SIPA Sentinel

March 2018

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.

In this issue:

STROMBERG'S WORDS IN 1999 STILL RELEVANT

Glorianne Stromberg is a former commissioner for the Ontario Securities Commission. Her 1995 ground-breaking report on mutual fund regulation, while highly controversial, resulted in many positive changes in the industry. Her second major report published in 1998 *"Investment Funds in Canada and Consumer Protection: Strategies for the Millennium"* called for additional reforms to help individual investors get better advice and information. Ms. Stromberg was an early supporter of SIPA and prepared a presentation *"Streetproofing for Investors"* for a SIPA Public Forum on June 6, 1999. Her closing statement at the event in Markham, Ontario still rings true today.

> *"Our current regulatory system is failing. One reason for this is that the voice of the consumer/investor has not been heard.*
> *Your complacency is working against you. As long as you remain passive, unknowing and uninterested, nothing will happen. Regulators are not going to lead the way nor will government and industry. For change to happen, you must make it happen. Your "outrage" will spur government and industry to respond. Your "outrage" or "consumer resistance" will be the catalyst that spurs industry to offer better value to investors. Your demand for governments to get their acts together to make our regulatory structures and our basic laws work better throughout Canada will be the impetus for governments to act. Right now governments are hearing from only one segment of the public - those who sell financial services products who think the status quo is just fine. And why wouldn't they. After all, it's a pretty profitable business for them. Get involved. Your well-being depends on it.|"*

Sadly there has been little improvement in investor protection and Canadians are still losing their savings due to systemic industry fraud and wrongdoing.

You must speak out. Let your voice be heard!

A SINGLE VOICE RAISED AN ARMY

An article by Juliet Macur in the New York Times features Rachael Denhollander, the first former gymnast to go public with accusations of abuse by Dr. Lawrence G. Nassar, was also the last of 156 people to speak at his sentencing hearing. Women are beginning to speak out against sexual misconduct and the world will take notice.

We are hopeful that this will be the harbinger of an awakening that will include the disclosure of financial misconduct. The programs and articles by CBC Go Public and CBC News are raising public awareness. Already many have reached out to the CBC.

Over a decade ago SIPA exposed financial wrongdoing as a cause of major financial loss by ordinary Canadians and referred to it as the "Iceberg Problem" as the amount exposed was but a very small part of the total personal damage caused by an out of control industry.

The complete article is available at the New York Times website. An excerpt follows.

https://www.nytimes.com/2018/01/24/sports/rachael-denhollander-nassar-gymnastics.html

In Larry Nassar's Case, a Single Voice Eventually Raised an Army

By JULIET MACUR JAN. 24, 2018

Rachael Denhollander had the first word and the last one. A former gymnast who became a lawyer and a coach, Ms. Denhollander told The Indianapolis Star in 2016 that Dr. Lawrence G. Nassar had molested her as a child.

She had just read a report in The Star about U.S.A. Gymnastics' mishandling of sexual misconduct allegations against coaches. But no one had yet spoken up about Dr. Nassar, who molested young athletes for about two decades while pretending the abuse was therapy.

The Star soon published an article about the doctor, based on reports from two former gymnasts. One remained anonymous. The other was Rachael Denhollander — front and center, all alone there. In a Michigan courtroom Wednesday, before Dr. Nassar received a prison sentence of 40 to 175 years for multiple counts of criminal sexual misconduct, Ms. Denhollander, 33, spoke again. This time, she was not alone.

Over a seven-day sentencing hearing, 155 people had delivered victim impact statements to the court. Ms. Denhollander became the 156th, the final voice in a gathering of survivors who grew stronger by the day. She spoke for 36 minutes. When she was done, she received a standing ovation from the gallery of the courtroom.

Judge Rosemarie Aquilina, who presided over the case, called Ms. Denhollander the "five-star general" for an army of abuse survivors. "You made this happen," Judge Aquilina said. "You are the bravest person I've ever had in my courtroom." Ms. Denhollander said her only choice was to stand up for what was right, "no matter what it cost me."

Much of the hearing's legacy will be a cautionary tale for anyone in power who finds it easier to look away than to confront a Dr. Nassar. It will be about negligence and the incalculable harm caused by institutions that seem to prize self-preservation above all. But Ms. Denhollander's appearance in court was ultimately a hopeful reminder about the power of a single person.
…
There is still reason for worry, she said, pointing out that there had to be undetected predators like Dr. Nassar, still committing abuse. When she addressed the issue of Dr. Nassar's sentence, she repeated a phrase that should resonate: ***"How much is a little girl worth?"***

TRAILER COMMISSIONS IMPAIR MUTUAL FUND RETURNS

SIPA has heard from many small investors who have suffered loss investing in mutual funds. In Canada the many fees applied to mutual funds do reduce the amount of your savings. Credible reports indicate your savings can be reduced by 50% due to the compounding effect over a lifetime's savings. Most investors are not aware of the impact of the fees on their investments.

Recently there is talk about trailer fees being inappropriately charged by OEO (Order Entry Only) firms. These are commonly called discount brokers. The trailer fee is meant to cover ongoing advice but since discount brokers do not give advice these fees should not be charged. It is arguable whether so-called "Financial Advisors" in fact give advice as they are registered as sales persons only and therefore not qualified to give advice.

A recent article by Tom Bradley, president and co-founder of Steadyhand, wrote an article about trailer fees re-produced here for your information. Tom has over 30 years' experience in the investment industry of which 14 years at Philips, Hager & North as a Research Analyst and Portfolio Manager. PH&N was recognized as one of the better mutual fund companies.

Hidden Commissions – Who Knew?

If the provincial regulators needed more impetus for getting rid of embedded mutual fund commissions, known as trailers, they got it recently.

Last week in an article in the Globe and Mail, Clare O'Hare revealed that 83% of funds held in discount brokerage accounts pay a trailer free. As a reminder, trailers are meant to pay for on-going advice. Discount brokers aren't licensed to provide advice to clients. In the last year, this disconnect has been a concern of both the provincial regulators and IIROC, the Investment Industry Regulatory Organization of Canada, and yet, little progress has been made.

And early in the year, the British Columbia Securities Commission published results of a survey that showed "28 per cent [of B.C. investors] do not know how their advisor is paid and 36 per cent are not familiar with the types of fees they pay for the investment products they own". This is despite the commissions' push to improve client reporting through their CRM2 initiative (Client Reporting Model – phase 2).

I'm updating you on this topic because a small minority of wealth management firms is still fighting tooth and nail to stop the banning of trailers. They argue that clients should have an option as to how they pay for services. I think the lack of effort by dealers to (1) rebate trailer fees to clients who aren't receiving advice and (2) support the regulators' leadership on client reporting (see our comments on this topic here) reveals that the only ones who want payment options are the investment dealers.

The wealth management industry is already highly regulated (ask Elaine, our CFO, about it), but the refusal by a majority of providers (not all) to lift a finger on behalf of their clients' interests and understanding is appalling. Company policies are too often designed to favour the advisor and the company's revenue line, with little regard for what's good for the client. It's time to let investors see clearly what they're paying and what they're getting for it. The trailer commission subterfuge is an embarrassment and needs to come to an end.

MISGUIDED BELIEFS OF "FINANCIAL ADVISORS"

Many reports and articles have been written to express opinions on the investment industry and so-called "Financial Advisors".

However, the facts are:

- "Financial Advisors" are not qualified to give financial advice. They are registered as sales persons. The regulators say "Financial Advisor" is an unregulated business title.
- "Financial Advisors" have no legal requirement to look after clients' best interests.
- Every year Canadians are losing billions of dollars due to investment industry fraud and wrongdoing.
- Most Canadians invest in mutual funds even though it is known that the fees are high and are not all disclosed
- Canadians have greater confidence in mutual funds (86%) than other financial products such as GICs (59%), bonds (51%) and stocks (64%). - IFIC
- Canadians have invested $1.49 trillion in mutual funds as of January 31, 2018. - IFIC
- As of 2015, 33% (4.9 million) of Canadian households held mutual funds – IFIC
- In 2007 Keith Ambachtsheer published a study indicating that investing in mutual funds will reduce retirement savings by 50% compared to investing in a properly managed investment fund. This alone costs Canadians $25 billion per year in lost savings.

A study of a couple of Canadian mutual fund dealers by Juhani T. Linnainmaa, Brian T Melzer, and Alessandro Previtero makes interesting observations.

"The Misguided Beliefs of Financial Advisors"

A recently released study of two "anonymous" Canadian mutual fund dealers (over 4000 advisors, half a million clients) finds Canadian advisors recommend investments that underperform buy and hold passive strategies by 3% annually. No news here.*

The shocking revelation (shocking to me at least) is that advisors personally invest the same way and suffer the same miserable results!

These "misguided" investment advisors appear to be earnestly recommending a course of action which they themselves follow and believe to be beneficial but which, in practice, will cause serious damage.

This suggests two conclusions:

- *Advice offered by Canadian mutual fund sales people leads to severe underperformance*
- *While conflicts of interest likely contribute to bad advice, advisor ignorance is also a major factor*

Here are a couple of quotes drawn from this remarkable study:

- *"A common view of retail finance is that conflicts of interest contribute to the high cost of advice. Using detailed data on financial advisors and their clients, however, we show that most advisors invest personally just as they advise their clients. Advisors trade frequently, chase returns, prefer expensive, actively managed funds, and under diversify."*
- *"Advisory firms may [hire] precisely those advisors who will deliver sincere, but expensive, advice."*
- *"Advisors' net returns of minus 3% per year [compared to index returns] are similar to their clients' net returns."*

There can be little doubt that the investment industry is simply selling product to generate profit without consideration of client benefit. The fact that the sales persons (titled Financial Advisor) are investing in the products they sell to clients vividly illustrates that they are victims as well as their clients of the corporate pushing of products that generate the most profit.

What is amazing is that this system for harvesting Canadians wealth has been allowed to exist for so long. When one is exposed to the facts it just seems unbelievable that this could be true. However the number of lives that have been destroyed by the unfair activities of the investment industry is evidence that this is so. However the evidence is not disclosed and so the public continues to trust their "Financial Advisor" and believe he and his frim will look after the client's best interests.

It is only when people lose their money that they discover the truth and find that they are further abused by delay and denial. Then when the regulators are found not to help, it seems hopeless.

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DISAPPEARING DEPOSITS – BANKS LOSE YOUR MONEY

CBC News Rosa Marchitelli is a national award winner for her investigative work. As co-host of the CBC news segment Go Public, she has a reputation for asking tough questions and holding companies and individuals to account. Rosa's work is seen across CBC News platforms.

Rosa recently wrote an article about how bank deposits can disappear and how difficult it is to get the banks to take action to restore the missing money. The article is made possible because some individuals came forward to speak out. The complete article is available at the CBC website and some excerpts follow.

http://www.cbc.ca/news/business/banks-lost-deposits-missing-1.4512196

GO PUBLIC

Disappearing deposits: What happens when banks lose your money?

TD Canada Trust and Scotiabank won't say how often deposits are lost, but say it's rare

By Rosa Marchitelli, CBC News Posted: Feb 04, 2018

Ashley Robinson deposited $21,000 in certified cheques from the private sale of her car, then Scotiabank lost the cheques.

They thought there was no safer place to put their money — but when tens of thousands of dollars in deposits disappeared, customers of two big banks say they were left to fix the problem themselves.
TD Canada Trust lost $17,000 of Jesse Hardy's money for almost a year. In June 2016, he deposited stock certificates at his local branch. The branch was supposed to cash them through TD Waterhouse and deposit the money into Hardy's account, but a few months later he discovered the money had gone missing.

"You're trained your whole life that you put your money in the bank and it's always going to be there for you. I never thought in a million years that I would have a problem," Hardy said from his home in Courtice, Ont. Hardy needed the money to help his mother out financially. He says had to "chase" the bank for months, calling every week to find out where his money was. He became increasingly frustrated when no one called him back. "I aged 10 years in one," he said.
…
Related Stories

- *Federal consumer agency delays report on Canadian banks' sales practices*
- *Canadian financial watchdog OBSI criticized for having no powers*

- *TD insider says bank doesn't want you to know it's outsourcing work overseas*

Complaints process 'rigged'

Advocacy group Democracy Watch co-founder Duff Conacher says the banks aren't responsive in situations like the ones Hardy and Robinson dealt with because they don't have to be. He says the actual number of banking complaints is much higher than reported because so many customers get frustrated and walk away from the complaint process. (Marc Robichaud/CBC) He says agencies in charge of investigating complaints lack independence from the banks and there is no requirement for banks to respond to problems quickly or repay money that's lost.

Rising rates of complaints suggest Canadians are increasingly unhappy with their banks, according to numbers reported by Canada's two banking dispute resolution agencies. The Ombudsman for Banking Services and Investments (OBSI) reports a 21 per cent increase and ADR Chambers Banking Ombuds Office (ADRBO) reports show a 27 per cent increase.

…

Dispute decisions favour banks

CBC News also found both OBSI and ADRBO tend to resolve disputes in favour of the banks. In 2016, ADRBO's numbers show it sided with the complainant in 15 per cent of cases and with banks in 74 per cent of cases. The remaining 11 per cent was split.

For the same year, 21 per cent of banking complaints to OBSI that were resolved resulted in financial compensation for a customer in 2016. The agency sided with banks 79 per cent of the time.

Submit your story ideas

Go Public is an investigative news segment on CBC-TV, radio and the web.
We tell your stories and hold the powers that be accountable.
We want to hear from people across the country with stories they want to make public.
Submit your story ideas at Go Public. Follow @CBCGoPublic on Twitter.

SIPA Comment:

CBC does a great job with their stories and graphics to help raise awareness. The two pie charts indicate clearly that the industry controlled dispute resolution mechanisms clearly favour the industry. To protect citizens it is essential that Governments act to provide an independent Ombudsman or Tribunal that is not paid and controlled by the industry.

It is essential that people speak out in order that change may happen.

HELP YOUR FAVOURITE CHARITY AND PAY NO TAX ON CAPITAL GAINS

Many people may not be aware of the benefit gained by donating securities to your favourite charity. During the last few years many have had substantial gains in their investments. By contributing securities that have gained in value you will receive a tax receipt for the current market value but will not have to pay tax on the capital gains when the security is transferred to a charity. The following article was prepared by Helen Chapman with the QEH Foundation in Charlottetown describing one family's experience. Most charitable organizations in Canada can accept securities as donations.

P.E.I. family understands the tax benefits of donating appreciated securities to their favourite charity

Retired potato farmers Richard and Sandra Ching enjoy spending time at their beautiful retirement home next to one of Canada's most beautiful beaches in Basin Head near Souris, Prince Edward Island. As long-time donors of P.E.I.'s main referral hospital, the Chings know first-hand the impact of their support on the purchase of life-saving medical equipment at the Queen Elizabeth Hospital (QEH) in Charlottetown.

"Both of us, along with several members of our extended families, have benefitted from the compassionate care provided at the QEH and we know our continued support can help many other Island families too. We feel the QEH is the ideal place to give to as you never know when you or a loved one may need crucial care in the future."

Like many Canadians, the Chings have always focused on their charitable giving before the December 31st tax deadline. But for the last couple of years, they have chosen to take a much more strategic approach. "Last year at tax time, we contacted our financial advisor, and together, we reviewed our financial plan and decided that giving shares was our best giving option as some assets had accumulated capital gains," says Sandra and Richard.

"Part of our portfolio included publically traded securities and those shares have increased in value. Transferring the shares with the highest capital gains to the QEH Foundation was the most tax efficient way for us to give our annual gift. We are hopeful to make another gift of shares to the QEH in the coming months," says the Chings.

Helen Chapman, Chair of the P.E.I. Chapter of the Canadian Association of Gift Planning and a gift planner with the Queen Elizabeth Hospital Foundation, agrees that for some donors a gift of publicly traded securities can be the best type of gift as the tax benefits can be substantial. She says some Canadian investors may not be aware of the opportunities available through this type of charitable giving.

"This past year, we saw an increase in donations of securities. More people like the Chings, who saved their entire lifetime, are deciding that the tax incentives for individual charitable giving are excellent right now and they are choosing to donate shares to charity." Chapman says not everyone is familiar with transferring shares and how they can eliminate taxes on the capital gains and also receive a charitable tax receipt on the value of the shares on the day the charity receives the donation.

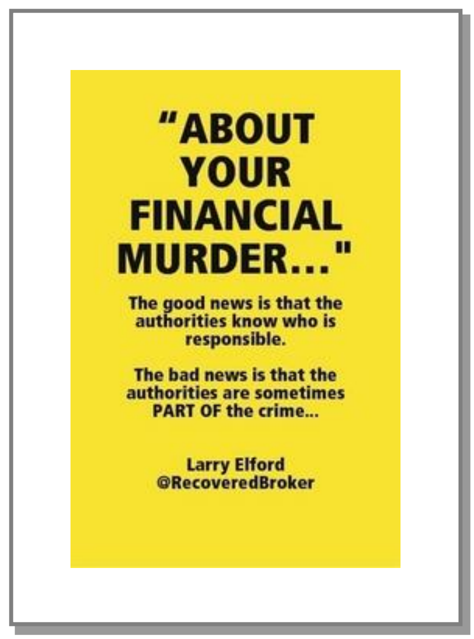
She suggests donors speak to knowledgeable staff at their favourite charity to help guide them through the process and also recommends working with a professional advisor. "As the

Canadian income tax filing deadline approaches the end of April, now is the perfect time to talk to your accountant and/or financial advisor about the best type of gift that will be the most beneficial to you and your family."

Additional Information:
The goal of P.E.I. Chapter of Canadian Association of Gift Planners (CAGP) is to educate the public about gift planning and raise awareness of the importance of thoughtful, well-planned tax preferred gifts and their impact on the quality of life for everyone in the province.
CAGP is a national association that inspires and educates the people involved in strategic charitable gift planning. They advocate for a beneficial tax and legislative environment that strengthens philanthropic giving, create a networking environment with like-minded professionals and experts, and provide access to outstanding learning opportunities and professional development. There are more than 1,200 members of CAGP.

ABOUT YOUR FINANCIAL MURDER – BOMBSHELL BOOK

Just released. A bombshell book written by Larry Elford available at: http://www.lulu.com/shop/larry-elford/about-your-financial-murder/paperback/product-23546465.html



Preview
How Trusted Professionals Get-Away With Around Half Of Your Life's Savings "North American society is not going insane" "It is living in pain" Herein are a few causes of that pain. Here are the people who play financial games above our laws.

The organizations that can drain the economy of the cost of a Category 5 Hurricane…repeatedly.

Those who harm our shared society as much or more than every other criminal offense in the land…combined.

This book tells why many North Americans can not only no longer have nice things. Some can no longer even have nice dreams. Many will grow up in a disturbed nation, without even knowing neither where their retirement security went…nor where the nation's economic prosperity went. A glimpse within some of the greatest economic drains in the land, all of which are done invisibly by professionals. Professionals that society once could trust.

This book is a revelation of truths by a former industry insider that the public will find hard to believe. It is a case where the truth is stranger than fiction. It is a must read for all investors. It is an enjoyable read and makes you wonder why Government has not acted to protect Canadians.