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BMO Global Asset Management

Putting Cash to Work Using ETFs

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ONE MINUTE ETF UPDATE



Source: Financial Times, Dec 31 2021.

CANADIANS ARE SITTING ON A LOT OF CASH

- There is currently about \$113-billion worth of physical money in circulation in Canada, **up by nearly 25% from pre-pandemic levels**¹
- As a share of the overall economy, that's more cash than at any time since the early 1960s.²
- From 2020-2021, household finances in Canada improved thanks to government income support combined with no where to spend during lockdowns.³



^{1,2,3} Globe and Mail, April 24 2022.

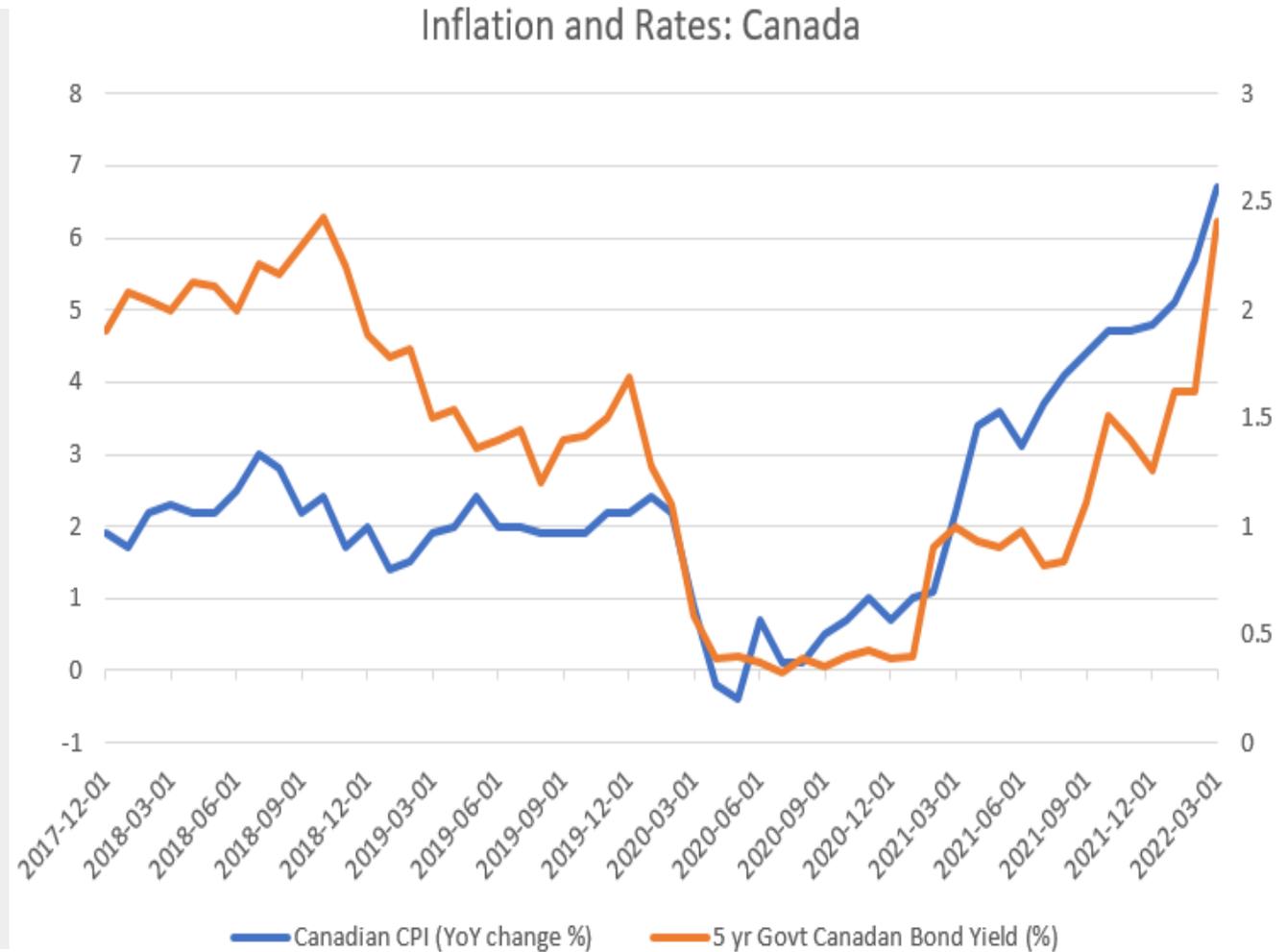
Cash in circulation in Canada
as a share of nominal GDP



SOURCE: BMO CAPITAL MARKETS

THE PROBLEM WITH CASH

- A few years ago, inflation was 2% or lower, and interest rates were nearing 0%. In this environment, **the purchasing power of cash was more protected**
- Today, things look much different. Canada CPI has increased significantly, and interest rates are on the rise, meaning the purchasing power of cash will be eroded, and fast



Source; Bloomberg April 2022

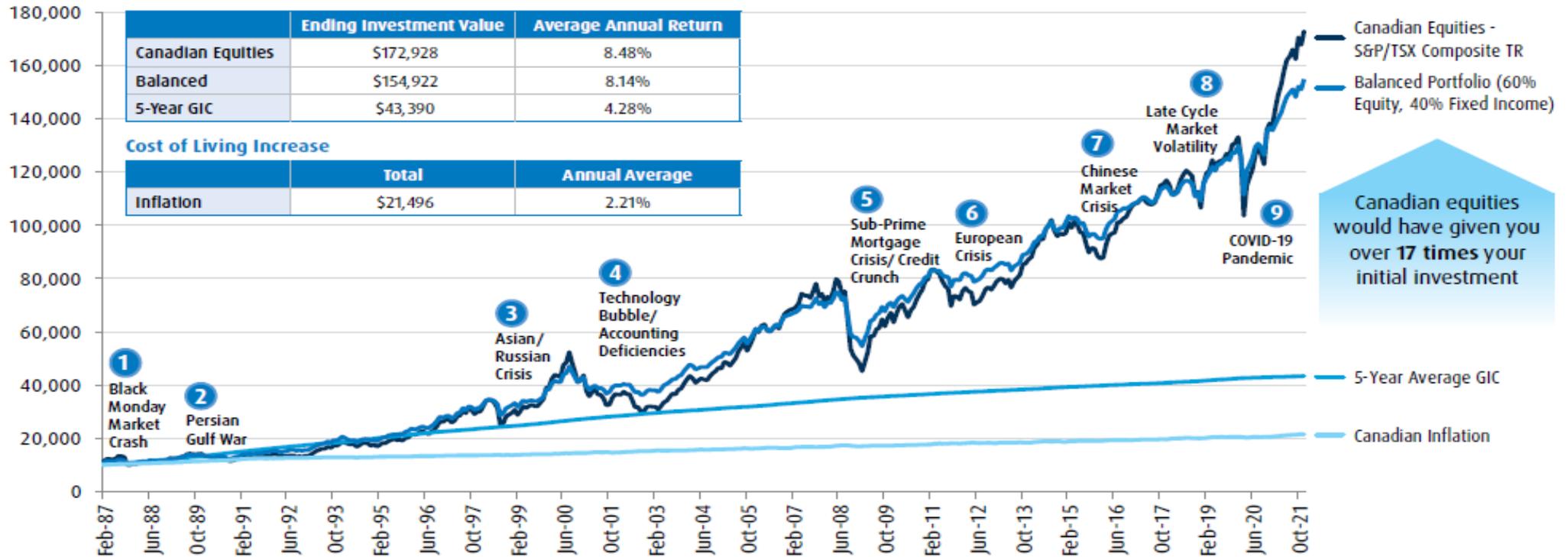
STAYING INVESTED

Growth of \$10,000 invested since 1987

	Ending Investment Value	Average Annual Return
Canadian Equities	\$172,928	8.48%
Balanced	\$154,922	8.14%
5-Year GIC	\$43,390	4.28%

Cost of Living Increase

	Total	Annual Average
Inflation	\$21,496	2.21%

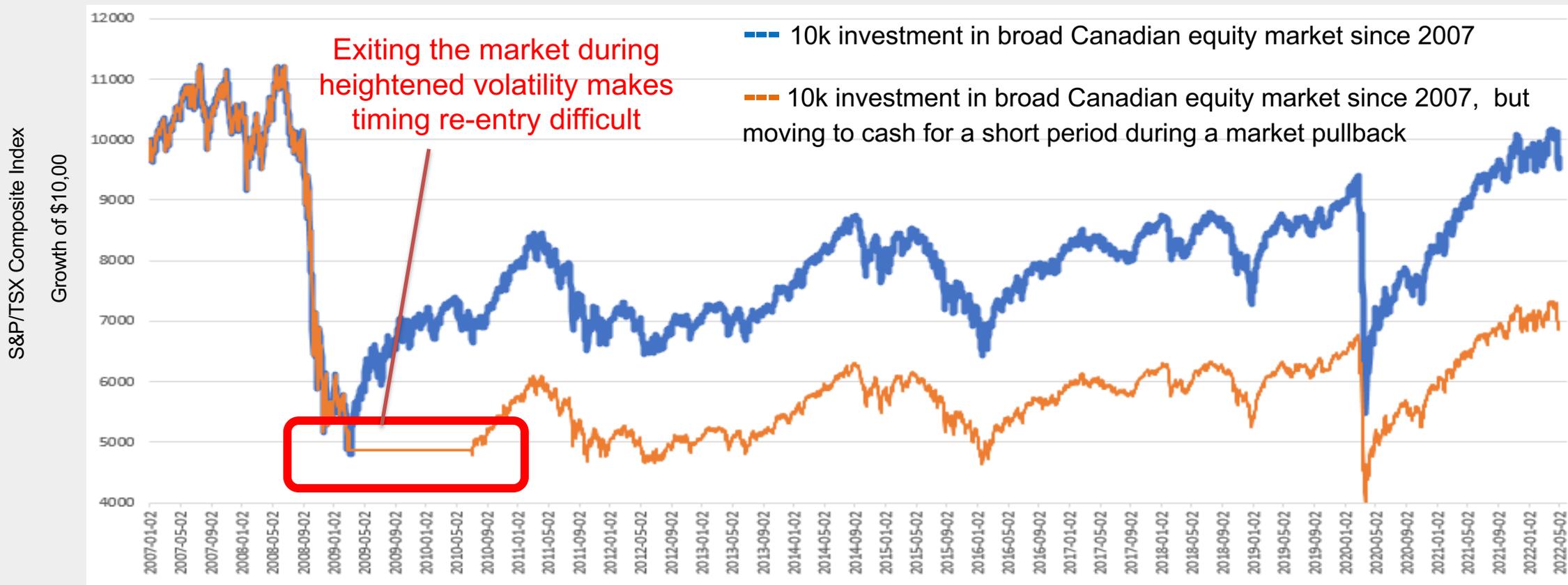


Source: Morningstar Direct, as at December 31, 2021. For illustrative purposes only. Index returns do not reflect transactions costs or the deduction of other fees and expenses and it is not possible to invest directly in an index. Past performance is not indicative of future results.

The chart illustrates the impact to an initial investment of \$10,000 dollars from Feb 1987 to October 2021. It is not intended to reflect future returns on investments.

STAYING INVESTED

A hypothetical investment in the broad Canadian market: Staying invested vs going to cash for a short period during market turmoil



Past performance is not indicative of future results.

Source: Bloomberg, May 2022. Please note you cannot invest directly in an index. For illustrative purpose only.

MARKET VOLATILITY & UNCERTAINTY

Decision Framework:

1. What is your outlook on the economy?

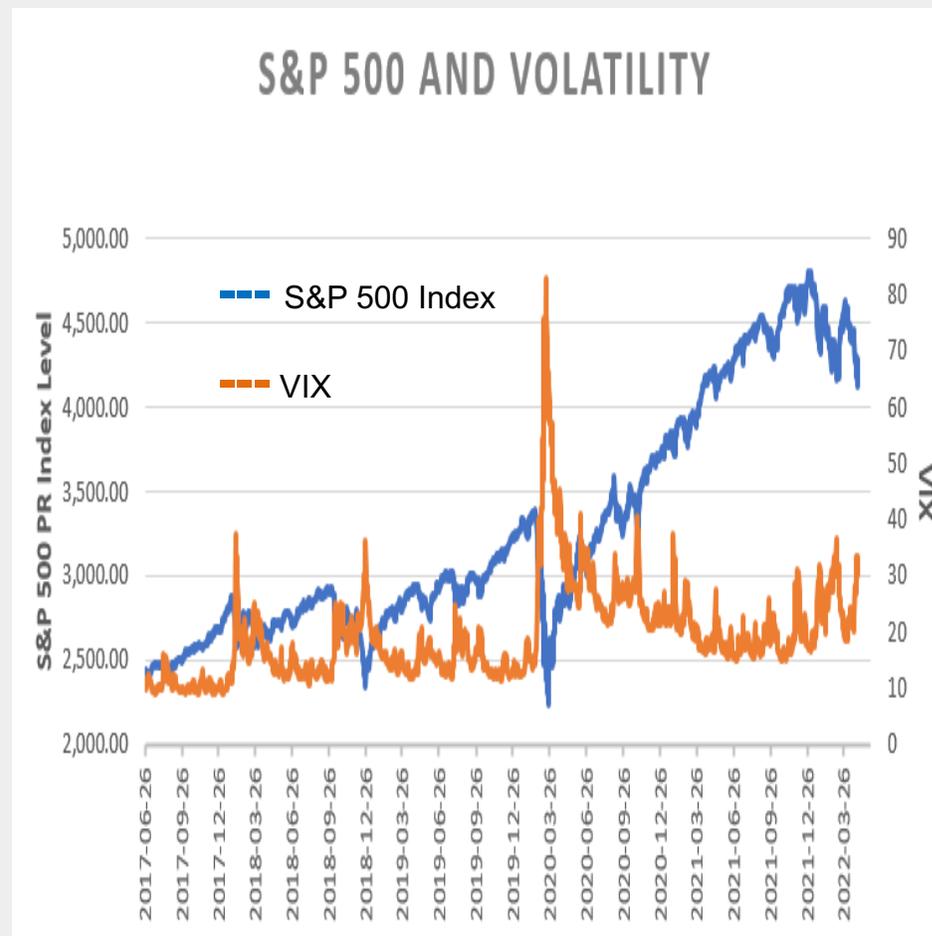
- Are you bullish or bearish?
- What are your thoughts on the shape economic recovery and the ability to control future virus waves?
- How effective will monetary and fiscal stimulus be in the near and long-term?
- How concerned are you about inflation?

2. What is your view of market valuations?

- Will stimulus continue to re-inflate markets or will confidence in markets decline?
- Do you view the recent pull back in high growth sectors (IT, healthcare) as attractive entry points to play on long term trends or do you want to add cyclical exposures (value, dividends, small cap) to take advantage of the reopening trade?

3. What is your time horizon?

- Do you want to add tactical exposures so you can quickly react to market events as they unfold?
- Are you looking for core long-term growth positions, with less concern about short term market volatility?



Source: Morningstar Direct May 2022

Past performance is not indicative of future results.

FIXED INCOME: MONEY MARKET ETFs

- Exposure to high-quality money market instruments issued by governments and corporations in Canada, including Tbills, bankers' acceptances, and commercial paper
- All holdings have a maturity in less than 365 days and have an average term-to-maturity of less than 90days
- Designed for investors looking for a cash alternative, short-term place to park cash
- Yield approximately 12-15 bps annually

Source: www.bmoetfs.com, May 2022

Benefits to Money Market ETFs



Preservation of Capital

Invests in highly rated securities that provide a high degree of safety



Highly Liquid

Can be bought or sold even in large institutional sizes without market impact given the liquidity of the underlying portfolio



No Lock-Up Period

Unlike GICs, ETFs can be sold at any time without penalty

FIXED INCOME: ULTRA SHORT TERM BONDS

- Exposure to investment grade bonds maturing in one-year or less; highly liquid.
- Bonds in these ETFs are selected to provide attractive yield and diversification, while being conservative
- The shorter the bond's duration, the less volatile it is likely to be. Shorter duration also provides lower interest rate sensitivity in your portfolio
- Designed for investors looking for defensive income

Benefits to Ultra Short-Term Bond ETFs



"Cash-Plus Vehicle"

Earn additional yield above treasury bills (T-bills) and GICs



De-risk a portfolio

Tactically or strategically move out of equities or bonds, when markets become volatile



Highly Liquid

Can be bought or sold even in large institutional sizes without market impact given the liquidity of the underlying portfolio



Hedge against rising rates

Keep capital protected against inflation, while minimizing market and price volatility



No Lock-Up Period

Unlike GICs, ETFs can be sold at any time without penalty



Low Duration

Lower interest rate sensitivity in your portfolio.

DEFENSIVE EQUITIES: COVERED CALLS

- Also known as a buy – write strategy, designed to provide an investor with a double source of cash flow: an option premium plus the dividend yield.
- It is considered an income enhancement strategy because it generates additional cash flows compared to only owning the underlying stock.
- Considered a defensive strategy as equity downside returns are reduced by the option premiums as a trade off from excess positive returns.
- Designed for investors looking for higher income from equity portfolios

Benefits to Covered Call ETFs



Enhanced level of yield

Attractive premiums on top of the underlying stock dividends by writing “out-of-the-money” Call options



Tax Efficient

Incremental yield generated is taxed as capital gains



Lower Volatility

Additional income collected from option premiums acts as a buffer against losses on underlying securities



Managed upside potential

Writing calls on a portion of the portfolio captures upside in the rising market

*** Options involve risk and are not suitable for all investors.*

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