The Voice of the Retail Investor

Compliance exams find problems: OSC -The OSC Compliance and Registrant Regulation Branch's Annual Summary Report for Dealers, Advisers and Investment Fund Managers summarizes new and proposed rules and initiatives impacting registrants and reviews current trends in respect of compliance deficiencies and registration issues.Of particular interest are the OSC's findings in respect of its compliance review process. Specifically, during fiscal 2013, compliance reviews resulted in 38% of registered firms reviewed requiring enhanced compliance (as compared to 34% in 2012), while 52% of registered firms reviewed requiring "significantly enhanced compliance" (as compared to 47% in 2012).We see many similar issues like this across Canada many non-reported. We would add deficient complaint handling and targeting of seniors to the problem list. OBSI staffing needs to be increased. Full report available at http://www.osc.gov.on.ca/en/SecuritiesLaw_sn_20131107_33-742_annual-rpt-dealers.htm

IFIC/IIAC funded report from Tory's says Canadian regulatory environment good enough http://www.torys.com/Publications/Publications/AR2013-19.pdf News Release athttp://finance.yahoo.com/news/canadian-regulation-investment-advisors-meets-155100388.html Of all days, the lobbyists chose to issue the Report on Remembrance Day. The author , Tory's lawyer ,Laura Paglia has made public remarks in the past on this subject so may have some prejudices.. Tory's is a member of IFIC so we believe the Report would have more credibility if an independent assessment of the situation had been made. We see this as a Public Policy issue. Read also **THE CONCEPT AND APPLICATION OF FIDUCIARY DUTY IN THE REALM OF SECURITIES BROKERS AND THEIR CLIENT RELATIONS (2004)** http://www.siskinds.com/getattachment/ec989f93-10fd-4d80-b5d9-b625716b087c/test.aspx and **Why a Fiduciary Standard for Investment Advisors is needed and Urgent (2012)** http://faircanada.ca/wp-content/uploads/2012/06/Why-A-Fiduciary-Standard_-Kivenko.pdf

SEC Fiduciary Rule: Keep Investor Protection Simple - Forbes

http://www.forbes.com/sites/johnwasik/2013/07/08/sec-fiduciary-rule-keep-investor-protection-simple/

Fiduciary standard:Findings from academic literature
http://www.imca.org/sites/default/files/current-issues/IWM/IWM13SepOct_FiduciaryStandard.pdf A must read if you are interested in this topic.

The State of Risk Profiling in Canada - Ouch!

FinaMetrica provides a risk profiling tool to the financial advisory industry worldwide and a version to individual consumers. Here is what they had to say about the state of affairs in Canada in *Risk Profiling: Art and Science*:

"...In countries like Canada, the regulator appears to be significantly behind many other countries. The regulatory framework in Canada is complicated with disputes between the provinces and federal government over jurisdiction and a recent Supreme Court decision recently delayed or derailed attempts at a single regulator. Regulation of mutual funds, stock brokers, banks and insurance firms all fall under different regulatory bodies in Canada further complicating the picture. The investment regulators in Canada are still substantially focused on product level risk assessments with little or no framework to look at the client holistically." We have for the last 5 years been asking for an assessment of the NAAF/KYC/Suitability regime. It isn't working right .

The Impact of the Broker-Dealer Fiduciary Standard on Financial Advice by Michael S. Finke, Thomas Patrick Langdon :: SSRN http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2019090 or http://www.fpanet.org/journal/TheImpactoftheBrokerDealerFiduciaryStandard/
Consumers who rely on the financial advice of experts are at an information disadvantage that may be exploited by advisers who are not required to make recommendations that are in the best interest of the customer. Registered representatives of broker-dealers are subject to a suitability standard under the Securities Exchange Act of 1934, while investment advisers are regulated as fiduciaries under the Investment Advisers Act of 1940. An early legislative version of the 2010 Dodd-Frank Act would have eliminated the broker-dealer exception from the definition of investment adviser under the Advisers Act. If enacted, this change would have subjected brokers to a common-law fiduciary standard (like investment advisers), but was postponed to examine the consequences of this policy change. It has been suggested that the imposition of a fiduciary standard on registered representatives would result in significant changes in how broker-dealers conduct business by limiting a representative's ability to recommend commission investments, provide advice to middle-market clients, and offer a broad range of financial products. We take advantage of differences in state broker-dealer common law standards of care to test whether a relatively stricter fiduciary standard of care impacts the ability to provide services to consumers. We find that the number of registered representatives doing business within a state as a percentage of total households does not vary significantly among states with stricte fiduciary standards. A sample of advisers in states that have either a strict fiduciary standard or no fiduciary standard are asked whether they are constrained in their ability to recommend products or serve lower-wealth clients. We find no statistical differences between the two groups in the percentage of lower-income and high-wealth clients, the ability to provide a broad range of products including those that provide commission compensation, the ability to provide tailored advice, and the cost of compliance.

Another senior falls victim to bad advice http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=911EA5BC6BB04631AE8D4221C7328AF1&Language=en This matter deals with Douglas Charles Allan`s,handling of a Managed Account belonging to D.E. At the time D.E.'s account became designated a Managed Account, she was a recently widowed 76 year old woman who relied on her investments for part of her income.D.E. had limited investment knowledge. Her husband oversaw the couple's finances and he had full trading authority over the RRIF account. While D.E.'s recorded objectives and risk tolerances were too aggressive , the actual holdings in the account were even more so. 25. In 16 months of a 40 month period, the speculative holdings in D.E.'s account was greater than the already high stated objective of 20%. During those months, the speculative components of her account varied between 26% and 69%. 26. As well, there were a number of occasions when D.E.'s account had been overly concentrated in oil and gas investments. There was nine months where oil and gas securities concentration in D.E.'s holdings ranged between 45% and 68% of her portfolio. Allan is accused of failing to use due diligence to know his client, and making unsuitable recommendations Allan,admits to the following contraventions of IIROC Dealer Member Rules, Guidelines, IDA By-Laws, Regulations or Policies:
a) Between Feb. 2008 and Sept. 2011, the Respondent failed to use due diligence to learn and remain informed of the essential facts relative to D.E., contrary to Dealer Member Rule 1300.1(a) (Investment Dealer Association by-law 1300.1(a) prior to June 1, 2008); b) Between Feb. 2008 and September 2011, the Respondent made unsuitable recommendations in the account of D.E., contrary to Dealer Member Rule 1300.1(q) (Investment Dealer Association by-law 1300.1 (q) prior to June 1, 2008);

Mr. Allan currently works at Retire First Ltd. ("Retire First"), where he has held the following positions, since starting there in July of 2006:

a. Ultimate Designated Person;
b. Chief Compliance Officer;
c. Registered Representative;
d. Portfolio Manage

Designed to deceive:Structured Notes http://blog.moneymanagedproperly.com/?p=2992

Bessner refreshed by rejections of OBSI recommendations
http://www.casselsbrock.com/News/Ellen_Bessner_Quoted_in_Toronto_Star
Roseman notes that "some lawyers aren't happy with the OBSI's decision to go public about several unresolved complaints at the same time" but Ellen Bessner says that **"it's refreshing to see some of the companies stand up to OBSI"**. Wronged investors are not refreshed , they are depleted.

Investing Glossary Terms --from RBC Direct Investing
ttp://www.rbcdirectinvesting.com/investing-glossary-terms.html

Assessing risks and controls of investment funds
http://www.cica.ca/applying-the-standards/financial-reporting/international-financial-reporting-standards/item72039.pdf

Risk tolerance: Why and How to Measure your own
http://howtoinvestonline.blogspot.ca/2013/11/risk-tolerance-why-and-how-to-measure.html This blog is worth an Award .

Forbes Thought Of The Day " **I'm not in business to make money for the other guy. I'm in business to make money for myself. "** — *Sheldon Adelson*

FCAC finds few violations - Investment Executive http://www.investmentexecutive.com/-/fcac-finds-few-violations?redirect=%2Fsearch The Financial Consumer Agency of Canada (FCAC) reports that it investigated more than 1,500 complaints about the firms under its jurisdiction, but that it imposed just $275,000 in penalties against violators.The FCAC released its latest annual report on Tuesday. The report reveals that the agency investigated many more cases, but uncovered fewer violations, than in previous years. It says that over 1,500 cases were investigated in 2012-2013, up from less than 1,300 in 2011-2012, and just 660 in 2010-2011.However, it only noted five violations and entered compliance agreements with five firms during the year. This was up from three violations and compliance agreements in the previous year, but down from 36 violations and 12 agreements in the year before that. Annual report at http://www.fcac-acfc.gc.ca/Eng/about/planning/annualReports/Pages/2012-13-AR-RA.aspx

Seven questions bad advisers don't want you to ask
http://www.globeadvisor.com/servlet/ArticleNews/story/gam/20131114/SRWEALTHMGMTADVICEATL The contract is signed. Now, how often do you hear from your adviser? A good one will certainly reach out if financial times are tough. Planners who suddenly disappear during a recession need to be dumped, pronto. Ìnvestor Debra McFadden remarks Yet just a month ago in a relationship disclosure

form produced by Manulife states`"Manulife Securities and your financial advisor will not review the suitability of the investments in your account(s) whenever significant market events occur." So should everyone dump Manulife? of course you can ask.

What the Mutual Fund Industry Isn't Telling You | Tim Paziuk Huffington Post http://www.huffingtonpost.ca/tim-paziuk/mutual-fund-industry_b_4268972.html?utm_hp_ref=canada-business "...One major point of the survey (the 2013 IFIC Pollara survey) was that currently only 14 per cent of mutual fund clients pay their advisors directly, even though 41 per cent said they would prefer to pay directly. At the same time just over half (51 per cent) said they would prefer to pay their advisor through mutual fund fees (out of sight out of mind).People preferring to pay advisors through mutual funds is an unfortunate reality in the industry. But what really intrigued me was the survey result that found that 47 per cent of investors would likely ditch their advisor if they had to either: a) pay them directly, or b) pay more than they currently do.The reason this intrigues me is that the mutual fund industry is convinced that if you get rid of embedded commissions then the cost to investors will go up. Why is that the case? Call me simple but I think that's a ridiculous argument. The real issue here is transparency. The mutual fund industry doesn't want it, mutual fund salespeople don't want it, and most importantly, mutual fund companies don't want it...."

Former RBC, Scotia advisor Mark Rotstein faces fresh allegations | Financial Post
http://business.financialpost.com/2013/11/15/former-rbc-scotia-advisor-mark-rotstein-faces-fresh-allegations/
A financial advisor with a hefty book of business who moved to Scotia Capital Inc. in the midst of a regulatory probe into forgery allegations at RBC Dominion Securities is now facing accusations he entered trades without authorization at Scotia. The fresh allegations against Mark Steven Rotstein, made public by The Investment Industry Regulatory Organization of Canada on Friday, involve activities that took place within a couple of months of Mr. Rotstein negotiating a settlement with the regulator that included a $250,000 fine and 12-month suspension.
Why the heck did Scotia hire the guy?
Why wasn't he kept out of the business for his RBC shenanigans (forgery)?
What happened to "close supervision"?
Where was compliance?
Were the victims compensated?
Will Scotia be asked to account?
Also read this story on Rotstein written in 2011!!
http://business.financialpost.com/2011/10/25/high-fliers-switch-banks-amid-regulatory-probe/

This is Canadian regulatory investor protection?Let me read that Tory's report again.

European regulators mull complaint handling guidelines - Investment Executive
http://www.investmentexecutive.com/-/european-regulators-mull-complaint-handling-guidelines?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-morning Consultation paper at http://www.esma.europa.eu/news/ESMA-and-EBA-consult-complaints-handling-guidelines-investment-and-banking-sectors ESMA/EBA want a harmonized approach to handling complaints across the investment, banking and insurance sectors in Europe. Canada doesn't even have one ombudsman for banking, never mind insurance. Ask us for a copy of our Comment letter kenkiv@gmail.com .

Advisor accused of bilking investors of $1.2M | Toronto & GTA | News | Toronto Sun http://www.torontosun.com/2013/11/06/adviser-accused-of-bilking-investors-of-12m A former investment advisor faces charges after three clients of the investment firm Edward Jones were bilked of $1.2 million. Toronto Police Det. Phil Chung said cash from investors' accounts was transferred to cover funds which had been misappropriated from another account at Edward Jones.A police news statement said fake letters of authorization were used to transfer the money between Nov. 2003 and August 2010.The three victims were reimbursed for their losses even though no money was recovered .

Keybase Financial refuses OBSI compensation recommendation - Investment Executive http://www.investmentexecutive.com/-/keybase-refuses-obsi-compensation-recommendation?utm_source=newsletter&utm_medium=nl&utm_content=investmentexecutive&utm_campaign=INT-EN-All-afternoon Full OBSI investigation Report at http://www.obsi.ca/images/Documents/IR/refusal/keybase_investigation_mrs_o.pdf This process doesn't seem to be working for retail investors. OBSI Board needs to get on with it and make some visible moves.

Improving Mutual Fund Risk Disclosure: ICI (Perspective, V1N2, November 1995)
http://www.ici.org/pdf/per01-02.pdf
Note the aggressive negativity to a risk scale or number to depict/ classify risk (page 2).Unlike our Fund Facts, the SEC Summary Prospectus does not contain a risk scale but lists the principal risks of the fund.

Twelve pieces of financial wisdom, from a retiree to his adult children - The Globe and Mail
http://www.theglobeandmail.com/globe-investor/personal-finance/twelve-pieces-of-financial-wisdom-from-parent-to-child/article15380732/

Computer-modelled portfolio returns will outstrip the experts
http://www.vancouversun.com/business/Computer+modelled+portfolio+returns+will+outstrip+experts/9159252/story.html

Anita Anand and John Chapman at the University of Toronto Faculty of Law explain in this short article why investment advisors should be fiduciaries. They say that current Canadian laws in this area are "a mess." Michael James on Money

When, Why, and How Do Mutual Fund Investors Use Financial Advisers?
Abstract More than four in 10 U.S. households own mutual funds and half of mutual fund–owning households indicate they have ongoing advisory relationships. Financial advisers provide a wide range of investment and planning services in addition to helping investors select and purchase mutual fund shares. Using a variety of household surveys, this chapter delves into when, why, and how mutual fund investors interact with financial advisers. For example, the research explores whether certain "trigger" events prompt fund investors to seek professional financial advice. Investors typically receive multiple services and choose to work with financial advisers because advisers have expertise in areas investors do not. In addition, investors interact with advisers in a variety of ways (e.g., collaboratively versus the adviser or investor taking the lead; investor conducting their own research). The chapter also analyzes whether certain mutual fund investors are more likely than others to work with financial

advisers.Author : Sarah A. Holden ,Investment Company Institute ,1401 H St., NW, Suite 1200 Washington, DC 20005 sholden@ici.org **PRC WP2012-16 ,Pension Research Council Working Paper ,**Pension Research Council The Wharton School, University of Pennsylvania ,3620 Locust Walk, 3000 SH-DH ,Philadelphia, PA 19104-6302 ,Tel: 215.898.7620, Fax: 215.573.3418 ,Email: prc@wharton.upenn.edu ,http://www.pensionresearchcouncil.org

The biggest, weirdest hedge fund in the world is a cult? | WhereDoesAllMyMoneyGo.com http://wheredoesallmymoneygo.com/the-biggest-weirdest-hedge-fund-in-the-world-is-a-cult/?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+Wheredoesallmymoneygocom+%28Wheredoesallmymoneygo.com%29

Media on TD Compensation Structure FAIR Canada interview .Ms. Passmore's comments were translated into French: http://www.conseiller.ca/nouvelles/remuneration-a-la-td-conseillers-et-clients-en-feront-les-frais-44128

Financial Advice:Does it Make a Difference? by Michael S. Finke :: SSRN http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2051382 Abstract The financial advice profession provides a potentially valuable service to consumers within an increasingly complex financial marketplace. Financial advice professionals can substitute for costly investment in financial knowledge by households. This paper provides evidence that financial advisers improve financial outcomes when the interests of the advisor and household are aligned. However, professional advice can harm consumers if conflicts of interest create high agency costs. Understanding how differences in compensation methods and regulatory frameworks affect incentives is essential to improving the breadth and quality of professional advice.

Email from a reader Ken. ,advisors promoting bad investments to unsophisticated investors is nothing new. But while the easy prey used to be people looking to get rich quick, the pool has widened to include savers looking for ways to earn the kind of income once reliably available from traditional investments. Some horrible products laced with fees are being marketed to unsuspecting clients. Your readers should be very cautious . - Jean-Guy, Quebec City

A conflict of interest disclosure that draws attention. "Your account is a brokerage account and not an advisory account. Our interests may not always be the same as yours. Please ask us questions to make sure you understand your rights and our obligations to you,including the extent of our obligations to disclose conflicts of interest and to act in your best interest. We are paid both by you and, sometimes, by people who compensate us based on what you buy. Therefore, our profits and our salespersons' compensation may vary by product and over time." This is not what we are seeing in Client Relationship disclosure documents. They are a little too sugar coated for our tastes. Nothing like forthright language to effectively communicate. Source: :CSA Discussion Paper and Request for Comment 81-407 - Mutual Fund Fees - Ken Kivenko (Kenmar Associates) Letter of December 17,2012 www.osc.gov.on.ca/documents/en/Securities-Category8-Comments/com_20121217_81-407_kivenkok.pdf

Disclosure of conflicts of interest:A primer http://www.integralwealth.com/wp-content/uploads/2013/10/IWSL-Conflicts-of-Interest-Disclosure-2013-April.pdf

Is Your Broker Breaking Bad? Five Essential Truths About Financial Advisors - Forbes
http://www.forbes.com/sites/rogergershman/2013/11/05/is-your-broker-breaking-bad-five-essential-truths-about-financial-advisors-2/

Advice issues in the Indian market
http://www.hbs.edu/faculty/Publication%20Files/12-055_f474d8ef-ec12-480f-9a0d-532e9667635e.pdf

Not a death sentence -mutual fund commission structures
http://www.investmentexecutive.com/-/not-a-death-sentence?redirect=%2Fsearch

What the Mutual Fund Industry Isn't Telling You | Tim Paziuk
http://www.huffingtonpost.ca/tim-paziuk/mutual-fund-industry_b_4268972.html?utm_hp_ref=canada-business One major point of the survey ,the IFIC Pollara survey¸,was that currently only 14 per cent of mutual fund clients pay their advisors directly, even though 41 per cent said they would prefer to pay directly. At the same time just over half (51 per cent) said they would prefer to pay their advisor through mutual fund fees (out of sight out of mind).People preferring to pay advisors through mutual funds is an unfortunate reality in the industry. But what really intrigued me was the survey result that found that 47 % of investors would likely ditch their advisor if they had to either: a) pay them directly, or b) pay more than they currently do.

Index vs. actively managed funds: It's not all about price
http://www.investmentnews.com/article/20131105/BLOG15/131109967?utm_source=indaily-20131105&utm_medium=in-newsletter&utm_campaign=investmentnews&utm_term=text#

Irrational mutual fund Investing: An Explanation | Dan Solin
http://www.huffingtonpost.com/dan-solin/irrational-investing_b_4200470.html
The study concludes that investors and their agents may not be aware of all of the costs of active management. They may be influenced by advertising and place an unjustified reliance on past performance. Investing in actively managed funds was justified by the belief that active management may provide downside protection in down markets. This is hardly a justification for active management.The study found that "advisors" favour active management because it is consistent with *their* economic self-interest. Curiously, for some, the mere *possibility* of succeeding in generating superior returns is sufficient incentive to overcome the daunting odds. Other reasons include confirmation bias, which encourages us to seek facts that confirm our bias; overconfidence in our ability; the thrill of "gambling" and the overwhelming bias toward "favoring activity over passivity.".

"Investment brokers service their clients the way Bonnie and Clyde serviced banks." - Dr. William Bernstein

MFDA Investor Protection Corporation 2013 Annual Report
http://www.mfda.ca/ipc/AR/IPC_AR13.pdf The Mutual Fund Dealers Association of Canada's (MFDA) contingency fund has received almost $8 million in claims related to the lone fund dealer insolvency last year, and it expects more.In its latest annual report, the MFDA's Investor Protection Corp. (IPC) indicates that it has received $7.9 million in claims relating to the insolvency of W.H. Stuart Mutuals, Ltd. (WHS), which was suspended by the MFDA on May 31. It was deemed insolvent by the IPC board as of that date, for the purpose of claims by customers against the fund. (See

Investment Executive, MFDA suspends W.H. Stuart, June 3, 2013.)

Protecting investors and strengthening market integrity IIROC proposes Revised Sanction Guidelines 2013/11/06

Open letter to Financial Advisors . Invesco
https://www.invesco.ca/commonAssets/resources/pdf/en/toolkit/Open_letter.pdf We`d love to receive your comments on this letter dealing with mutual fund embedded sales commission.

The biggest DIY investing challenges http://canadiancouchpotato.com/2013/10/07/the-biggest-diy-investing-challenges/?utm_source=rss&utm_medium=rss&utm_campaign=the-biggest-diy-investing-challenges

Portfolio diversification failure puts investor risk tolerance under the spotlight
A key lesson from the downturn is that in declining markets, finding non-correlated assets is much harder than was thought. A study recently presented to the Chartered Financial Analyst Institute shows that diversification across asset classes works in rising markets but fails in falling markets. The reason, according to the authors of the study, is that "fear is more contagious than optimism."
http://www.globefund.com/servlet/ArticleNews/story/GFGAM/20090721/RRICHARDS21ART1851?query='25'

Is the value of geographic diversification declining?
Since understanding and quantifying the evolution of security co-movements is critical for asset pricing and portfolio allocation, we investigate patterns and trends in correlations over time using weekly returns for large systems of developed markets (DMs) and emerging markets (EMs) during the period 1973-2009. We use the DECO, DCC, and BEKK correlation models, and develop a novel dynamic t-copula which generalizes the normal copula, to allow for dynamic tail dependence. We demonstrate that it is possible to overcome the well known dimensionality problems and compute correlation and tail dependence in international markets using large samples, without relying on factor models. Our results suggest that correlations have been significantly trending upward for both the DMs and EMs. Further, the evidence clearly contradicts the decoupling hypothesis. Although the tail dependence is increasing through time for both EMs and DMs, the level of the tail dependence is still very low at the end of our sample period for EMs as compared to DMs. Therefore, while the correlation analysis suggests that the diversification potential of EMs has largely disappeared, this is contradicted by our findings on tail dependence. Thus, even though diversification benefits might have lessened in the case of DMs, the case for EMs remains intact.
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1573345

Protecting Yourself From Financial Sales People | Bryan C. Binkholder - The Financial Coach – Independent Money Advisor

35 17 **Verbal Agreements and Presentations** – An unscrupulous financial planner isn’t going to want you to know how vital written documentation is for protecting your financial interests. Financial salespeople will hope to win you over by building a rapport, using compelling sales literature, and making convincing verbal sales presentations. Without written documentation, it is easy to deny what was promised during a high-energy, motivating presentation. Fiduciary advisors (such as RIAs) use Investment Policy Statements to ensure that the client and advisor are aligned on the strategy and implementation of investments. http://www.thefinancialcoach.com/protecting-yourself-from-

financial-sales-people

Small investors may get dumped if embedded commissions dumped: Industry argument against reform
Based on some very preliminary UK data ,there seems to be some possibility that smaller accounts may get the boot BUT ,we say *So What?* These are folks with less than $100,000 in investable assets; they may contribute a few hundred dollars a month to a RRSP. What advice do they really need ?They can buy a low cost balanced fund or balanced fund ETF and wait until assets are> $100K like our parents did. Emprical data shows they need (and receive) little tax or estate planning advice anyways but pay high fees for conflicted advice to buy underperforming actively- managed mutual funds. It is not the duty of the industry to protect small accounts especially if that means subsidization by larger account holders. The industry prefers larger accounts for valid business reasons. The **greater good** is to ensure conflicts-of- interest are not allowed to impair the life savings of the struggling middle class or vulnerable seniors where very significant assets are held. Small investors , who we defend and support every day, have no fundamental right to low cost investment advice just like they have no fundamental right to free or low cost dental work. That is a socio -economic issue the Govt. may solve via voluntary CPP or other scheme. We`d love to hear from you on this.

Email from a reader Mr. Kivenko , I know industry is fighting reform hard. This reminds me when the US was considering making safety belts mandatory . The auto industry argued that would add to the price of the car , leaving lower income people without a car. Thankfully ,the Public Interest took precedence and less people are killed each year. It may be that adding safety features to a vehicle adds costs and modestly reduces consumption (or requires buying used cars) but the alternative to inaction is nuts. Harry Z. In Burnaby, BC

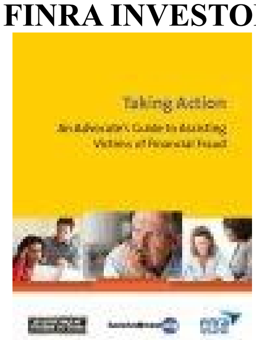
FINRA Issues Report on Broker-Dealer Conflicts of Interest — The Harvard Law School Forum on Corporate Governance and Financial Regulation http://blogs.law.harvard.edu/corpgov/2013/11/10/finra-issues-report-on-broker-dealer-conflicts-of-interest/ , Finally,the report looks at potential conflicts of interest in compensation arrangements, focusing particularly on brokerage and other compensation for associated persons. The report highlights the following examples of effective practices used by firms to mitigate instances where the compensation structure may potentially affect the behavior of registered representatives:

- Avoiding compensation thresholds where a registered representative can increase his or her compensation disproportionately after reaching a certain threshold of sales.
- Using neutral compensation grids, which avoids favoring one product over another by having a flat payout percentage regardless of product type sold.
- Introducing fee-caps (*i.e.*, capping the gross dealer concession that will be credited to a representative's production) to minimize the incentive to favor one mutual fund over another.
- Refraining from higher compensation or other rewards for the sale of proprietary products when there are comparable products.
- Implementing surveillance and monitoring to ensure that registered representatives are not being unduly motivated by thresholds that qualify the representative to receive a back-end bonus, qualify the representative to participate in a recognition club, or move the representative to a higher payout level in the firm's compensation grid.
- Monitoring the suitability of recommendations around key liquidity events in the investor's lifecycle

where the recommendation is particularly significant.
35 17 Using red flag processes and clawbacks to penalize employees for not properly managing conflicts of interest.
FINRA suggests that firms establish compensation governance structures that mandate identifying and managing the conflicts that compensation structures may create. This would allow firms to adjust the compensation structure to eliminate or reduce conflicts and establish oversight mechanisms appropriate to the scale of conflicts that may remain. FINRA further notes that firms should consider using clawbacks throughout their businesses and not just for senior executives. Finally, FINRA notes that firms that are dually registered as a broker-dealer and an investment adviser should consider whether a commission-based or fee-based account is more appropriate for a customer....".

Taxation and financial advice A professional advisor can help clients obtain appropriate withholding tax treatment as client investments shift between foreign securities eligible for withholding tax relief from tax protocol agreements, and those securities not subject to such relief. Investment dealers can tell clients if it is better to invest in an RRSP or TFSA (or pay down debt), when it is best to start taking Canada Pension Plan payments, and how to get the best tax treatment as they draw down on registered plans. Investment dealers also monitor investments in RRSP and RRIF accounts to the extent possible to ensure only CRA eligible investments are held in the account. This is in addition to making the case for larger annual savings (e.g. contributions to RRSPs), smaller mandatory withdrawals from RRIFs and wider eligibility of investments in these registered plans, to improve the effectiveness of these popular retirement savings vehicles. Some evidence indicates that Canadians without advisors use tax-efficient savings vehicles *less* efficiently. Assets placed in the right registered accounts results in an after-tax yield improvement of about 1.5%, compared with the same assets in non-registered form according to Finance Canada. Further, Ipsos Reid studies in 2010 and 2011 on the value of advice reported that households with a financial advisor are twice as likely as non-advised households to hold assets in tax-deferred (registered) plans. Finally, some advisors are increasingly being called upon for tax advice related to estate planning and other life-changing events. Is your advisor providing you this support?

FINRA INVESTOR EDUCATION FOUNDATION



FINRA Investor Education Foundation, National Center for Victims of Crime Release Taking Action: An Advocate's Guide to Assisting Victims of Financial Fraud

More than 30 million Americans fall victim to financial fraud every year. The National Center for Victims of Crime and the FINRA Foundation recently released Taking Action: An Advocate's Guide to Assisting Victims of Financial Fraud, providing those who serve these victims with an important new tool to aid their clients. This groundbreaking new guide is designed for consumer advocates, lawyers, counselors and other victim service providers.

Taking Action provides accessible, step-by-step strategies for addressing the major types of financial crime—including investment fraud, identity theft, mortgage and lending fraud, and mass-marketing scams. This new resource provides advocates with tools to assist victims in regaining their financial footing and address the emotional trauma experienced by victims of financial fraud. *Taking Action* is available for download or ordering from within the Program and Outreach Toolkit on the FINRA Foundation's SaveAndInvest.org website.

Are you getting a fee price break? Some fundcos charge lower MER's depending on the amount invested. Very few investors seem to know about this cost saving opportunity. The price breakpoint is not applied automatically- the investor has to ask. Fund Facts does not contain this level of detail. We do not believe all companies offer this discount but many do. Advisors may not have this top of mind. The extract below is a recent amendment to expand Invesco's Series P. In addition to the stated management fees which are listed on each Fund's Fund Details in the SP, on page 2 of the Prospectus ,you will see a chart with further reductions at $500,000, $1 million and $5 million. Those reductions are paid as management fees distributions so they are taxable for a taxable investor but given that some of each account is typically registered, that portion will not be subject to taxation. Also, the minimum for Series P is $100,000 invested in Invesco Canada Funds **across the household.** Series P pays the same trailing commission as Series A, so Invesco absorbs the fee reduction; a dealer Rep (" advisor ") should be indifferent between Series P and Series A. Please notice variants of Series P, so PF is simply P pricing in a Series F type of security, PT6 is Series P with a Series T distribution of 6%.

Here is an extract from the Invesco prospectus regarding Series P eligibility:
"The minimum amount for investment in Series P, Series PF, Series PF4, Series PF6, Series PH, Series PT4, Series PT6 and Series PT8 shares or units of the Funds, in the aggregate, is $100,000. However, this minimum amount may also be spread among a) your qualifying account types with your Advisor, and b) shares or units of any other series of any of the Funds. The initial minimum investment may also be waived if such series are purchased in an account that is part of a "financial/household group" with aggregate total assets of at least $100,000. **A "financial/household group" includes accounts held by a single investor, their spouse or family members residing at the same address, as well as corporate accounts for which the investor or other members of the financial/household group beneficially own more than 50% of the voting equity.** We will not automatically switch you into Series P, Series PF, Series PF4, Series PF6, Series PH, Series PT4, Series PT6 or Series PT8 shares or units once you reach the minimum investment amount. However, we reserve the right to switch shares or units of Series P, Series PF, Series PF4, Series PF6, Series PH, Series PT4, Series PT6 and Series PT8 to other series of the same Funds or to Series A shares of Invesco Short-Term Income Class if your account(s) fall(s) below the required minimum amount. We will notify you and give you 30 days to make another investment prior to switching you out of these series. " (emphasis added)

Russian Roulette: why is borrowing to invest so ingrained in Canadian culture? | Depth Dynamics http://blog.moneymanagedproperly.com/?p=3056 CFA and respected blogger Andrew Teasdale questions why securities regulators make it so easy for retail clients to get trapped into leveraging their nest eggs."..Leverage should only be considered as a strategy for those investors who have expressed extreme risk preferences (via robust risk profiling and not the rudimentary pigeon holes we see in KYCs) and are able and willing to accept the risk of absolute loss, something which can only be validated by asset and liability modelling using conservative risk/return assumptions . But even here leverage strategies should pay careful attention to valuation and other risks. Leverage is not a slam dunk and the level of sophistication required to model and manage its risks is beyond the capacity of the industry to deliver. ..."- Andrew Teasdale

Based on our experience we would agree with Mr. Teasdale 100%.Just in the past 2 months we have had to deal with a case where a cancer patient was leveraged up, a case where a woman was told she could deduct interest for her RRSP loan, a case where a widower was sold several DSC mutfunds using a home equity loan and a case where a retiree was convinced to take out a 3 for1 loan to "increase his monthly income". We were able to satisfactorily settle all these cases but why are these sort of thing happening so often?I shudder to think how leveraged ETF's are being sold. It is getting harder and harder to understand why a fiduciary advisory standard is not mandated in Canada.

Performance reporting is advice industry's biggest challenge - The Globe and Mail http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/performance-reporting-is-advice-industrys-biggest-challenge/article15511571/ "....The financial advisory industry has long been challenged to report accurate, personalized performance to its clients. Investment management clients have always wanted good reporting but most retail clients didn't require it because returns seemed healthy. But having survived two bear markets, investors have grown disappointed with their portfolios' growth even without knowing percentage returns. Securities regulators have mandated the reporting of personalized rates of return starting in a couple of years. I believe that this will prove more challenging for the advice industry than any other regulatory initiative – including the much-discussed best interest standard....." It will also overshadow fee disclosure as the value of advice remains very much a hot topic. It could also very well be the major factor in the embedded commissions debate. A Best interests regime is still vigorously opposed by most industry participants as it interferes with the lucrative and entrenched product distribution model.

EMDs and Conflicts of Interest Related and Connected Issuer Disclosure - Exempt Market Dealers Association of Canada
http://www.emdacanada.com/?page=EMDsandConflictso

Canada's trouble with investment adviseors-The Globe and Mail
http://www.theglobeandmail.com/report-on-business/canadas-trouble-with-investment-advisers/article15574647/ "...Regulators have already laid the groundwork for more robust disclosure of the fees that investors pay, and mutual fund companies may have to curtail the amounts they pay to advisors in return for selling their products. These are, potentially, radical shifts in a business that has been slow to change. Dave Agnew, head of Canadian wealth management at Royal Bank of Canada, calls it the "largest challenge that the wealth management industry has faced in many, many years." Yet some advocates for reform are skeptical about their chances of success. The major chartered banks are a powerful lobbying force, and they have become more dependent than ever on fees from wealth management – it's a safe harbour as other streams of revenue decline. And despite the regulators' copious legwork, which includes holding hearings and a conducting a thorough study of mutual fund fees, critics are unimpressed. They say they have seen this all before......".We think that performance reporting will be a key driver for investor's changing attitude towards advisors. When they see the actual returns (pre-tax) their eyes will be opened and the real questioning will begin. This is a socio-economic issue that is critical to all Canadians especially the elderly and retirees. It is also critical that OBSI retain its mandate to investigate and recommend compensation for pattern abuses by the financial services industry as well as blended portfolios involving insurance products. If not, the words *Wealth Management* ring hollow. **"There is nothing more powerful than an idea whose time has come**"- Victor Hugo

Retire Happy Blog does a good job of interpreting the latest SPIVA scorecard comparing active versus passive investing. The 5-year results look quite dismal for active investors.[thanks to Michael James on Money]

Canadian Couch Potato explains the hidden cost of bid-ask spreads when trading. I wrote about this topic myself in the early days of this blog.[thanks to Michael James on Money]

Resolving Investor disputes: Is your advisor to blame?
http://www.robertson-devir.com/pdf/Is%20Your%20Advisor%20to%20Blame.pdf

Million Dollar Journey **compares the top Canadian brokerages that offer U.S. Dollar RRSPs.** He compares them on fees and on how well they handle currency exchanges between Canadian and U.S. dollars. The Globe and Mail has also come out with its 2013 ranking of online brokerages.[thanks to Michael James on Money]

UK Final Guidance on Suitability (2011)
http://www.fca.org.uk/static/documents/final-guidance/fsa-fg11-05.pdf

Beware the sales pitch for actively- managed mutual funds

"....Some of the biggest investment firms in the world sell index-tracking ETFs, including BlackRock, Fidelity, Invesco and Vanguard. A growing number of advisers incorporate ETFs into fee-based accounts, where you pay an advice charge of something like 1 per cent of your account value every year plus the fee charged by the investments you own. And yet, banks, insurance companies and investment dealers prefer to manage your wealth the old-fashioned way – through mutual funds and similar products. That's because active management is much more lucrative for them, says Larry Swedroe, an investing columnist on CBS MoneyWatch, a principal with Buckingham Asset Management in St. Louis, Mo., and the author of several best-selling investment books.
"If you're a passive investor, you pay low fees. They [investment firms] don't want low fees," he said during a visit to Ottawa recently. "Getting you to be passive takes money out of their pocket."..."If trailers were split out of funds, results would be somewhat better. Challenge for industry is to prove that the trailers (advice sort of) more than compensate for the long term deterioration of performance. Some have argued that un conflicted advice can in fact pay off for retail investors. The evidence for conflicted advice based on the suitability standard is to the contrary according to a number of international research studies.

Borrowing to invest in high-payout funds: a numerical example « The Wealth Steward
http://thewealthsteward.com/2011/11/borrowing-to-invest-in-high-payout-funds-a-numerical-example/
We have a number of cases where seniors were duped by ROC (T class) mutual fund marketing hype.It must be that OBSI is seeing this as a systemic issue especially for the elderly and retirees.

professional should be obtained.

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