

from the Wise Persons Committee Report -
The greatest weakness of the regulatory system is that it does not protect investors.... There is ever more red tape and no real enforcement! The crooks rarely go to jail....
Jarislowsky Fraser Limited – Montreal, Quebec

October 12, 2005

The Honourable Ralph Goodale
Minister of Finance
Ottawa, ON, K1A 0G5

Dear Minister Goodale:

We thank you for your stand on Income Trusts and making this an issue.

We are concerned that many small investors, particularly seniors and widows, are being sold income trusts and are misled into believing that these investments are secure and similar to bonds or GICs but with a much better return.

The current low interest rates have caused hardship for seniors who rely upon their nest egg to provide income to supplement the Canada Pension Plan. Many have saved for a lifetime so they may enjoy their golden years.

Without investor education in our schools most of the "GIC refugees" are not aware of the risks associated with products like mutual funds, income trusts, hedge funds, principal protected notes and other structured products.

Most small investors do not realize that their "investment advisor" is often just a salesperson selling investment products, and the products they push are dictated by the firms rather than the opinion of an advisor.

It is impossible to keep rules sufficiently current to protect investors when a morally corrupt industry continues to develop new products to generate profit rather than products that are suitable for investors.

We are particularly concerned about income trusts because the very name causes seniors to believe these are safe investments. It is only when they see their distributions being reduced and learn that if they want to cash in before maturity that the current value of their capital is much reduced, that they realize they may not have such a safe investment.

One of the reasons that certain types of structured products were limited to accredited investors is that it is presumed that people with sufficient wealth to participate in a risky venture, with the hope of higher than normal returns, could afford the loss if the venture does not work out.

The industry, realizing that seniors and widows are a great source of capital, has developed risky products disguised as investments fit for seniors.

That is one of the reasons we have been asking that the Federal Government establish an Investor Protection Agency that would have a mandate to protect investors and have the power to order restitution when industry wrongfully takes advantage of small investors. The AMF appears to be taking action in Quebec.

The current regulatory system has failed and continues to fail small investors. Bre-X, Nortel, Portus, Crocus, and a host of other situations should not have happened in a society not infiltrated by greed and corruption.

Indeed, the Gomery inquiry has exposed that greed and corruption have permeated Government itself. However, we are fortunate that we have some good people in Government who are trying to right the wrongs.

The mutual fund market timing issue last year indicated how widespread wrongdoing is when eight of our largest financial institutions paid \$200 million because they fleeced small investors. They are morally corrupt when they believe they did nothing wrong.

When a major Canadian Bank pays \$2.4 billion to U.S. regulators to settle allegations of wrongdoing, one can only wonder how much wrongdoing is being done by the Canadian investment industry.

So what can be done?

We have asked for an inquiry into the investment industry to make public the widespread wrongdoing in the investment industry that is robbing seniors of their lifetime savings. The public and even our government representatives are not aware of the magnitude of this problem because the industry covers up.

Most disputes are settled out of court and the victims are required to sign gag orders so they can't warn others of the pitfalls that await them.

Already many seniors have been disappointed by income trusts and many have already lost money. The U.S. seems to be more restrictive on the establishment of income trusts.

SIPA fully supports your position to step back and take the time to study this issue. We will be making a formal submission on this issue at a later date.

Sincerely,

Stan I. Buell, P.Eng.
President