



# Engaging and Protecting Investors in Ontario

Investor Forum Dialogue Guide

Fall 2012

# Welcome!

Thank you for agreeing to participate in this Investor Forum!

We have invited you and other retail investors from across the province to Toronto to learn from your experience and to solicit your ideas on how to strengthen investor protection in Ontario. This forum has been designed to provide you with a meaningful opportunity for dialogue on this very important issue.

You are participating in 1 of 2 Investor Forums being held in Toronto this fall. In addition, we will seek input from investors through a complementary online process. All the feedback we gather will be essential for addressing the key issues facing retail investors in Ontario.

# About us

## **Investor Advisory Panel (IAP)**

We represent the interests of retail investors in Ontario. We seek your input on a set of issues that we are examining. We consider your input in our written submissions to the Ontario Securities Commission (OSC) – the agency responsible for securities regulation in Ontario.

Check out [http://www.osc.gov.on.ca/en/Investors\\_advisory-panel\\_index.htm](http://www.osc.gov.on.ca/en/Investors_advisory-panel_index.htm) to learn more about what we do.

## **Investor Education Fund (IEF)**

Our goal is financial literacy – we develop and promote independent, unbiased information, programs and tools to help Canadians make smarter financial decisions. Our research delves deep into what Canadians know and how they want to learn about financial matters.

Please visit [www.getsmarteraboutmoney.ca](http://www.getsmarteraboutmoney.ca) to get a better sense of our products and services.

# Our commitment

We want to represent your interests as retail investors. We will examine current regulation and explore how it might be altered.

Through the Investor Forum, we will:

Provide a **learning opportunity** for retail investors in Ontario



Gather **informed input** on key issues relating to investor protection



Use your input to **inform our future recommendations** to strengthen investor protection

# In focus

In recent years, recurring themes have emerged from our discussions with investors and in our submissions to the OSC. We will explore two of these today:

**Investor-adviser  
relationship**

**Investment  
product  
information**

This dialogue guide is designed to help you think through both of these issue areas and share your perspectives.

Following the in-person sessions and the online process, we will present you with a summary of the results and prepare a formal submission to the OSC.

# Ground rules for today's dialogue

**To ensure that we all have a positive and productive day, please:**

- **Respect** all points of view
- **Listen** openly and carefully to others
- **Suspend judgment** – there are no “wrong” opinions
- **Test** your own assumptions
- Express **disagreement with ideas**, not personalities
- Work together and **have FUN!**

# Context setting:

## Investor protection in Ontario

Today's dialogue is about protecting you – the retail investor. As an individual, you invest your own money to achieve financial goals and financial security at various phases in your life.

As a retail investor, you make much smaller investments (and trade less frequently) than “institutional investors.” These are typically organizations with large portfolios, such as banks, insurance companies, and mutual funds, that invest money on behalf of their clients.

One of the ***Ontario Securities Commission's*** objectives is to protect retail investors in the investment process.



Questions?





**Investor-adviser  
relationship**

# Role of the financial adviser

A financial adviser's role is to be the interface between you and the investment world.



**You**



**Financial Adviser**



**Investment World**

She or he can help you navigate through all the stocks, bonds, mutual funds and other types of investments available and make recommendations to you about your investments.

# Role of the financial adviser

There is a range of services that an adviser can provide. Some of the key services include:

## Finance and Risk Assessment

Assess your financial situation and tolerance for risk

Help you develop short- and long-term financial goals

Clarify the risks involved with investments they recommend

## Recommendations and Management

Make clear and specific recommendations for investing your money

Manage a portfolio by making investment decisions on your behalf

## Ongoing Monitoring and Assistance

Provide you with regular account statements and updates

Answer your questions around investment products and strategies

# Role of the financial adviser

Anyone selling investment products or offering financial advice must be registered with the regulator in their province or territory.

## **But keep in mind...**

People who provide financial advice can call themselves many things, such as 'adviser,' 'dealer,' 'representative,' or 'salesperson.' However, these titles may not be accurate – while some may have credible experience or relevant qualifications (obtained through formal education, certification or accreditation programs), others may not.

# Role of the financial adviser

**Consider your own adviser's  
experience and background, as well  
as the role she or he plays in your  
investment decisions...**



# Financial advisers' duties

Many professionals, such as lawyers and doctors, are obligated to act in the best interest of their clients. This means more than just being honest and straightforward with you – it's about putting your interest first, even before their own financial gain.

Currently in Canada, other than for investment fund managers, it is not clear whether the “best interest duty” applies to financial advisers.

The OSC, like other securities regulators around the world, is studying whether this duty should be put into law explicitly in order to protect investors.

## Did you know?

70% of investors believe that there is a “best interest duty” in Ontario.

This is not currently the case.

# Relationship

**Consider the relationship with your financial adviser and how it might play a role in the investment decisions you make...**



# How advisers are paid

When conflicts of interest emerge, they can undermine the investor-adviser relationship. *For example, when an adviser recommends an investment that pays a big commission but has lower returns or higher risks than a low-cost alternative.*

The line between what's best for the investor and what's best for the adviser is blurred. Often in these situations, money is at the centre of the conflict of interest.

Financial advisers can be paid in different ways. The money they receive can come from the company they work for, as well as the companies whose products they are selling (for example, a mutual fund company). As an investor, you may pay fees that can either be owed separately or can be hidden in the cost of the investment.

# How advisers are paid

An adviser's payment can include:

**Service fees**, usually based on a set percentage of your investments with them

**Sales/trailing commissions\***, usually based on how much they sell and are paid out every year that you own the investment

**Annual salary**

**Combination of commission and fees**

*\* Trailing commissions are an ongoing commission paid by mutual funds to adviser firms to compensate them for the ongoing services their advisers provide to investors after the mutual fund purchase.*

# How advisers are paid

*Why is adviser pay important? Consider how an adviser's pay could affect the advice you receive:*

**Example 1:** A mutual fund company might pay your adviser twice as much commission if you invest in one product over another, even if this choice is a higher risk investment **or** a higher cost product.

**Example 2:** A brokerage firm could offer your adviser more commission if you make new investments with them, even if this unnecessarily increases the fees you pay to your adviser.

# How advisers are paid

**Consider the different ways that financial advisers can be paid and what you know about how your own adviser is paid...**



# Case Study: Paul's story

**In this Dialogue Guide, we present two short scenarios to demonstrate how investor protection can impact you.**



Meet Paul – he's in his early 30's and works at a software company in Waterloo. Over the past two years, he has been working with a financial adviser to help him plan his financial future and make the right investments.

However, Paul is unsure about his current financial adviser. He's a bit concerned that his adviser is too risk averse, or perhaps not as knowledgeable as he thought. Most of the friends he's spoken to have made more money than he has with their investments. A few have even suggested investments that his adviser told him to stay away from! Paul is also challenged by the fact that most of the high-fee funds he owns haven't been performing well.

Moving forward, Paul really wants to think about whether his current adviser is serving his needs, which includes his long-term financial goals for retirement.

# Discussion: Paul's story

**If you were in Paul's situation, what would give you greater confidence and comfort in your financial adviser? Would it help to know how Paul's adviser was paid?**

**What information would you need to decide whether or not Paul's adviser should be replaced? Where would you look for this information? Who might you consult?**

*Jot down your thoughts or take notes here:*

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**Investment  
product  
information**

# At a glance

Investment product information is available to help inform your investment decisions. Retail investors are often challenged with knowing what is **available**, what is **important** and **understanding** the information.

The right investment product information can help you better understand your investment and how it works:

How will it make money?

What fees are involved?

What are the risks involved?

Is this right for me?

# Information on mutual funds

Mutual funds often make up a big part of a retail investor's portfolio. They are popular investment products since they offer diversification, are professionally managed and are supervised by a self-regulatory organization overseen by securities regulators. (Note that the government does not regulate mutual funds.)

On the flip side, mutual funds come with fees (which are sometimes quite high), it is hard to know the risks involved, and investors often purchase funds based on past performance rather than whether or not they meet their investment needs.

# Information on mutual funds

***Investment product information*** is one way to help you understand more about the mutual funds you are investing in. In particular it can provide information on:

**Type of mutual fund**  
(i.e. money market, bond, stock, etc...)

Investment **objectives, approach** or **focus** of the fund

**Fees** associated with the mutual fund

**Top investments** in the fund  
(i.e. companies, types of bonds, etc...)

# In focus: Fund Facts

Mutual fund companies are now required to prepare **Fund Facts** for each of their mutual funds. These are posted to their website, filed with the securities regulator in each province, and provided to you free of charge upon request.

**Fund Facts** are designed to be a brief summary of most of the key information on a mutual fund, such as its total value and costs, the list of investments, its performance, and the risks involved. It also outlines how advisers are paid.

As an investor, this is a key resource for understanding your mutual funds. It is short in length, written in plain language and readily available. At this time, there is no requirement to provide it at point of sale.

# Information about individual companies

Those investors who choose to invest directly in individual company stocks or bonds can benefit from lots of available information. This information can give you a better idea of a company's performance and track record, major business opportunities and risks, and financial condition. Available documents include, but are not limited to:

**Financial statements:** Financial records (often audited by outside accountants) of the company's recent financial activities

**Prospectuses:**  
A legal document when companies issue new stocks or debt, with lots of detailed financial and other information

**Management discussion and analyses:**  
Management's analysis and explanation of the company's performance

**Analyst reports:**  
Analysis by investment dealers or other organizations examining the business and recommending their securities

**Financial media**  
Business journalists (print, radio and TV) who analyze individual companies, interview company management and make recommendations

**Food for thought:** As a retail investor, when was the last time you read through one of these documents? When was the last time you read your account statement? What changes are needed to encourage you to regularly review your account statements?

# Investment product information

**Consider the information  
available and what role it  
plays in your investment  
decisions...**



# Case Study: Jennifer's story

Meet Jennifer – she is in her mid-40s and is a full-time working mother with two school-aged children. She is the office manager of an interior design firm in Kingston. Like many people, Jennifer thinks about the future and gets nervous about her finances. She knows that balancing her current expenses will continue to get harder as she saves for her children's education and her retirement.



To help plan for the future, Jennifer has worked with a financial adviser for the past five years to make a variety of investments. But with the recession, these have not returned as much profit as Jennifer hoped. With little improvement over the last year, she has gotten very discouraged and stopped opening her monthly statements, which were hard to understand to begin with.

However, Jennifer knows that this isn't the answer. She needs to do a better job of understanding her investments and pay more attention. Jennifer feels she needs help finding information she can understand and be confident with.

# Discussion: Jennifer's story

**If you were in Jennifer's situation, what would make investment product information more useful and understandable for you? (e.g. type, format, access)**

**How much time are you prepared to devote to understanding your financial position and investment results?**

*Jot down your thoughts or take notes here:*

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# Other comments?

We want to make sure that we don't miss anything important during the Investor Forum. Please take the time to reflect on this question and use the space provided below to jot down your thoughts.

**Do you have any other issues, concerns or ideas around strengthening investor protection in Ontario?**

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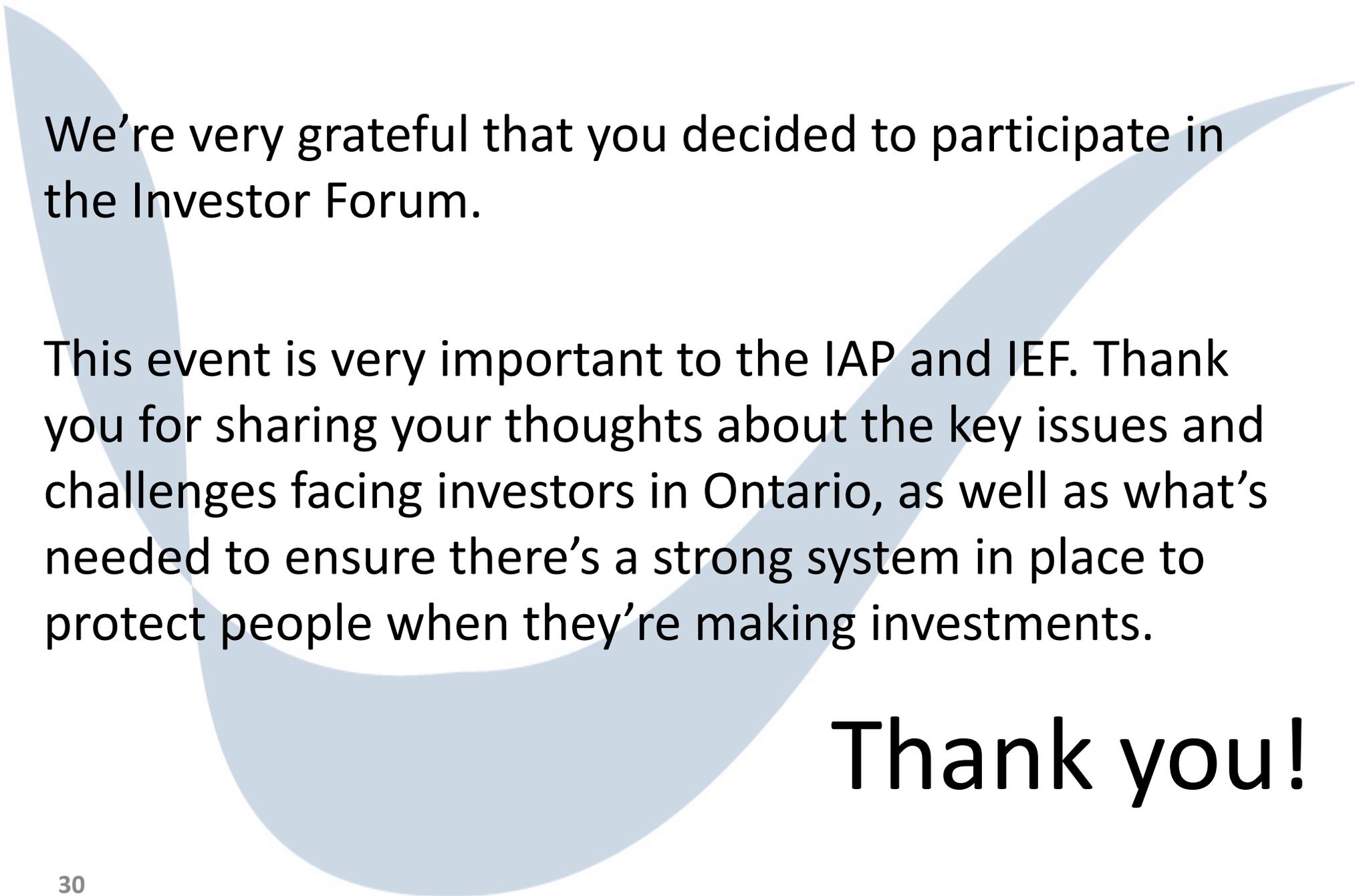
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We're very grateful that you decided to participate in the Investor Forum.

This event is very important to the IAP and IEF. Thank you for sharing your thoughts about the key issues and challenges facing investors in Ontario, as well as what's needed to ensure there's a strong system in place to protect people when they're making investments.

**Thank you!**