› INVESTMENT UPDATE

SUMMER EDITION | JULY 2005

It's time "in" the market that counts

Every spring, many Canadians spend time preparing their cottages or making vacation plans for the ensuing summer months. By planning ahead, they can take care of the details beforehand so they enjoy their time off to the fullest. Like these vacation planners, investors too need to put thought into their investments early on in the year to enjoy the biggest rewards in the long term. However, with today's busy lifestyles, it is sometimes easy to get sidetracked. Each year, numerous investors simply park their money in money market funds or low-yield savings deposits (cash) with the intention of allocating their dollars at a later point. This can result in lost opportunities, which can affect returns over time. Let's look at the reasons why getting your money working for you right away is what counts.

COSTS OF WAITING TO INVEST

Cash Drag

Since long-term cash returns are usually significantly lower than returns of other asset classes, holding more cash than is recommended in a portfolio can generally decrease a portfolio's overall return. This is termed "cash drag." The table below shows that, over a 10-year time period, a portfolio holding cash and Canadian equities would have returned 1.3% more than a portfolio holding a larger portion in cash.

JAN 1995 TO JAN 2005	LOW CASH PORTFOLIO		HIGH CASH PORTFOLIO	
	Weight	Return	Weight	Return
CIBC WM 30-Day T-Bill Index	10%	4.0%	30%	4.0%
S&P/TSX Composite Index	90%	10.6%	70%	10.6%
Portfolio Return		**9.9%**		**8.6%**

Source: RBC AM

This means that on a $10,000 initial investment (not assuming any additional contributions, which would have made the difference even larger), the 1.3% difference would have generated an additional $2,500 over the 10-year period.

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Community update

RBC® CANADIAN PAINTING COMPETITION

We invite you to recognize and celebrate Canada's emerging visual artists. Celebrating its seventh year, the RBC Canadian Painting Competition, with the support of the Canadian Art Foundation, is a tribute to Canada's artistic talent. Semifinalists are selected from regions across the country; the artists' entries represent a significant contribution to Canada's rich cultural vibrancy in the contemporary art scene.

› 2002 Central Canada Finalist – J.J. Lee, Toronto, Ontario

EXHIBITION INFORMATION

CENTRAL CANADA

Museum of Contemporary Canadian Art
952 Queen Street West
Toronto, ON
September 8-18, 2005

Galerie Sussex Gallery
111 Sussex Drive
Ottawa, ON
November 15-28, 2005

EASTERN CANADA

Saint Mary's University Art Gallery
Halifax, NS
October 7-16, 2005

WESTERN CANADA

Bau-Xi Gallery
3045 Granville Street
Vancouver, BC
October 23-31, 2005

RBC Canadian Painting Competition provides a forum to engage communities across Canada and celebrate the exceptional skill of our up-and-coming visual artists. Through the competition, we can encourage and nurture creative potential and also facilitate the entry of professional artists into the visual arts community.

Submissions for the 2005 competition closed in May. Regional judges will then shortlist submitted works to 15 semifinalists. In September, winners will be selected and $55,000 in prizes will be awarded: $25,000 for the national winner and $15,000 for each of the two honourable mentions.

Once the winners have been announced, a public cross-country touring exhibition will be launched featuring paintings from all 15 of the semifinalists in prominent galleries. Not only is this a wonderful opportunity for the artists involved to achieve gallery and public exposure from coast to coast, but it also gives Canadian art supporters the chance to witness what is happening in the art scene right across the country.

Vibrant communities are made possible by investing in a creative vision and artistic talent. We hope you'll join us in supporting the artistic community by visiting the exhibition.

NEW – RBC $U.S. INCOME FUND

A simple, conservative solution for investors holding U.S. dollars

The RBC $U.S. Income Fund invests in a diversified mix of U.S. fixed-income securities and high quality U.S. equities with an emphasis on companies offering an above-average dividend yield.

WHY CHOOSE THE RBC $U.S. INCOME FUND?

› It's a simple and conservative solution for managing U.S. dollar assets. All purchases, distribution payments and redemptions are paid in U.S. dollars.

› It pays out higher regular income than a U.S. money market fund. Investors who desire regular U.S. income can benefit from monthly distributions currently set at 2.25¢ U.S. per unit. (This distribution may be adjusted as market conditions change.)

› It offers greater flexibility than a U.S. term deposit. Like other mutual funds, investors can conveniently access funds when they are required, without having to wait for their investment to mature.

› It has the growth potential of a conservative balanced solution. This fund is a diversified mix of fixed-income and equity securities, which offers an opportunity to earn higher potential returns than what is currently available with a U.S. term deposit or money market fund.

FUND FACTS

Management fee: 1.50%
Minimum investment: $1,000 U.S.
Investors require a U.S. dollar bank account

INTRODUCING THE SMART PROSPECTUS*

Effective July 25, 2005, when you purchase or switch mutual funds in any account, Royal Mutual Funds Inc. will mail you a package that includes your trade confirmation and a copy of the Smart Prospectus that pertains to your transaction, for each account.

The Smart Prospectus service allows us to simplify and reduce the amount of paper mailed to clients. It includes only the pages of the prospectus that pertain to your specific mutual fund transaction(s) as well as relevant and required regulatory information. In addition, it maintains a history of what we've sent you so that you don't receive duplicate information when you make future purchases or switches.

*Smart Prospectus is a registered trademark of ADP Investor Communications Corporation.

Market outlook

Bond prices rallied through the past quarter while equities seemed stuck in neutral, until they started accelerating in June. Up until that point, both trends were inconsistent with our views with respect to the quality of economic growth and sustainability of the current business cycle. Moreover, valuations continue to highlight significant risks in global fixed-income markets, while equities offer good prospects for average to above-average returns for the next 12 months.

MODERATE GROWTH WITH MILD INFLATION

Higher short-term interest rates are now starting to slow North American economic expansion, but economic growth remains well entrenched. For 2005, we look for 3.0% economic growth in both the U.S. and Canada with little change in 2006. Europe continues to struggle as the upfront cost of much-needed structural reforms is absorbed. But there is evidence that a better climate for business and, ultimately, employment will emerge. Nevertheless, growth prospects are limited to 1.75% for 2005 and 2.0% for 2006. In Japan, growth should crawl forward at a pace of 1.5% to 2.0% during 2006, but a variety of indicators confirm our view that a decade of stagnation is now behind them.

We believe that tighter monetary conditions and slowing growth have also contained inflationary concerns. Still, the massive scale of interest rate relief and money supply growth during the decade's early years caution against complacency with regard to inflation.

MORE RATE HIKES AHEAD

More increases in short-term interest rates lie ahead for the U.S. as the Federal Reserve continues to reduce the economic stimulus to keep the U.S. economy from overheating. We expect a 3.75% Fed Funds rate by mid-2006. In Canada, short rates are likely to rise to the 3.0% level over the same period. Offshore central banks should be much less active, particularly in the Eurozone and Japan, where growth is sufficiently weak to push the threat of rate hikes into 2006. In the U.K., the cycle of aggressive rate increases is approaching its conclusion as the economy and housing prices show signs of cooling.

BOND YIELDS TOO LOW

Bond yields remain inconsistent with current and forecast levels of growth and inflation. Excessively low real interest rates will be tested as the business cycle matures and short-term interest rates push higher. We look for a 5% yield on 10-year U.S. government bonds by mid-2006, with rates nearing 4.75% on same-dated Canada bonds.

EQUITIES SHOW PROMISE

The spring correction pushed equities below value in every major market, except the Canadian market. As the business cycle moves into its fourth year of expansion, and as interest rates and inflation remain comparatively mild, and as earnings growth holds above its long-term average, our minimum expectation is that equities will trade at or above their fair value, consistent with the current environment. In this regard, the outlook for equities is still fairly compelling.

Moreover, the past half-decade of strong relative gains for small- and mid-cap stocks is increasingly being challenged by the better valuations in large-cap issues. We look for average to above-average total returns from equity markets over the coming 12 months, with the best prospects evident in European and Japanese stocks.

WHAT DOES THIS MEAN FOR INVESTORS?

In summary, the outlook of moderate growth with mild inflation paints a positive picture for the sustainability of economic growth. Our recommended asset mix continues to favour equities over bonds. We feel there is significant valuation risk evident in fixed-income markets; and given the foundation for continuing strong growth, investors should be able to expect more normal, longer-term, average annual returns in equity markets.

Provided by RBC Asset Management Inc.

We can help you build a better portfolio. Visit your local RBC branch and speak with one of our investment specialists or call us at 1-800-ROYAL®1-1.

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INFLATION

With relatively low interest rates, the yields investors receive from holding cash, short-term GICs or money market funds may not be enough to cover the impact of inflation. Inflation is an issue for all investors and the following example demonstrates the real impact of inflation on future cash flows:

If the rate of inflation averages 2.5% and an investor holds $100 in cash, in five years, the same $100 would buy only $88.39 worth of goods, and in 10 years, only $78.12 worth. Taken another way, the 2.5% inflation rate suggests that a basket of goods that costs $100 today will cost over $209 in 30 years. This is why it is important to keep inflation in mind when planning your long-term investment goals.

AVOIDING LOST OPPORTUNITIES

› Remember it's the time your money is in the market that counts. Getting your money to work for you sooner can help you realize your goals more effectively.

› Holding more cash than is recommended for your investor profile may reduce your long-term returns due to cash drag and the negative effects of inflation.

› If you are hesitant about investing a lump sum right now, you can arrange to gradually transition your cash holdings into an appropriate investment vehicle over a predetermined amount of time by asking your investment specialist about Autoswitch.

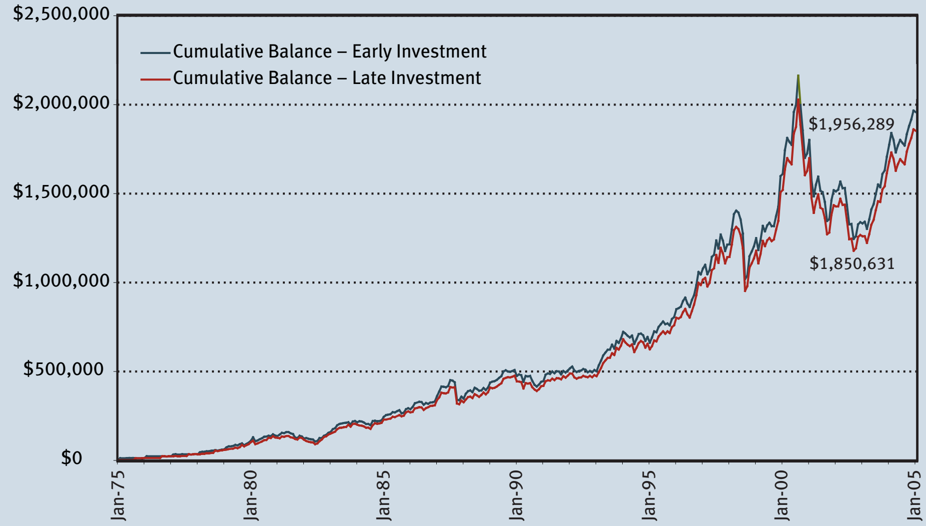
Your RBC investment specialist can help you explore investment options to come up with a solution that will get your money working for you right away.

HISTORICAL PERFORMANCE

There are many different investment strategies that specify when and how to invest. The chart at right shows the long-term cost of waiting six months every year to invest your cash.

Investing $10,000 in February instead of September every year (using the S&P/TSX Composite Index as a proxy for a Canadian equity portfolio) would generate an additional $100,000 over the 30-year period.

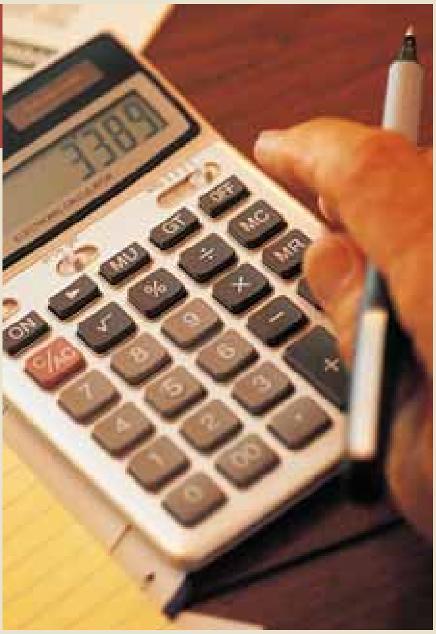
S&P/TSX COMPOSITE INDEX: INVESTING CASH IN FEBRUARY VS. SEPTEMBER (1975 - 2005)



Source: RBC AM

2005 Federal budget update

Speak with your investment specialist about how you can take advantage of changes in the 2005 federal budget.



The 2005 budget bill, proposed by the government in February, has successfully passed through all stages of the legislative process and received Royal Assent to become law.

The spring edition of *Investment Update* outlined some of the key budget changes. To recap, the 2005 budget includes the following key changes.

ELIMINATION OF FOREIGN-CONTENT LIMITS IN REGISTERED PLANS

The budget bill removes the 30% foreign-content limit from registered plans, including registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs). Up until now, investors have been restricted to investing only a portion of their portfolio beyond the Canadian borders. This change broadens the diversification opportunities open to Canadian investors.

INCREASED RRSP CONTRIBUTION LIMITS

The current $16,500 limit for 2005 will increase over the next five years until it reaches $22,000 in 2010. The following table outlines the scheduled limit increases.

YEAR	CONTRIBUTION LIMIT
2005	$16,500
2006	$18,000
2007	$19,000
2008	$20,000
2009	$21,000
2010	$22,000

Effective July 1, 2005, Royal Mutual Funds Inc. will no longer re-balance any excess foreign content held within registered plans.

If you have any questions or require clarification on these budget changes, please do not hesitate to discuss them with an investment specialist.