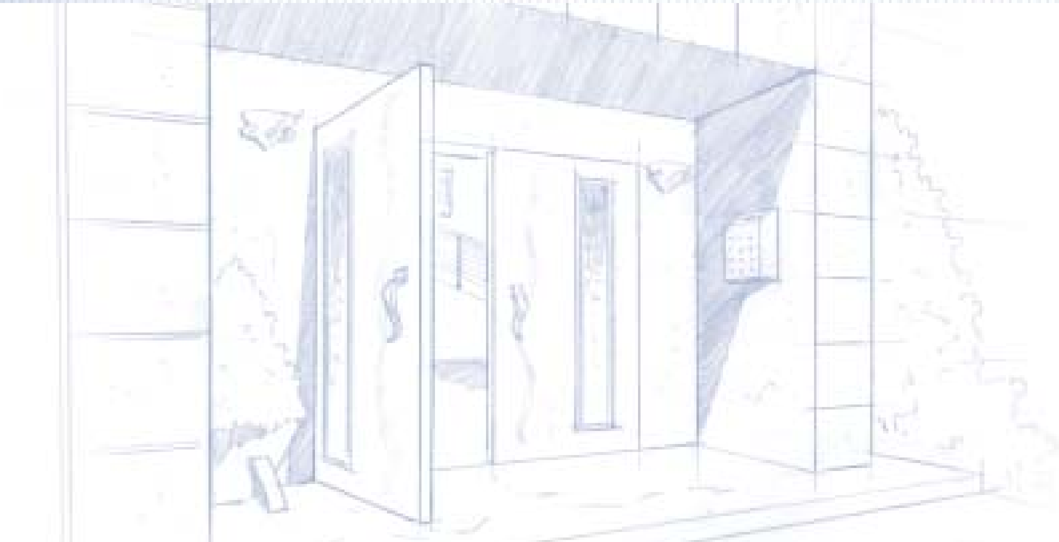
Fees and Mutual Fund Investing: The Facts



Insights into the Value of Advice

Mackenzie
MUTUAL FUNDS

Dear investor,

In 1932, Canadians were introduced to a new investment tool called a mutual fund. Suddenly, investors of all types had a convenient, secure and affordable way to diversify their investments across a broad range of securities, sectors, and markets, all managed by an experienced, professional financial expert.

They never looked back.

Today, half of all adult Canadians invest in mutual funds, and they do so for the very same reasons they did seventy years ago: convenience, security, affordability, diversification and expert management.

Recently, there's been some attention focused on the fees investors pay to mutual fund companies and financial advisors.

This booklet is designed to give you the straight facts, in simple language, about how mutual fund fees work. We'll cover the different types of fees, who gets them, and why. Most importantly, we'll explain what you get for the fees you pay. It's your money, and you deserve to know.

I hope you find this booklet useful, and invite you to discuss it with your financial advisor as you move toward your financial goals. I also invite you to visit our website, www.mackenziefinancial.com for more information.

David Feather
President
Mackenzie Financial Services Inc.

PS: Be sure to check out the enclosed insert, "How does Mackenzie stack up?" for a review of our largest funds' performance over the long term. In partnership with your advisor, we aim to continue to choose wisely on your behalf.

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Building an investment portfolio is like building a home

In many ways, building an investment portfolio is a lot like building a home. If designed skillfully, both provide comfort, protection, security and eventually, a solid return on investment.

And just as the ongoing care, upkeep and improvements to your home over time help grow its value, the ongoing improvements and additions to your portfolio help you realize your financial and lifestyle goals and pave the way towards a long and happy retirement.

Some people are very comfortable managing their investments. They have identified their financial goals and have the time, knowledge and motivation to research, construct and track their investment portfolios.

However, if you're like most Canadians, you don't have the time or the expertise to navigate through a growing range of investment options, or make the decisions without help. In this case, seeking the help of a financial professional might prove to be the most important investment decision you'll ever make.

In fact, research shows that the majority of people who work with financial advisors express satisfaction with the quality of service and advice they receive[1].

To return to the example of building a house for a moment, just as you would expect to pay fees to your builders and architects for their expertise, so too do you pay fees with the people that manage, and advise you on, mutual funds.

And just as you would expect to know what you get for fees paid to a builder, you should also understand the fees associated with mutual funds.

In the next two sections of this booklet, we'll focus on the two types of mutual fund fees you typically pay.

First, we'll cover fees you pay to mutual fund companies that create and manage funds.

Second, we'll cover the fees you pay to your investment advisor who works with you to develop a financial plan, and buys and sells funds for you.

Finally, and most importantly, we'll cover the benefits you receive for paying these fees, from your advisor and your mutual fund company.

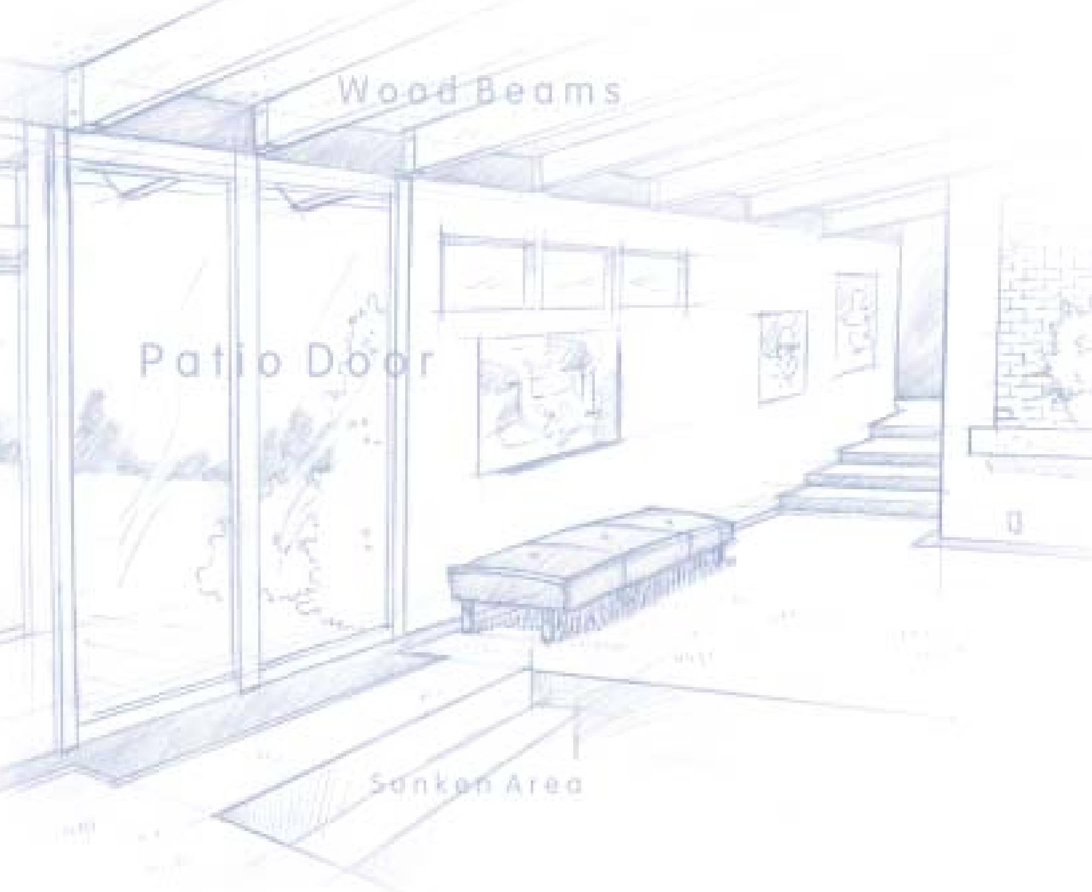
[1]From the Financial Planners Standards Council Consumer Survey, Sept. 2003

Understanding fees paid to your mutual fund company

(otherwise known as MERs, or "management expense ratios")

What is an MER (management expense ratio)?

When you invest in a mutual fund, there is a built-in fee that covers a variety of costs and services. The term most commonly used to describe this fee is *management expense ratio*, or MER.



What does an MER include?

A fund's MER is made up of three principal components:

1. A management fee. This covers the costs of paying the mutual fund company who decides how, and in which securities, the fund will invest. In many cases, it also covers compensation to the investment dealer and the financial advisor who sell you the fund.

2. Operating expenses. This covers the operating expenses incurred by the funds, such as record keeping and reporting to investors, administration and legal costs and a custodian that holds the fund assets and protects investor interests. (See "A Closer Look at Operating Expenses" on page 9 for more information).

3. Taxes. GST is paid on the management fee, and certain operating costs within the fund and is therefore included in the MER.

While MERs vary with each type of fund, you can always find out what they are in the fund's prospectus, or ask your financial advisor.

Why do MERs vary from fund to fund?

Generally, MERs are lower for bond and money market funds and higher for equity funds. The primary reason for this is that compared to bond and money market funds, equity funds require more active involvement by their fund managers, who continuously research, monitor, and consider buying or selling securities for the fund to maximize its financial return for investors.

Foreign equity funds typically require even further involvement than Canadian funds. In this case, fund managers are often required to travel to other countries to visit the companies that they are considering investing in. Sometimes, it may be necessary for a fund company to open foreign offices or hire outside local expertise (also known as sub advisors) to assist with research and security selection in other countries.

How do they vary?

Type of fund	Average MER
Canadian money market funds	0.71%
Canadian bond funds	1.45%
Canadian balanced funds	2.12%
Canadian equity funds	2.44%
Global equity funds	2.51%

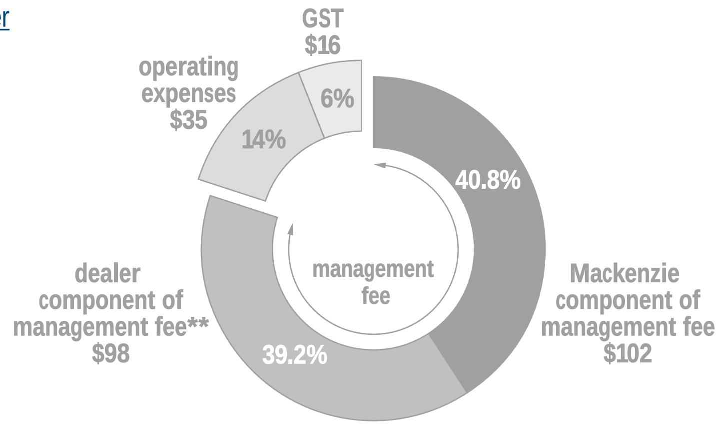
Source: Globe HySales. Average MERs shown are simple averages of the largest 25 funds by assets in each category at Dec. 31, 2003.

How are MERs calculated and stated?

An MER is expressed as a percentage of the fund's total assets. For example, if you had invested $10,000 in Mackenzie Ivy Canadian Fund on July 1st, 2002[2], a fund with a 2.51% MER, the fund would have paid $251 in management fees and operating fees for the year.

The fund returns you see listed in the newspaper or on your statements are what you get after the fund has paid the MER. So, for example, if your statement says that a fund has delivered a return of 10% over a period of time, and that fund has an MER of 2.5%, the total return before paying the MER was actually 12.5%.

The following chart illustrates how the fees you pay are calculated, and put to work.



The 2% **management fee** represents 80% of the total 2.51% MER. However, out of management fee revenue, the advisor's dealer firm is paid compensation

**49% of Mackenzie management fees are paid out to dealers in some form of compensation: trailers, commissions, co-op marketing
This information is based on figures contained in calendar-year 2003 Mackenzie prospectuses

[2]Please see insert in pocket for full performance data of Mackenzie Ivy Canadian Fund

A Closer Look at Operating Expenses

The operating expenses of a mutual fund vary from fund to fund and are included in the management expense ratio (MER). Here are the kinds of expenses you're paying for, and what you get:

Transfer agency

Each time you and your financial advisor decide to buy or sell fund units, a transfer agent processes the transactions and maintains records of those transactions. The transfer agent also processes and pays dividends and distributions to investors on behalf of the mutual fund company. Transfer agents specialize in these activities, leaving fund companies and financial advisors free to focus on maximizing your returns.

Custodian services

In Canada, securities law requires that an independent custodian hold a fund's assets, maintaining them separately to protect investor assets.

This virtually ensures that the entire current market value of your investment is protected against business failure. Thus, if any fund company were to fail in Canada, the current value of your holdings with that company would essentially be safe in the hands of the independent custodian.

Administration

Administration fees generally cover the time and costs incurred by employees, and external service providers, who work on the funds, including fund administration, daily valuation and accounting, book keeping, legal and finance.

Production, printing and mailing costs

Producing, printing and mailing account statements, prospectuses, fund financial statements and other important information to investors is an expensive but essential undertaking. It's also required by law. Mackenzie is constantly exploring new technologies to help minimize these costs, such as eDelivery through AccountAccess at mackenziefinancial.com.

A final thought on MERs

Get all the facts

Many discussions about MERs don’t always distinguish between the fund company’s management fee and the fund’s expenses, such as audit fees, taxes, the cost of communications to investors and other critical activities that are part of managing a mutual fund. This can create the impression that the MER is straight profit for the fund company, which is not the case.

Speak with your financial advisor when you read commentaries in the media relating to mutual fund fees. With so many investment products available, even the most seasoned experts will agree that it is difficult to draw broad conclusions about fees.

Understanding fees paid to your financial advisor

How is your financial advisor paid?

To return again to the house analogy, just as you pay a contractor to coordinate, supervise and advise you on work being done to your home, your financial advisor receives a fee for providing the same type of services to your portfolio. This fee is generally included in the management expense ratio (MER) you pay to the mutual fund company.

This fee compensates the advisor for developing financial strategies that reflect your life goals and philosophy on risk and reward, the time involved in helping you choose the appropriate mutual fund or funds, tracking the progress of your investments and suggesting changes to your portfolio as your financial needs and the market changes.

Financial advisors are typically compensated for mutual fund investing in two[3] principle ways: commissions (known as *loads*) and service fees (or *trailers*). In the following section, we'll explain **loads** and **trailers**, and what you need to know about each.

[3]Note: Some financial advisors and investors prefer a fee-for-service arrangement, which can include a variety of services. If you are interested in exploring this, speak to your financial advisor.

Commissions (known as "loads")

What is a load?

A load is a one-time fee. Loads can be front-end (also known as sales charges) and back-end (also known as deferred sales charges or DSCs, or redemption fees).

Front-end loads (Sales charges)

If a mutual fund has a front-end load, you pay a fee that is usually taken from your total purchase amount. This fee generally ranges from 0% to 5% of the amount invested. You can negotiate this fee with your financial advisor based on the size of the purchase and the level of service you wish your advisor to provide.

Back-end loads (Deferred sales charges or DSC)

When you purchase a fund back-end, the mutual fund company pays your advisor's firm a fee on your behalf, typically 5% for an equity fund. The amount of this fee that you pay back to the mutual fund company depends on how long you stay invested in the fund. Since most mutual funds are managed to generate performance over the long term, you are encouraged by the back-end arrangement to stay invested for a set period of time (usually between five and seven years). If you sell your units before the end of that period, you pay a fee that typically declines each year that you stay invested. If you stay invested for the full schedule, no fee applies when you sell your units.

Front-end: how it works

Let's say you buy $1,000 worth of units front-end in a fund and agree on a fee of 2%. Your advisor's firm receives $20 (the advisor receives a pre-determined proportion of that amount) and $980 is deposited into the fund.

Back-end: how it works

If you purchase a fund with a back-end load, or deferred sales charge (DSC), your entire $1,000 investment is put to work immediately and your advisor's firm receives a fee from the mutual fund company of about $50, of which your advisor receives a pre-determined proportion.

Back-end Load Flexibility with Mackenzie Funds

Over the course of your life, there's a strong chance your investment goals and market conditions will change. That's why Mackenzie offers two valuable options for those who buy mutual funds with a back-end load arrangement.

Different funds, same schedule

If your investment goals change, you may switch your investment to another Mackenzie fund and maintain the existing schedule.

10% free option

To give you added flexibility, Mackenzie and most fund companies offer what is called a "10% free" option. This means that if you purchase your fund using a back-end arrangement, you can sell up to 10% of your units annually without incurring a sales charge. It's like gaining instant liquidity once each year for home repairs, a child's education or other planned or unforeseen needs. You may also move that money to new funds to help diversify your portfolio to meet your changing needs, or lock in profit.

Most Mackenzie equity funds carry a 5.5% fee for redemptions in the first year following purchase. This fee declines to zero after seven years.

The following is an example of redemption charges that apply to most equity funds offered by Mackenzie.

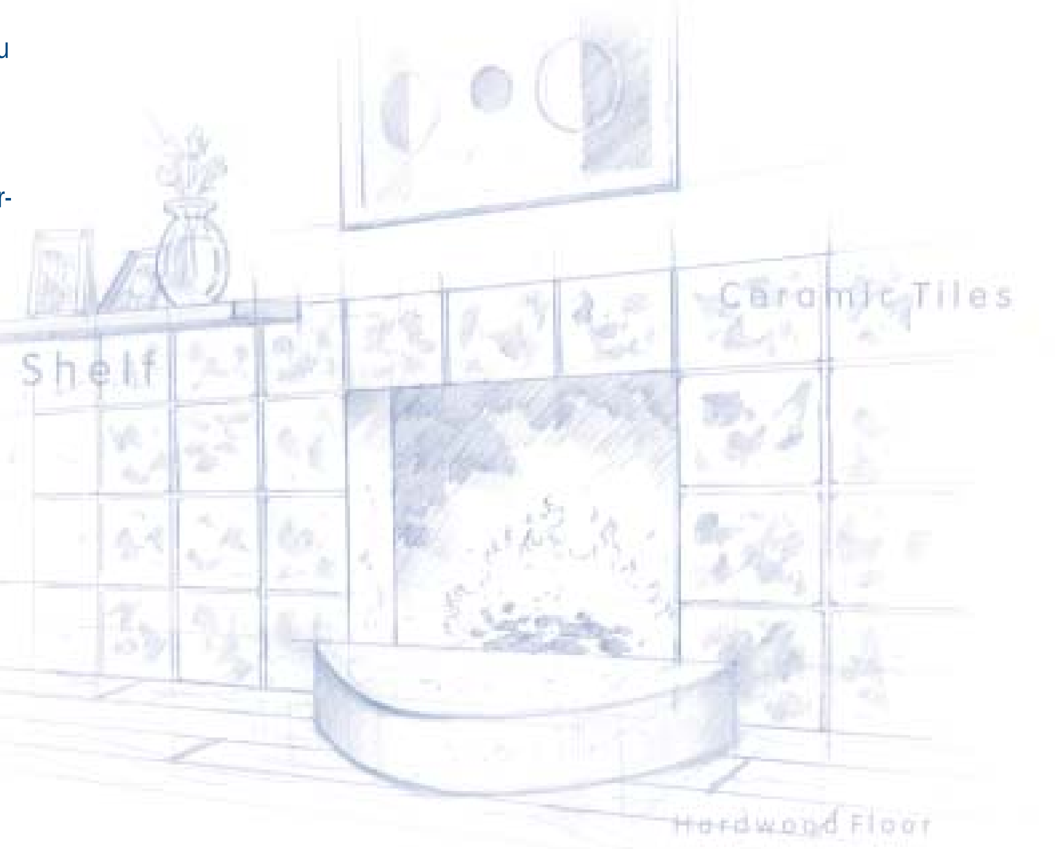
First year	5.5%
Second year	5.5%
Third year	4.5%
Fourth year	4.0%
Fifth year	3.5%
Sixth year	2.5%
Seventh year	1.5%
Thereafter	nil

No loads

Some mutual fund companies offer “no-load” funds, which do not require you to pay any fee. However, there is usually a trade-off to consider. No-load funds are not always supported with the investment advice you would receive from your financial advisor. This means that while you may save paying a sales commission, you don’t get the expert advice that can protect and maximize your investment in the long run. (See “What’s in it for you?” on Page 17 for more information)

How do I choose the right load?

Whether you purchase funds with front-end or back-end loads depends on the number of investment years that lie ahead of you (often described as your “investment horizon”) and the flexibility you desire. Talk to your financial advisor about your options.



Service Fees (known as "Trailers")

What is a Trailer?

Depending on the fund type, at the end of each month or quarter, your financial advisor also receives compensation from the service fees, often called "trailers," paid to his or her firm by the mutual fund company. The amount of this "trailing commission" varies, and details can be found in the fund's prospectus or from your financial advisor.

Why are Trailers paid?

The trailing commission compensates your advisor for providing you with ongoing advice about the mutual fund investment. Trailers generally range from 0.25% to 1% of your mutual fund portfolio and are paid as long as you remain invested in the fund. Trailers are not an additional fee; they are paid out of the overall management fee built into the cost of the fund.

Required reading: the mutual fund prospectus

The prospectus is a legal document that sets out the ground rules for investing in a mutual fund.

The prospectus includes a fund's investment objectives and associated fees and costs you will incur when you invest. Remember: different funds have different sales charges and other fees, and the prospectus will fully itemize those fees.

When you first purchase units in a mutual fund, you'll automatically receive a copy of a fund prospectus. You can also get one in advance from your financial advisor or by visiting the fund company's web site.

Having trouble understanding all the terminology in a prospectus? Don't worry, you're not alone – prospectuses are extremely comprehensive. But they are important, so make sure you discuss your questions with your advisor.

What’s in it for you?

The benefits of mutual funds are as numerous as the many different types of investors who use them. That’s why today, approximately 50% of all adult Canadians are building their portfolios on the strength of mutual funds.

In this section, we’ll summarize the benefits you receive from both mutual fund companies like Mackenzie and your financial advisor when you invest in funds.

What You Get From Your Mutual Fund Company

As explained back on page 6, a management fee paid to the mutual fund company is included in the management expense ratio (MER) you pay on the funds you buy. The proceeds of the management fee are used in several ways: to pay commissions to dealer firms and advisors, to run our business and to pay portfolio managers – in the case of Mackenzie funds, some of the best experts from around the globe.

Some of the main benefits to you are:

- **Access to investment opportunities around the world** that are researched, purchased for the fund and monitored by knowledgeable investment professionals within a well-regulated environment.
- **Proven investment management expertise** from world class professionals supported by a disciplined approach to investing.
- **Performance** potential as professional investment managers work on your behalf to beat their benchmark returns over the long term.
- **Cost efficiencies** that allow you to invest in a sophisticated range of domestic and foreign securities and markets easily and affordably. It would be extremely costly, time-consuming and in some cases, impossible for you to access a similar portfolio of investments on a stand-alone basis.
- **Flexibility** in offering relatively low initial or monthly purchase amount options, or both.
- **Liquidity** that allows you to readily redeem your shares at current prices – plus any fees and charges payable upon redemptions – at any time.
- **Technology** to provide you with timely, accurate reporting on your investments.
- **Educational information and tools** for both you and your financial advisor to help with investment knowledge and planning. For example, fund information and planning tools, including investment calculators, are available through www.mackenziefinancial.com

What You Get From Your Financial Advisor

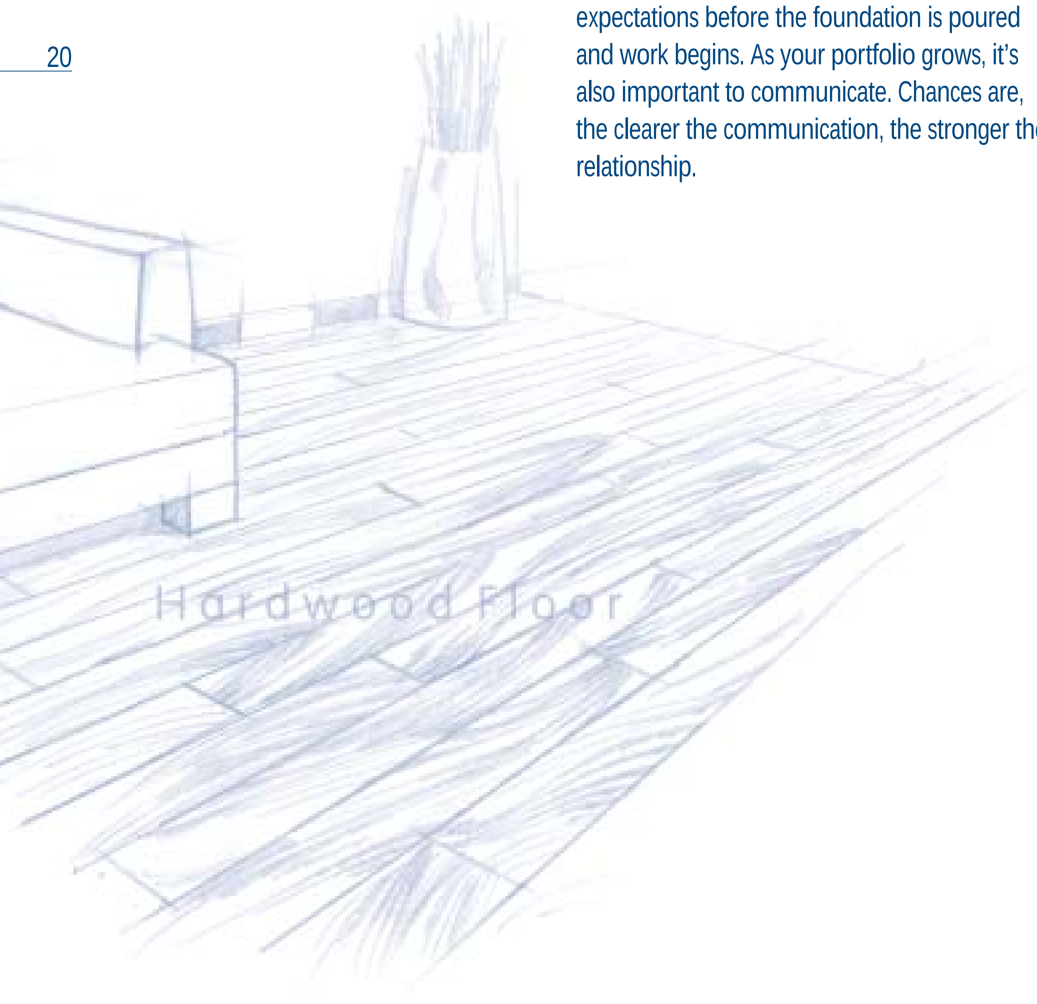
As any financial advisor will tell you, no two investors are alike. That's why advisors are carefully trained to expertly assess the unique needs of each investor and provide a strategic investment plan that's tailor-made for those needs.

Financial advice adds value in many ways:

- Investment discipline. Money is an emotional issue, and perhaps the single greatest benefit to using a financial advisor is their independent, impartial advice – free of family politics or an individual's market jitters, and firmly focused on the investor's financial goals, risk tolerance, and return.
- Consolidated information. Advisors consolidate massive amounts of financial information to help investors stick to the basics (e.g. diversification) and watch the details (e.g. avoiding overlap in fund holdings). Just as important, by listening to clients talk about their evolving financial situation, an investment advisor can help clients at various life stages and business cycles. An advisor is also in a position to recommend other financial services providers, such as estate and tax advisors.
- The value of time. An advisor enables busy career people to focus on their careers and families and saves them from having to devote time to becoming securities experts.
- Risk management. Advisors add value in many ways that do not show up in client portfolio statements. This boils down simply to the activity of preventing clients from taking on undue risk or pointing out a client's self-destructive investment habits. The flipside of controlling risk is ensuring that clients do take some risks so they are positioned to participate in good opportunities, particularly in equities.

Working with your advisor

If we go back to the house example, your financial advisor is the building contractor who will set the foundations of a sound investment strategy that will provide peace of mind for years to come. It is very important to state your expectations before the foundation is poured and work begins. As your portfolio grows, it's also important to communicate. Chances are, the clearer the communication, the stronger the relationship.



Remember as well that each advisor's level of education, experience and area of expertise varies. Take the time to understand the value your advisor adds to make sure it fits your unique needs.

In the section "Thoughts on successful investing", we show you how a financial advisor can help you stay focused on your investment strategy. This research shows that uninformed trading activity damages your investment returns and that investors with advisors consistently traded less.

Thoughts on successful investing

While the abilities and advice of your financial advisor and fund manager will have a direct impact on your success in reaching your financial goals, your personal resolve to stay the course and follow an investment strategy is also critical.

Here are some basic investing guidelines that will help you succeed over the long term:*

- Stick to a focused and disciplined financial plan
- Maintain a long-term view
- Resist the temptation to chase short-term performance
- Seek professional advice

*US Research conducted by FRC “Financial Research Corporation” in 2001 and presented by Ibbotson Associates appears in the following section to support these recommended guidelines.

Stick to a focused and disciplined financial plan

Uninformed trading activity damages your investment returns

Do you sometimes feel that you've missed out on superior returns? To make up for lost time, you may be tempted to try to generate quick gains through frequent trading and random use of market timing strategies. The negative effects of such strategies may not be clear immediately, but the long-term results could significantly damage your investment portfolio. The hypothetical example from the U.S. here illustrates the value of staying the course vs. sudden and frequent trading.

Hypothetical growth of $10,000

Note: This example is for illustrative purposes only and is not indicative of any investment. Actual monthly returns in each Morningstar investment category from January 1990 through December 1999 were used to calculate returns for one-, two-, and three-year holding periods. These returns were then totaled and averaged to produce an average annualized unweighted Morningstar category return for the respective holding period. This can be viewed as a proxy for results if an investor had bought and held the funds across the entire period. These figures were then weighted for the actual net flows that these funds attracted throughout the period and can be viewed as a proxy for the annualized return that the average investor actually received based on their trading decisions. Mutual funds are investments involving risk and are available by prospectus only. Investment return and principal value will fluctuate so that upon redemption your investment may be worth more or less than the original cost. An investor should read the prospectus carefully before investing. Past performance is no guarantee of future results.

Source: "Investors Behaving Badly," Financial Research Corporation, 2001. Ibbotson Associates, Inc. 2003. All right reserved. Used with permission.

Remember the power of compounding

Get time working for you. Through the power of compounding, even small amounts contribute towards reaching your financial goals.

Pay yourself first with pre-authorized chequing

Setting up a pre-authorized chequing plan (PAC) is like paying yourself a salary. This simple investment strategy lets you purchase units in mutual funds on a monthly, bi-monthly, quarterly, or semi-annual basis, in a pre-determined amount. These regular “pay cheques” can be as small as $50 per month and are easily arranged through your advisor.

Use dollar cost averaging

Another advantage of making monthly contributions is the opportunity to participate in dollar cost averaging. Simply stated, dollar cost averaging is the strategy of building your position in a mutual fund over time by investing a certain dollar amount regularly, regardless of market ups and downs.

By buying units in mutual funds in fixed dollar amounts at regular intervals, you can greatly reduce the effects of volatility. Thus, as prices of securities rise, fewer units are bought, and as prices fall, more units are bought. Using the dollar cost average method, you are less likely to purchase too much of a particular security at a time when its price is relatively high.

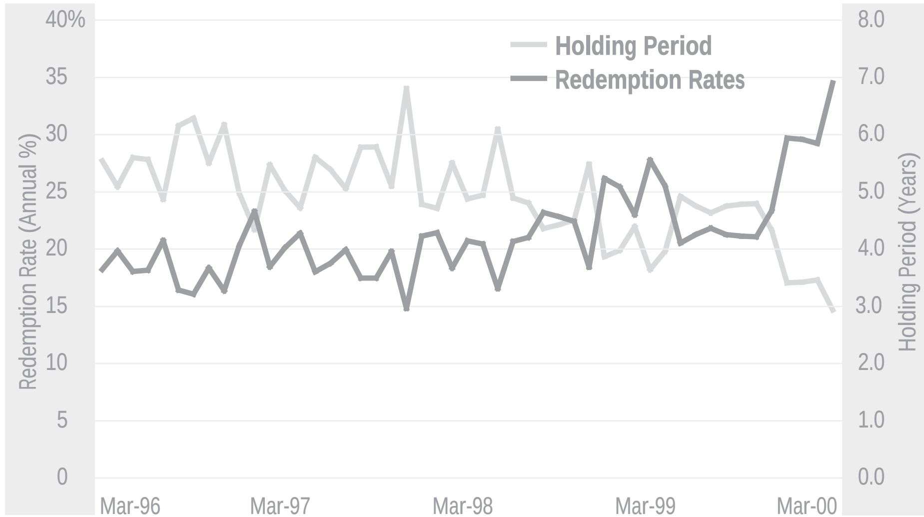
Maintain a long-term view

Chasing a hot market is dangerous

During the bull market of the 1990s, investors began to experience and expect high returns. Fear of missing good returns replaced fear of experiencing bad ones. Many investors who constructed their portfolios for long-term goals began to trade more often to try and join in on the market momentum.

Mutual fund redemption rates and holding periods in U.S. 1996-2000

As redemptions increased, holding periods declined



Note: This is for illustrative purposes only and is not indicative of any investment. Monthly redemption rates were calculated by dividing redemptions by starting assets for long-term mutual funds (excluding money market funds) and then annualizing the data. Aggregate fund industry data on redemptions and assets were compiled by Financial Research Corporation. Each redemption rate is translated into an implied holding period. For instance, a 100% redemption rate translates to a 1-year implied holding period, a 50% rate implies a 2-year holding period, and so on. Mutual funds are investments involving risk and are available by prospectus only. Investment return and principal value will fluctuate so that upon redemption your investment may be worth more or less than the original cost. An investor should read the prospectus carefully before investing. Past performance is no guarantee of future results.

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Long-term planning requires short-term discipline

During the late 1990s, many investors abandoned their financial plans in hopes of making a quick buck in the overheated markets. This led to sudden changes in portfolio holdings and high redemption rates among mutual funds. For example, the average holding period for long-term mutual funds dropped from 5.5 years in 1996 to 2.9 years in 2000, neither of which are reasonably considered long-term.

While investors may have thought they were onto something big, even if they got lucky, this kind of non-disciplined approach has the potential to markedly reduce returns due to increased tax liability and transaction costs. Even though many investors believe that they are adhering to a buy-and-hold philosophy, it is clear that they are falling short by a wide margin*. This trend left many investors unable to deal with the bear market that soon followed in the early 2000s.

*Although there is no comparable Canadian data on holding periods, previous studies on the impact of financial advice and the increased use of advisors in Canada suggest that the experience in Canada has been somewhat better than that in the US.

Resist the temptation to chase short-term performance

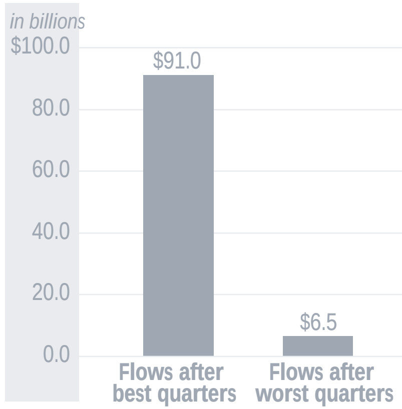
If there were only one basic rule for successful investing, it would be to "buy low and sell high". While making sense to most investors, few people actually practice this simple adage.

A 2001 study prepared by Financial Research Corporation showed that between 1990 and 1999, mutual funds attracted the most inflows at the conclusion of the best performing quarters. Investors were, in essence, chasing returns.

Returns shouldn't be the only factor considered

Keep a clear head when evaluating potential mutual fund investments. Last year's returns shouldn't be your only criterion. Other things to consider include fund type, risk level, manager experience, and compatibility with your asset allocation. While this might seem like a blur of factors to evaluate, a qualified financial advisor can help you sort through the information available and make informed decisions.

Fund flows after best and worst quarters 1990–1999



Investors tend to invest in funds after they have appreciated

Note: This is for illustrative purposes only and is not indicative of any investment. Quarterly mutual fund returns and subsequent net sales from 1990-1999 were compiled. The quarterly returns were sorted and the four periods with the highest and lowest returns were extracted. Finally, the net sales for the quarter following these highs and lows were compared. Mutual funds are investments involving risk and are available by prospectus only. Investment return and principal value will fluctuate so that upon redemption your investment may be worth more or less than the original cost. An investor should read the prospectus carefully before investing. Past performance is no guarantee of future results.

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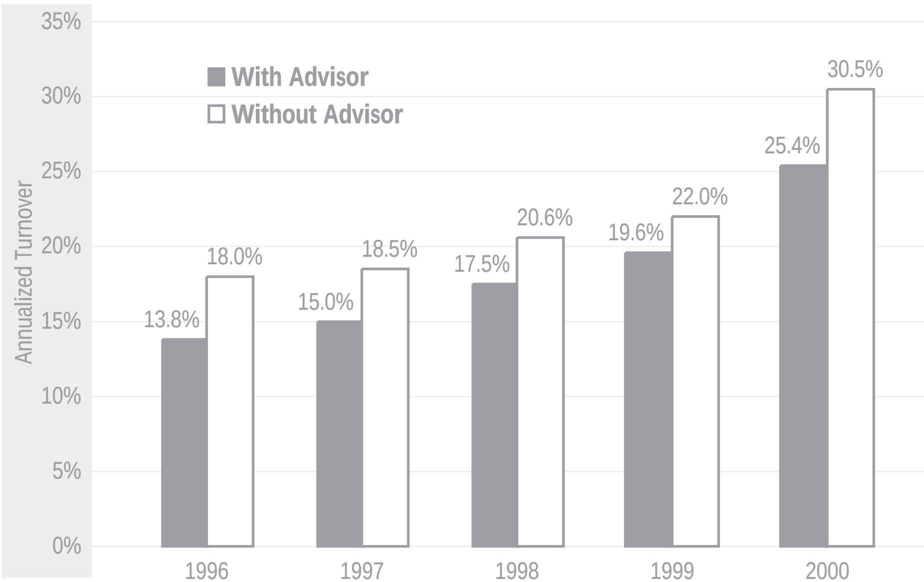
Investors with advisors consistently traded less
1996-2000



Note: This is for illustrative purposes only and is not indicative of any investment. Monthly redemption rates were calculated by dividing redemptions by starting assets for long-term mutual funds (excluding money market funds) and then annualizing the data. Aggregate fund industry data on redemptions and assets by distribution channel were compiled by Financial Research Corporation. Mutual funds are investments involving risk and are available by prospectus only. Investment return and principal value will fluctuate so that upon redemption your investment may be worth more or less than the original cost. An investor should read the prospectus carefully before investing. Past performance is no guarantee of future results.

Source: "Investors Behaving Badly," Financial Research Corporation, 2001. Ibbotson Associates, Inc. 2003.

Seek professional advice

Emotions can hamper investment decisions

With the increased availability of financial information and the advent of Internet trading, some individuals have become more comfortable with making their own investment decisions. However, investors' reactions to short-term market events can also lead to excessive trading.

An advisor may provide necessary focus

The image here illustrates that those investors who sought professional assistance when purchasing mutual funds consistently traded less. In addition, those without a financial advisor may have faced higher costs associated with excessive trading and taxes.

Other questions & answers about mutual fund investing

Why do financial advisors and mutual fund companies still get paid when I lose money?

It's easy to see why investors sometimes ask this question, but there are some important considerations behind the fees you pay to financial advisors and mutual fund companies.

The fixed costs don't change

Financial advisors and mutual fund companies provide the same services to investors in up markets as they do in down markets. And they also must meet many fixed cost obligations that come up monthly.

World events do change

Mutual fund managers and financial advisors strive to help your investment portfolio perform well. However, performance can be affected by many factors including business and world events that are beyond the control of your advisor or mutual fund company.

For example, in 1973 and 1974, the Standard & Poor's (S&P) 500 lost a total of 37% of its value and declined for 24 consecutive months. Like investors, financial advisors and mutual fund companies were hurt by the decline, but most resolved to stay in business. The bear market ended and markets returned to their former strength.

Softer landings

Even in down markets when most investments are under performing, it's important to remember that mutual fund companies and investment advisors can help provide a softer landing for your portfolio.

Historically, markets have always bounced back, but in the meantime, your advisor and fund company are providing you with the impetus to stay the course and avoid hasty decisions that could cause serious damage to your investment portfolio.

Think long-term

An advisor or fund manager may decide to sell or invest in a stock based on the best information available and sometimes, despite that person's professional training and expertise, hindsight confirms it would have been best to do the opposite. For an advisor or mutual fund manager, these situations are the toughest part of the job. If you're wondering whether financial services professionals should get paid when you lose money, look at any fund or investment portfolio with a strong, long-term track record. You'll see periods of underperformance, with few exceptions. That's why it's important to assess long-term performance when evaluating a fund manager or financial advisor.

Advisor and fund company interests are aligned with yours

Investors are not the only ones to feel the negative effects of market downturns. Financial advisors and fund companies see their income fall as the total value of the assets they manage declines.

For advisors, this is partly because they receive trailer fees that are based on a percentage of the total value of the assets managed by the advisor. As the value of assets invested in the units or shares of the fund company fall, the value of the trailer fees paid to advisors declines accordingly.

The same is true for fund companies. As assets decline, the company's management fee revenue decreases.

It's clearly in the best interests of both advisors and fund companies to see their investors' portfolios perform.

What about index funds? I'll save money on commissions and enjoy superior returns… right?

An index fund is a mutual fund whose portfolio mirrors a specific index. For example, a Canadian equity index fund aims to hold the same stocks as the S&P/TSX Composite Index – a Canadian equity index. Other types of index funds might aim to hold the same components as a bond index, a foreign market index, or a small-capitalization stock index.

Investors typically choose index funds for two main reasons: First, because they're under the impression they will at least match the market's performance and second, because they find the lower fees attractive. While an index fund may be less expensive to administer, they are not cost-free. The index fund will still charge fees. In other words, the best an index fund investor can hope to do, in virtually all cases, is earn less than the index itself. (On page 34, we show you an example of a typical actively managed fund out-performing its index.)

It's important to remember that while managed funds come with higher fees, they also come with professional advice. This advice could help insulate your investments in volatile markets and increase your portfolio's value in strong ones. Your advisor also weighs your personal risk tolerance, investment goals and investment horizon when recommending investments.

Actively managed funds tend to outperform index funds when the markets go down. Why? In part, because active managers can shed under performing or falling stocks before the situation becomes worse.

The Nortel story

During the summer of 2000, Nortel Networks, a successful Canadian company, represented more than 30% of the total value of the TSE 300 index. If you had held an index fund tied to the TSE 300 at that time, a significant portion of your investment would have been tied to fortunes of Nortel. As Nortel's value soared, your investment in the index fund would have looked great. But as the share price plummeted later, the managers of index funds holding Nortel could not shed the stock, because it was still included in the TSE 300 index due to the vast number of shares outstanding.

On the other hand, actively managed funds are not allowed to invest more than 10% of their assets in a single company, limiting investor exposure to sudden drops as experienced by Nortel.

Thus while index funds are sometimes considered to be safer investments than actively managed funds, in this instance, and many others like it, the opposite occurred.

Active management		Passive management
■ Provide the potential to outperform the market ■ Tends to outperform in down markets due to manager's ability to adjust fund holdings ■ Allows for risk management within a portfolio ■ Involves higher fees owing to manager's role in deciding which stocks to own, which sectors to overweight, when to take profits, when to buy and other services.	vs.	■ Involves lower fees ■ Requires no portfolio manager decision making ■ Allows for no selection or risk management. Portfolio simply mirrors the index.

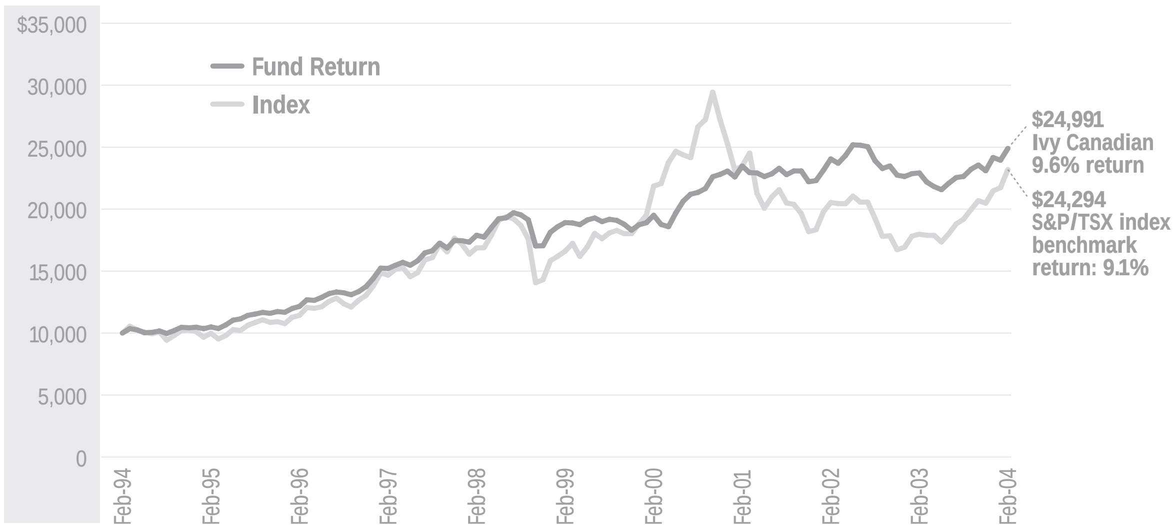
Catch a rising star

As explained earlier, the managers of index funds can only buy certain securities (those in the index their fund mirrors). While this means that the value of an index fund may never dip below the value of the market the fund mirrors, unfortunately, it also means the fund has no chance of ever doing any better for you, the investor.

On the other hand, using teams of researchers, analysts and years of experience and expertise, managers of actively managed funds can create value for you by investing your money in undervalued stocks, emerging markets and sectors that are poised for growth.

Active management can outperform

Actively managed funds have the potential to outperform the market. MERs help pay for that active management. If you invested $10,000 in Mackenzie Ivy Canadian Fund* on Feb 28, 1994, you would have enjoyed a 9.6% net rate of return over the 10-year period ended Feb 29, 2004. This exceeds the 9.1% return achieved over the same period by the Fund's benchmark index, the S&P/TSX Composite Index.



*Please see the insert "How does Mackenzie stack up?" for full performance data of Mackenzie Ivy Canadian Fund and other Mackenzie funds across different categories that have exceeded their benchmark return over the long term.

Mutual funds: still the best investment choice for the average investor

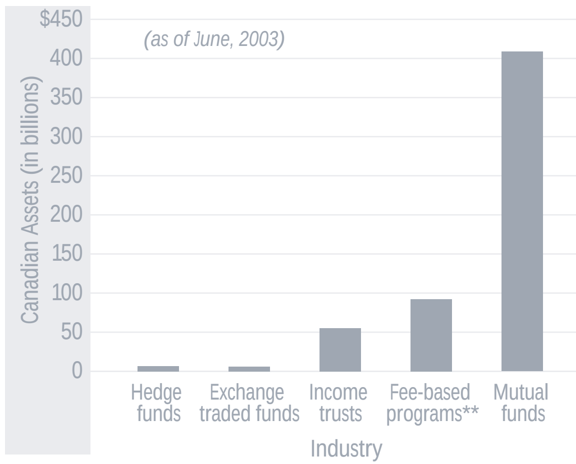
In recent years, market volatility has hurt some mutual fund investors' portfolios. This is disappointing, frustrating and stressful.

As hard as it is to accept adverse conditions and down years, this was not the first time the market has dropped temporarily. And if history continues to repeat itself, it won't be the last.

Yet, despite challenging times – in fact, because of them – mutual funds remain arguably the most efficient and flexible option for investors who want to participate in the rewards historically enjoyed by long-term market investors.

Here is a look at the popularity of other structured investment vehicles compared to mutual funds. Mutual fund investing remains the most popular investment option of the five.

Mutual Funds:
The choice of most investors



**includes fund wraps, fee-based brokerage, advisor managed, inhouse managed wraps & separately managed wraps.
Source: Investor Economics

The wide variety of mutual funds offered today means that you and your financial advisor can create a portfolio that's just right for you – whatever your income, investment goals or age.

Talk to your financial advisor about a plan that includes Mackenzie Mutual Funds. Because building financial independence doesn't mean you have to do it on your own.

Mackenzie Mutual Funds. Choose Wisely.

About Mackenzie Financial Corporation

Mackenzie Financial Corporation is an investment management and financial services corporation founded in 1967. Mackenzie's core business is the management of mutual funds on behalf of Canadian investors. The company manages approximately $40 billion for more than one million investors through its family of mutual, segregated and pension funds. Mackenzie funds are sold through more than 40,000 independent financial advisors across Canada.

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