SIPA Sentinel

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Small Investor Protection Association - A voice for small investors

The SIPA Sentinel is issued bi-monthly. From time to time articles and re-prints are included that offer opinions on subjects related to investment and regulation. These are meant to help increase investor awareness, and SIPA may not share these opinions.

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INVESTMENT INDUSTRY'S $1B IN UNPAID FINES 'A NATIONAL DISGRACE'

'Canadians are not protected and I believe the majority of people believe that they are'

By Yvonne Colbert, CBC News Posted: May 04, 2016

A new report says fines alone are no deterrent for financial advisors who break the rules because there's little effort to collect them.

Yvonne Colbert

Consumer Watchdog

Yvonne Colbert has been a journalist for nearly 35 years, covering everything from human interest stories to the provincial legislature. These days, she's focused on helping consumers get the most bang for their bucks and avoid being ripped off. She invites story ideas at yvonne.colbert@cbc.ca.

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- Is your financial adviser or planner qualified? Many aren't
- Couple loses $80K after mutual fund salesman fakes signatures
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- BMO reimburses retired couple $50,000 after Go Public investigates

Some of Canada's financial regulators may boast of the penalties handed to wrongdoers, but a non-profit that represents small investors has found nearly $1 billion of those fines have gone unpaid, calling it "a national disgrace."

Debra McFadden, with the Small Investor Protection Association, spent six weeks gathering information for the report.

The report begins with a Feb. 23 tweet from the Canadian Securities Administrators: "A price to pay for misconduct: $138M in fines/penalties ordered by CSA in 2015."

"It's one thing to fine someone but if you have no expectation or no drive to actually collect the fine what good is it?" asked McFadden, the report's author.

"It does not act as a deterrent, in my opinion."

She called the report's findings the tip of the iceberg and said the real problem is that the fines reflect "many, many, many burned, hurt and abused financial victims."

McFadden said quite often fines are nothing more than a slap on the wrist.

"Many of the cases don't even end up with fines. They end up with warning or cautionary letters so the real iceberg is the many victims it leaves behind."

No records of amounts owing

After spending weeks researching the report and adding up the outstanding fines, McFadden said she was shocked to learn no organization kept a record of the total amounts owing.

"Nobody had these figures easily available," she said. "If somebody said 'how much is owing to you?' would this not be a figure you could easily access? I didn't find that to be the case anywhere."

The Nova Scotia Securities Commission reports $1.65 million in unpaid fines. They refused to disclose the exact amount outstanding from each person, citing privacy. Manitoba, on the other hand, released the names and amount paid.

Collecting fines has challenges

The organizations that issue fines told CBC News it's not always easy to collect them.

Kim Lachapelle, secretary general of the Canadian Securities Administrators, acknowledges collecting money from wrongdoers continues to be challenging "as they often have spent, hidden or lost any funds they may have made when breaching securities laws."

Lachapelle told CBC News every reasonable effort is made to enforce sanction orders and collect fines, saying even faced with low recovery rates the "real deterrent value arises when violators come to know that they face large monetary sanctions that we expect to be paid."

The Mutual Fund Dealers Association, which has outstanding fines totaling more than $56 million, said it collects 100 per cent of fines from firms, companies and individuals who are approved to work in the industry and who remain as MFDA members.

Spokesman Ken Woodard said Alberta is the only province where the MFDA has powers to collect fines from members through the courts. Quebec allows it but the organization does not operate there.

"We have requested statutory fine collection powers from the provincial regulators [securities commissions] on several occasions but have not received them," he said.

System needs an overhaul

The Investment Industry Regulatory Organization of Canada, the national self-regulatory group that oversees investment dealers, is also seeking those powers. It has almost $28 million in outstanding fines.

"It is unacceptable that disciplined individuals can evade payment, abandon their registration and move to another area of financial services with the new regulator or potential clients not knowing what they've done," president and CEO Andrew Kriegler said in an email to CBC.

McFadden said more needs to be done to hold firms accountable for the actions of those who sell their products.

"If you're fining only the advisor and not the firm itself, and not the supervision that's there, then the firm has benefited from the wrongdoing and that shouldn't be in a just society," McFadden said.

She feels self-regulation, what she calls "the industry taking care of itself," is not working and the government needs to step in.

"The system truly needs an overhaul. Canadians are not protected and I believe the majority of people believe that they are," she said.

IS FIDUCIARY DUTY ESSENTIAL TO PROTECT INVESTORS?

> ***"A fiduciary standard for all providers of professional financial advice is essential."***
> **Ken Kivenko, SAC Chair** - August 12, 2016

For many years there has been discussion about the behavior of the industry and regulators. There are countless studies and reports in Canada and elsewhere regarding suitability, clients' best interests and fiduciary duty. The current system is based on suitability which is ill defined and meaningless. Fiduciary duty is the highest level of responsibility and is a requirement for doctors, lawyers and other professionals. Although the investment industry wants to have professional status they do not want the requisite legislated fiduciary duty that goes along with it. They want all the benefits that go with a professional designation but none of the real responsibilities. The regulators are attempting to show they are moving the industry forward but at the same time are appeasing the industry pushback, by settling for a Best interests Standard as opposed to the clearer and higher standard of a fiduciary duty. The investment industry has a history of playing with words and creating perceptions so we would expect they could manipulate best interests to suit their purpose.

In the USA they have finally introduced a law requiring "Advisors" looking after retirement savings to have a fiduciary responsibility, but this will not apply to other accounts. The industry has fought against the imposition of a fiduciary duty for many years. Finally it was the U.S. Department of Labor that introduced legislation imposing a fiduciary duty on those who handled retirement savings. President Obama spoke to the American Association of Retired Persons supporting this legislation but still the industry resisted and tried to introduce changes to the legislation.

The industry is not interested in the welfare of investors but looks upon ordinary citizens as a source of wealth they want to transfer to the industry. Several years ago a hedge fund manager was being interviewed by a TV journalist. When questioned on how he could live with the devastation he was causing for small investors he replied: *"I don't look upon them as people, I look upon them as sacks of gold and it is my job to get those sacks."* For me it was an incredible statement to view on public television and indicates the arrogance of the industry. It makes me wonder how an elected Government can allow these things to happen, or how they can fail to take action when they do happen.

The following article published in Wealth Professional is about a lawyer Rob Tétrault who became a money manager and says "*We need to be acting in the best interests of our clients. Why would we not?"*

Lawyer-turned-money manager emphasizes fiduciary duty

by Leo Almazora 12 Aug 2016

The best defense is a good offense, as they say. The adage is often quoted in the context of war and sports, but it applies even in more mundane clashes–such as debates over financial regulation.

As many advisors continue to rail against new fee disclosure rules imposed under CRM2, National Bank Financial Portfolio Manager and former lawyer Rob Tétrault defended the measure by attacking its critics in a BNN video report.

"I think there are a lot of clients that are in for a big shock because if you have an A-class mutual fund that pays a trailer, people don't see that, and there's going to be a big, big change," he says in the video. "Specifically, some of the smaller IIROC firms–or I would say, perhaps people who haven't been disclosing their fee are going to have major issues."

Tétrault explains his point by contrasting his previous industry with his current one. Lawyers have a fiduciary obligation to work in their client's best interest, and he says it does not exist for investment advisors.

"In our industry, unless you are a PM, a portfolio manager–and there's less than 10% of [people in our industry] that is a PM–the advisors do not have an obligation, which means there could be double-dipping in fees," he says, before correcting himself: "There is double-dipping in fees."

When asked why there's so much pushback from the industry against applying the fiduciary duty to advisors, Tétrault asserts that the opposition's argument is not solid and is just motivated by resistance to change.

"Change is difficult… it needs to happen in our industry. We need to be more transparent. We need to be acting in the best interests of our clients. Why would we not?"

He elaborates by questioning the practice of the deferred sales charge, "an upfront commission in exchange for locking in someone for a period of time", which he says has been banned at National Bank and other banks.

"If we ever do something like that, we always do what's called F-class: no load, clients see what they're paying, they see it on their statement, they know what the advisory fee is, and there is no locking in of any kind. There's liquidity. You can sell, and that's important in this day and age."

He also questions the incorporation of commissioned products in fee-based accounts.

"You're paying a monthly management fee to your advisor for his advice and to trade the account, and on top of that we're seeing commissioned products in there. To me, that has to end."

SIPA ACTION TO RAISE AWARENESS

"What retail investors really need is a national Investor Protection Agency and a statutory Financial Ombudsman free of industry influence."
Ken Kivenko, SAC Chair - August 13, 2016

Many Canadians are not aware of the **deceptive practices of the industry** to transfer wealth from Canadian savers and investors to the industry.

The **public perception** that the investment industry is well regulated and can be trusted with people's savings has been created so that people place their complete trust and their savings with a commission motivated sales staff. While some of these sales persons do try to look after their clients there is no legal requirement for them to look after their **best interest**.

As a result investment products and strategies that provide the greatest commissions are most often sold to investors and often the result is investors losing their savings. The industry provides the Ombudsman for Banking Services and Investments (OBSI) to resolve investors' disputes but their mandate limits them to making recommendations and there is no authority to ensure that the industry follows those recommendations. As a result investors are often forced to accept low ball offers or litigate.

Last year SIPA held a Video Contest to engage young people into preparing videos with messages to raise awareness. Six winners were selected from entries received from the United States and Canada. This issue includes an article about Tanner Fletcher from Lethbridge, Alberta, who is one of the winners. All six winners have been posted on the internet at ***http://www.sipa.ca/contest/contestWinners.html***

Also last October the Sentinel published an article "Strategic Insidious Deception" which outlines the deception perpetrated by the industry to mislead the public. The deception is complex with many facets but has been effective in enabling the industry to transfer wealth from the public at a rate estimated to be well in excess of 25 billion per year. See page 4 of the Sentinel October 2015-
http://www.sipa.ca/library/SIPASentinel/2015/160-SIPASentinel-201510.pdf

The real impact is not shown by statistics. It is the individual life-altering loss when a family loses their life savings. It impacts the current family as well as succeeding generations as legacies are destroyed. It can disrupt families, cause health issues, destroy faith and hope and sometimes results in suicide. The records show that the industry will not change itself, therefore Government must act to protect all Canadians from harm by establishing a national authority to protect investors as recommended by the CARP/SIPA report "Giving Small Investors a Fair Chance":
http://www.sipa.ca/library/SIPAdocs/CARP-SIPA_Report_20040928.pdf

This year SIPA published a report "***Unpaid Fines: It's a National Disgrace***". Research shows that the fines announced by regulators is an illusion of effectiveness – most aren't paid. More than $899,216,448.32 in fines are owing to Canadian regulators. This report illustrates one of the facets of Strategic Insidious Deception where regulators claim to protect investors by fining the perpetrators of wrongdoing. Headline grabbing fines help to convince the public that the regulators are protecting them but the fact is few of the fines are collected. SIPA research shows that almost one billion dollars of fines remain uncollected.
http://sipa.ca/library/SIPAsubmissions/500%20SIPA%20REPORT%20Unpaid%20Fines%20A%20National%20Disgrace%20-%20April%202016.pdf

More recently SIPA published a report ***"The Know Your Client Process Needs an Overhaul"*** indicating how the industry manipulates these forms to deceive and facilitate the transfer of wealth from the public to the industry. Just one more facet of Strategic Insidious Deception.
http://www.sipa.ca/library/SIPAsubmissions/500%20SIPA%20REPORT%20-%20KYC%20Process%20Needs%20Overhaul%20-%20201607.pdf

SIPA is continuing research and will continue to expose more facets of Strategic Insidious Deception that causes so much grief to Canadians.

SPOTLIGHT ON TANNER FLETCHER'S FILM "FINANCIAL ADVISOR"

SIPA believes the very foundation that underpins the client/advisor relationship is often not what the client believes it to be and that the public has the right to know the truth. In fact the title "Financial Advisor" is considered an "unregulated business title" by the regulators mandated to protect Canadian investors The investment industry uses this title for commission motivated sales persons.

Since its formation in 1998, SIPA has been a strong advocate and voice for the small investor. SIPA works for reforms to better protect the small investor. Change, unfortunately has been infinitesimally slow. Heartbreaking stories continue to pour in from across the nation from investors.

In March of 2015, which is Fraud Prevention Month in Canada, SIPA decided to focus on increasing investor awareness by hosting a video contest. SIPA began receiving videos from across North America. All film styles were encouraged and welcomed. By involving and engaging the public, SIPA hoped to create "mini commercials" to raise public awareness and generate important consumer discussion.

In November 2015 during Financial Literacy Month SIPA announced the winners and these are published on the SIPA website at http://www.sipa.ca/contest/contestWinners.html

Tanner Fletcher from Lethbridge Alberta took third place in SIPA's Investor Be Aware Video Contest with his wonderful animation.
Instead of a happy smiling trusting individual we have a sheep. In the introductory part of his film it states

clearly "He does not know a lot about investing", "like most people" which is a key point of the video and in the real world. Unfortunately, this makes for a good "SHEEP" candidate... ready to be fleeced!

The video makes some key points about how a lack of knowledge leaves an unsuspecting investor especially vulnerable in an asymmetrical relationship. When one party in a transaction has more or superior information compared to the other party, there is the real potential this could be a harmful situation.

"Despite the enormous financial responsibility that is entrusted to financial advisors across the country, few consumers ever question what sort of education or experience their advisors possess, or the professional standards their advisors are held to. While most people naturally assume that their financial advisors have their best interests at heart – very few know whether this is actually the case. Unlike other professions such as law or medicine, the vast majority of financial advisors in Canada are not bound by a fiduciary standard. The lack of a fiduciary standard can lead to a significant gap between the quality and objectivity of advice that consumers expect, and what is actually received"
http://dtpr.lib.athabascau.ca/action/download.php?filename=mba-15/open/punkon-aprj-final.pdf

Tanner provides a nice clear description of the difference between an ADVISER with a fiduciary obligation to put his client's best interests first and ADVISOR under the lesser suitability standard. He neatly summarizes this crucial investor message - https://www.youtube.com/watch?v=QgEJj4VOGlw&feature=youtu.be

ARE CANADIANS BEING CHEATED BY THE INVESTMENT INDUSTRY?

It is fact that many Canadians are losing their savings when they place their trust in the investment industry. Studies show that people investing in mutual funds can end up with half of what they should have accumulated over a lifetime. SIPA heard directly from many small investors claiming their mutual fund investments were not providing any return on their investment.

Even worse than non performing mutual funds is the industry practice of providing leveraged investment either by leverage plans, home equity loans, bank and mortgage loans or margin accounts. Risks inherent with investing borrowed money coupled with product selection by commission motivated representatives too often result in substantial loss of savings.

It is also fact that there are no adequate means for victims of loss to gain restitution. Although the regulators claim to provide investor protection their approach is preventative rather than remedial. It has not been possible for them to prevent investor loss and they do not provide remedies to make victims whole again. Results show that Industry sponsored dispute resolution is not satisfactory so investors are left with civil litigation which often is not possible for some victims. It is also fact that civil litigation is costly and takes time.

An additional factor is the reduced limitation period or the time within which an action must be started. In most cases it is two years. The regulators insist that victims must try to resolve their dispute with industry before proceeding with civil litigation. Many victims find it impossible to comply within the two year period. The industry is slow to respond and introduces delays in the process. As a result many victims are destined to survive with a diminished lifestyle.

These issues have been discussed for decades but are still not resolved. It is improbable that self-regulation will provide any satisfactory resolution.

This is an issue that requires Government intervention. SIPA first recommended a National Investor Protection Agency in a report on mutual funds prepared and published in partnership with CARP in 2004. The report *"Giving Small Investors a Fair Chance"* recommended:

> *"In order to ensure investor protection, a federal Investor Protection Act should be passed which includes the establishment of a single, national independent Investor Protection Agency (IPA) accountable to Industry Canada or the Attorney General of Canada."*

The Government provides the Canada Pension Plan for some people and Social Security for all. However this does not provide for lost savings due to industry fraud and wrongdoing.

The self-regulated investment industry is failing to provide adequate protection for Canadians being victimized by industry fraud and wrongdoing so SIPA is now asking Government to take action on a national basis to provide remedial protection for all Canadian small investors.

A NEW BOOK 'EASY PREY INVESTORS'

A new book "Easy Prey Investors" has been written by Al Rosen and Mark Rosen who founded Accountability Research Corporation (ARC) and acted as forensic accountants and expert witnesses for many of the largest fraud cases in Canada. It was the ARC Report on Business Income Trusts that precipitated the Government to take action to stop this spreading fraud. The Sentinel has featured many articles written by Dr. Al Rosen.

The book is published by McGill-Queen's University Press = ISBN No: 9780773548190

A main purpose of the book is to explain how Canadian financial statements are being manipulated and how investors can learn to detect such trickery, which then must be avoided through investing elsewhere. The authors draw upon their extensive experience with Court cases and investigations of financial deception and fraud schemes, so as to show what actually happened. Readers are guided through numerous corporate failures and financial reporting deceptions.

Canadians unfortunately appear to believe that adequate investor protections exist. But such a belief is far removed from reality, based on what has happened. Misleading advertising has attempted to cover-up a growing problem of deception in Canada. Analysis of Nortel, many Business Income Trusts, Livent and hundreds more failed companies has displayed serious flaws in their financial reporting. These dangers were uncovered by a few trained people, but overall were ignored, until the companies collapsed. Investor losses have piled up through not taking necessary protective measures.

Much attention in the book is given to a series of events since 1997, arising in large part from an unusual decision by the Supreme Court of Canada (SCC). In broad terms, SCC's decision gave widespread immunity from prosecution to external auditors (supposed protectors of investors) who had signed normal audit reports when corporate financial statements had been materially misleading. Auditors' obligations to prospective investors suddenly became non-existent. The needs of financial analysts were also largely ignored by the SCC. Overall, several disadvantages to investors arose from the 1997 SCC decision, especially because more and more misleading financial statements caused bloated stock prices.

Since 1997 a similar wave of consequences have occurred because Provincial securities commissions, and lawmakers, have largely ignored Ponzi and Pyramid schemes. Public investigations into stock collapses have not occurred for over 30 years. Thus, important knowledge such as causes of financial failures have been withheld from the public.

The most recent tragedy for investors has been the external auditors introduction into Canada in 2011-2012 of IFRS (International Financial Reporting Standards). Surprisingly, no government in Canada has objected to IFRS, which gives extensive unchecked power to corporate managers to manipulate reported dollars and explanations. A whole, new set of financial trickery has thus been made available, and is now increasing losses in pensions, mutual funds and other savings instruments.

IFRS is a major step backward in investor protection. Yet, investors are being seriously misled by false advertising. "Easy Prey Investors" shows investors how to protect themselves by employing early detection of financial trickery. The U.S., for example, has its own reporting rules and is unlikely to protect Canadians, as it has done many times in the past. Investors in Canada thus must safeguard themselves by following the detailed advice in this book.

The SIPA website provides further information about "Easy Prey Investors" and investors are urged to read this compelling book to better understand the investment industry with which we deal.

CONCEALED COMMISSIONS – ANOTHER FACET OF SID

Canadians are being deceived in many ways which is why SIPA calls the deception of the investing public Strategic Insidious Deception. One of the many ways is the concealing of commissions. Many investors believe their representative does not charge them fees. The fact is that regulated people using the title "Financial Advisor" are commission motivated sales persons. These sales representatives receive sales commissions paid by the fund companies directly and receive "trailer fees" which are commissions paid annually.

The following article published in the Globe and Mail and written by David O'Leary CFA who works in the industry describes why he feels banning embedded commissions would be good for both investors and the industry. Of course there are many good people in the industry but there is a limitation on what they can do as individuals. However it is hoped that combined efforts of the best people in the industry and investor advocates will eventually result in a better investment environment for both investors and professional industry representatives.

Why we'd celebrate a ban on embedded commissions for advisers

By David O'Leary - Contributed to The Globe and Mail
Published Wednesday, Jul. 20, 2016
David O'Leary, CFA, MBA is managing partner at Eden Valley Partners, a wealth management practice in Toronto

The Canadian Securities Administrators recently took another step closer to banning embedded sales commissions to financial advisers. My colleagues and I celebrated this news, since we believe a ban on commissions would be a huge win for both investors and our industry. Surprisingly, many industry stakeholders still argue against a ban.
Here's why they're wrong.

Embedded sales commissions (also known as trailer fees) have two contentious problems: They create a conflict between the interests of adviser and clients, and they obfuscate the fees investors pay.

Embedded commissions present a conflict of interest because the adviser is being paid by the very provider of the investments they are recommending to clients. It would be like your doctor getting paid by pharmaceutical companies for prescribing their drugs to you. Even worse is the fact that different investments pay different commission amounts to advisers. So as an investor, you don't know whether your investments are the very best ones out there, or just the ones that rewarded your adviser most handsomely.

The second problem with commissions is that they are embedded within a larger fee (known as the MER, or management expense ratio) that bundles together all sorts of fees to various parties. This makes the amount a client pays the adviser far less transparent. In my experience, most clients don't realize their adviser receives any part of the MER – if they're even aware they are paying an MER.

Those who object to a ban on commissions are almost exclusively people who stand to profit from them. And they offer a variety of disingenuous arguments to defend them.

One common argument is that banning commissions would hurt investors since it would reduce the amount of choice they have in how they pay for financial advice. Portfolio manager John De Goey has been quoted with an excellent response to this: "Today, most restaurants offer a choice between tap water and carbonated water. Would adding a third option – toilet water – make for better outcomes?" Another common argument claims that Britain banned commissions to disastrous effect. Claims are made that banning commissions created an advice gap, where smaller investors can't find advisers willing to serve them. This is blatant disinformation. No one knows precisely what impact the banning of commissions has had there. There are two reasons for this. First, we don't have enough data yet. The British ban came into effect just more than three years ago. And second, banning commissions was just one part of a sweeping set of changes known as the Retail Distribution Review.

Britain's Financial Conduct Authority has attempted to measure the impact of these changes and published a number of reports. Everyone admits their conclusions are tenuous, though, given how little data we have . Moreover, these changes were made against the backdrop of an evolving technological and sociological landscape, so that it may never be possible to isolate the effect of banning commissions from all the confounding variables.

More important, we have good reasons not to fear a dramatic advice gap in Canada. We have a healthy and robust banking system that gives the vast majority of us access to advice at a reasonable cost. And we have been a beneficiary of the trend toward robo-advisers.

Instead of fighting a commissions ban, let's promote financial literacy. That starts with clear information about what investors are paying for advice, and a system of adviser compensation that allows investors to trust they are receiving objective advice.

If we're successful, the industry won't have to hide the true cost of financial advice, because Canadians will see its full value and willingly pay a reasonable fee for it.

RETIREMENT SECURITY ON ZOOMER TV

An excellent video had been produced by Zoomer TV featuring Faith Goldy and Wanda Morris Vice President Advocacy at CARP. They gather experts to discuss financial challenges Canadians face as they reach retirement. It features several financial experts and interviews victims of financial aggression Julia Lipovetsky and Peter Whitehouse who are prepared to come forward and speak out to help other Canadians.

It all started with a comment by Moses saying *"When we survey them Zoomers say their biggest fear about retirement is outliving their money. The problem is exacerbated by a still too often murky financial planning industry that is not well regulated and short on accountability to clients."*

Wanda Morris states *"Seniors and CARP members trust their Advisors and unfortunately that trust is often misplaced." "One thing that is important is to realize that your Advisor is not your friend."*

Keith Ambachtsheer states *"As soon as you get into the mud of how your Advisor is going to be compensated for a particular recommendation they make there is a clear conflict of interest there."*

It is recommended that you watch this Zoomer TV Retirement Security program available at:
http://www.thezoomertv.com/videos/retirement-security/

AVERAGE CANADIAN PAYS $324,000 IN MUTUAL FUNDS FEES IN LIFETIME

As Debra says "This amount is staggering!" Certainly there are many investors who told their stories to SIPA about losing money with mutual funds. Often the high fees combined with leveraged investments resulted in small investors losing significant amounts and sometimes all of their life savings. Of course the facts are covered up by industry, because if the truth was known Canadians would be more circumspect about trusting their savings with mutual fund sales persons.

Unfortunately many believe that mutual funds are a safe way to invest your savings but find out too late that the public is being fleeced by an industry and the regulators are part of the program to transfer wealth from the public to the wealth industry. Six figure salaries insure that the regulators are on the industry side and it seems their only role is to create the perception that the industry is well regulated and the regulators protect investors.

The charade of levying significant fines on the perpetrators of fraud gains headlines to reinforce the perception that the regulators are on the investors side, is debunked by the SIPA Report which discloses that most of the fines levied are never paid … almost One Billion Dollars.

That coupled with the fact that the regulators condone the industry use of false titles to gain public trust, should be enough to convince most Canadians that the regulators are not there to protect investors. You are on your own and need some basic knowledge before investing your hard earned dollars.

An article published in *www.wealthprofessional.ca* states:

> *"When we were sitting around as a company, we realized there still wasn't an easy way for Canadians to figure out how much in total they were paying in fees. How much in many cases is quite a bit*

indeed, with data from Nest Wealth showing the average Canadian household pays $323,654.40 in mutual fund fees over their lifetime."

Investors paying "staggering" fund fees, says robo-advisor chief

by David Keelaghan22 Jul 2016

It's been one week since the third phase of CRM2 came to pass, bringing a great deal of discourse among the investment community about its merits or lack thereof.

Randy Cass, CEO of Canada's largest independent robo-advisor Nest Wealth, considers the measure a positive, albeit not exactly an absolute solution.

"CRM2 is a good first step, but it doesn't give a total amount of fees being paid," he says. "We now know the fees going to advisors, but that's trailer fees and not MERs. It was our belief (at Nest Wealth) that if we created a tool to allow Canadians to know the total amount they are paying each year, it would make a big difference."

That tool is a fund calculator which allows investors to calculate exactly how much they are paying in fees. The timing, coming hot on the heels of CRM2, means the issue was already a real talking point as the product launched this week.

"It was appropriate timing: we thought the industry's attention would be focused on greater transparency on fees," says Cass. "When we were sitting around as a company, we realized there still wasn't an easy way for Canadians to figure out how much in total they were paying in fees.

How much in many cases is quite a bit indeed, with data from Nest Wealth showing the average Canadian household pays $323,654.40 in mutual fund fees over their lifetime. The fact that many of these people are unware they pay such a huge figure meant Cass and his firm felt they had to act.

"We asked how much the average Canadian pays each year in fees and the amount is staggering," he says. "We can't wait a year for these numbers to appear on statements – that's tens of thousands of the average person's savings. We thought the sooner we could release this tool, the better off they'll be."

It's clear that ETFs and other investment vehicles are increasing in popularity as the fee issue becomes more and more prevalent. That being said, mutual funds remain the overwhelmingly dominant investment option, which should mean the drive for greater transparency in the industry will continue on long past CRM2.

"We still have about $1.4 trillion dollars in mutual funds in Canada versus less than a tenth of that for ETFs," says Cass. "There still is an excessively large amount of people that might be unaware of the fees they are paying and the alternatives out there like ETFs."

INVESTOR BE AWARE – Watch this short video and pay heed.

https://www.youtube.com/watch?v=Aj2muWAlAEY

INVESTMENT COSTS ARE HIDDEN FROM CANADIAN INVESTORS

Canadians are losing out with their investments because they simply place their trust in a "Financial Advisor" and many believe they are not paying any fees. They seem blissfully unaware that their "Advisor" is simply a commission motivated sales person used by the industry to sell investment products to an unsuspecting public.

Most people are not aware that a great number of Canadians are in fact losing their savings when investing in mutual funds which they believed was a safe way to invest. The magnitude of these losses is covered up by industry. Victims who pursue a complaint may receive a small amount of restitution but to do so must sign an agreement to not disclose the details of the settlement. This document is commonly referred to as a "Gag Order" as it is effective in preventing victims from alerting the public.

However in this age of communication knowledge is spreading and we see more and more articles that should make the public more aware so they can protect themselves. However many still believe that the industry can be trusted and that the regulators will save them from harm.

The reality is the investment industry is in the business of selling financial products to maximize their profit. They use sales people motivated by commission to sell the products. To facilitate the selling process and gain public trust they call their sales person "Financial Advisor", "Vice President" or some other title which the regulators call "unregulated business titles" and allow this deception to continue.

There are also some good representatives in the industry who do try to help their clients but they are limited in what they can do because the industry is organized to sell products rather than to provide advice. The fact is there is no legal requirement for your so-called "Advisor" to look after your best interests.

We believe it should be in the regulators' mandate that they disclose the facts and not facilitate the industry's deception of the public. The regulators mandate should include a requirement for remedial investor protection rather preventative investor protection. Time has proven their preventative approach has not been effective. Even worse they seem to facilitate the deception inherent in the industry. The use of false and misleading titles is only one of the most overt deceptions.

The following article published by Investment Executive indicates that Canadians seem unaware of what is happening with new disclosures and are not aware of their need to know. It is unfortunate that most investors do not become aware until they have incurred substantial loss.

Canadians unaware of investment costs

Advisors must inform clients of the fees they pay as a new survey finds that most Canadians don't know their fees will be revealed in statements thanks to CRM2

By Tessie Sanci | July 12, 2016

Almost two-thirds (63.1%) of Canadians don't know how much they pay in investment-management fees while a similar percentage (65.1%) of Canadians are unaware this information will be revealed in their account statements when enhanced performance and compensation reporting required under the second phase of the client relationship model (a.k.a CRM2) takes effect this Friday, according to a survey that Toronto-based robo-advisor Justwealth Financial Inc. released on Tuesday.

However, preventing "sticker shock" when clients see statements that specify what they have been paying in dollars, and not percentages, is still possible, according to April-Lynn Levitt, a coach with the Personal Coach in Oakville, Ont.

Although the new rule takes effect July 15, most dealers will not deliver those enhanced statements until January 2017; therefore, advisors still have some time to help their clients understand their fees and the services they receive in exchange for those fees.

One element of helping clients understand CRM2 and the new reporting requirements is telling clients more than once about what they can expect to see in those statements. Although many advisors are not having those conversations with clients, the ones that are approaching the topic are often doing so only once and think that that's enough, says Levitt.

"Like any message, [it probably] takes five to seven [conversations] before it sinks in for somebody who's not in the [investment] industry," she explains.

Advisors should also be explicit in explaining to clients what they pay in dollars to the firm and how much of that fee goes to advisors, Levitt recommends, and this effort should especially be made with high net-worth clients.

Additional information concerning CRM2 and how it will affect clients can be made available through newsletters as well as in client review meetings. Advisors can take advantage of resources such as videos and sample statements their firms have made available that can help communicate the message, Levitt suggests.

This is critical in keeping clients on board because approximately half (51.3%) of Canadians say that the costs related to investment services would be a key factor in considering a migration to an online investment platform, according to Justwealth's report.

Advisors must respond to any possible objections about price by communicating the tangible and intangible services they provide to clients, especially those that robo-advisors cannot be offer, says Levitt.

These services can include the development of detailed financial, estate or succession plans; helping clients stay invested during temperamental markets, when they might be tempted to pull out; and listening to clients talk about sensitive issues that concern them, such as their families.

Although survey participants were asked what would motivate them to choose a robo-advisor, more than 80% say they're still unfamiliar with the services these platforms provide.

This statistic would probably apply just as equally to advisors, according to Levitt, who finds that many are unaware of services and fees connected to online investment management platforms — a fact that advisors may want to change in order to stay competitive.

"[Advisors] should know [more about robo-advisory services] so you can position yourself against them if [the topic] does start coming up from clients," she suggests.

Justwealth's research was conducted in June and earlier this month through Google's consumer survey service. It uses the responses of a maximum of 700 Canadians who are 25 years old or older from all provinces and territories.

SIPA REPORT ON KYC - What if you lost everything?

The SIPA Advisory Committee prepared a report titled *"The "Know Your Client" Process Needs an Overhaul"*.

This report deals with the Know-Your-Client form which is meant to define the client profile and the strategy for investment. The fact is the KYC forms are often not shown to the client, are often prepared after the fact to reflect what the registered representative has done. It is not unusual that client's signatures are forged or traced. It is interesting that the industry uses a term "window signature" when a form is needed to satisfy regulators during superficial inspections.

There are many deficiencies in the current system due largely to industry culture that is unlikely to change in the near future. Therefore it is essential that Governments act to revise Statutes to ensure that all firms and individuals that offer investment advice are held to a fiduciary standard regardless of their registration or business titles.

What's in a name? Does the title of your investment professional matter?
"Persons who are registered under the Securities Act (Alberta) as Dealing Representatives (for example) are generally licensed to sell you products sold by the investment firm they work for, and are obligated to provide you with advice on the suitability of those products for your circumstances. In that sense, it's not unlike purchasing a car from a dealership. If you walk into a Volvo dealership, and explain your needs (four-door, certain horsepower) the person working there will suggest the most suitable Volvo for your needs. While they might have a small selection of other makes and models in their inventory, they are not required to know about, or recommend, any make or model that is not in their inventory that might meet your needs as well, or better. This is true no matter what job title they use, be that "personal banking associate," "investment representative," "investment specialist" or any other title."
http://www.albertasecurities.com/investor/investor-resources/you-ascd-blog/Lists/Posts/Post.aspx?ID=63

The Know-Your-Client form, intended to define the client profile and an investment strategy is woefully inadequate.

CONCLUSION

CRM and improvements to KYC are part of the journey towards implementing fiduciary/best interest type standards. KYC is a critical element in the advice giving process. Today, clients are receiving conflicted advice under the suitability standard. Improvements to the KYC are needed to raise standards and prepare the way for the road ahead. Registrants need to be ready to accept the higher responsibilities via improvements to their core processes .The industry will not be able to move as is to higher standards without change - they need the tools and the KYC is a critical tool.

We believe our suggestions will make it a more robust process. We urge all stakeholders to review this report and consider the changes we are recommending. Ultimately, a Fiduciary standard is required if retail investors are to be able to trust the "advice" they receive. If regulators are unwilling or unable to implement a Fiduciary Standard then Government intervention is a necessity.

AN OBSERVATION BY SIPA's PRESIDENT

"I feel all the reports, studies, conferences matter not. Listen to what the victims are saying. Count the number of victims. Count the damage to citizens' savings. Count the destroyed lives ... impoverishment, loss of trust, loss of family, loss of faith and sometimes loss of life. Then tell me there is no need for action, except for more studies, more reports, and monitoring. – Stan Buell, President of the Small Investor Protection Association commenting on the JRC plan to "monitor" OBSI and the remark "they expect firms to act in good faith".