAL FUNDS THAT PERFORM VERY DIFFERENTLY FROM EACH OTHER DURING VARIOUS TIME PERIODS

They're called Exchange Traded Funds (ETFs). They resemble index mutual funds, but they trade like stocks on the Toronto Stock Exchange, so you can buy and sell them in the same way as you buy and sell common stock. ETFs are also liquid, tax efficient and cheap.

Despite the advantages of index funds and ETFs, most advisors still direct their clients into a diversified portfolio of actively managed mutual funds. These mutual funds are classified under such headings as large-cap, small-cap, global, balanced and growth. "The key is the diversification achieved through asset allocation," says mutual fund expert Wilfred Vos, author of an excellent series of mutual-fund guidebooks called The Best of the Best. "You don't need a sophisticated computer program. Simply keep in mind that the objective is to invest in two or more mutual funds that perform very differently from each other during various time periods."

As Vos explains, the performance of an investor's portfolio depends more on the mix of investments than on the individual securities over the long term. "It's more important, for example, to invest the right amount of your portfolio in U.S. equities than to invest in the best U.S. mutual fund over the long term," he says. "Getting the right asset mix will add more value for investors than selecting the best mutual funds. In fact, when two portfolios perform differently, the difference is usually attributable to the mix of assets held in each one."

Vos identifies three important steps to follow in achieving investment goals:

- First, develop an investment plan.
- Second, diversify your investment portfolio.
- Third, take the necessary time to allow your plan to work.

"More often than not, investors who jump from one fast-rising investment to another meet with disappointment," he says.

The key to any investment plan is not selecting the particular investment that's right for your personal needs but determining which investments in combination can help you to achieve your investment objectives. "In other words," says Vos, "the key is diversification."

PROTECTION FOR INVESTORS

Investors in Canadian mutual funds can sleep at night without worrying about losing their money to fraud, negligence or outright theft. That's because of the mechanisms, checks and balances in place designed to protect investors.

The first line of protection begins with the nature of a mutual fund itself. In the course of Canadian history, no investor has ever lost money as a result of a mutual fund company going out of business. That's because investors own a portion of all the fund's underlying investments, whether they're blue-chip stocks or junior oil companies.

A mutual fund is not guaranteed, but an investor loses all his money only if all the companies in which the fund has invested go out of business. The chances of that happening are slim indeed.

Nevertheless, mutual fund companies in Canada must register with their provincial securities commissions, which exist to ensure monitor investment industry practices.

"The commission's mandate is to foster fair and efficient capital markets and investor confidence in those markets and to provide protection to investors from unfair, improper or fraudulent practices," says a report from the Ontario Securities Commission (OSC) last December.

Mutual fund companies also belong to the Mutual Fund Dealers Association of Canada (MFDA). The MFDA is the self-regulatory organization for mutual fund dealers in all provinces and territories in Canada other than Quebec. It regulates the operations, standards of practice and business conduct of its members and their representatives to protect investors. (For more information, visit www.mfda.ca.)

In addition, the Ombudsman for Banking Services and Investments (OBSI) provides an independent and impartial dispute-resolution service free of charge to clients of member firms (www.obsi.ca).

Finally, the Centre for the Financial Services OmbudsNetwork (CFSON) provides consumers of mutual funds and other banking and financial services with single-window access to a network of industry-level ombudsmen. The CFSON's mandate also includes the development and promotion of industry standards and best practices relating to financial consumer complaint handling www.cfson-crcsf.ca. ■

GOOD WORK RECOGNIZED

To recognize the performance of outstanding mutual funds, investment products, their managers and firms in Canada, the 11th Annual Canadian Investment Awards and Gala will be held Nov. 30 in Toronto.

"It is the only time each year in Canada that the industry, investors and advisors come together to select top performers," says Sabine Steinbrecher, founder and president of Vorg Inc. and organizer of the CIA Gala. "The program recognizes leading investment products and firms who demonstrate an enduring commitment to excellence within the Canadian financial services industry including long-term performance, management, education, service and philanthropy."

The CIA Gala attracts approximately 600 guests annually and brings to an end the year-long work of more than 30 firms, 40 senior analysts and expert jury members who research and rank candidates in 50 categories. The awards night is supported by over 20 principal sponsors, many of whom have participated in the event since its inception. For more information, visit www.investmentawards.com