It has been suggested that advisors send their comments to you regarding the possible introduction of a fiduciary standard for advisors. Here are my comments:

This can be added to the long and steady list of regulations, oversight and expenses that are being heaped onto advisors in Canada, all under the guise of protecting the consumer. We've also heard that there is a strong movement afoot to eliminate or reduce trailer fees so as to further assist the beleaguered consumer. Let's look at what this industry is evolving to.

- Increased oversight means more regulatory bodies not less. As these things cost money, the costs are passed onto the people being monitored, not the consumer.
- The focus of this oversight is to ensure the consumer is being protected. As such they are given various avenues with which to complain and in some cases, sue advisors & brokers if they are not happy with some aspect of the relationship. Part of the welcome package we are required to provide new clients with are the phone numbers and web sites of the various government agencies they can complain to. Nice way to begin a relationship. It's like buying a car and being provided with phone numbers for lawyers and garages. I can't think of another industry that does this.
- The general feeling in the advisor community is that in situations where there may be a dispute, advisors are guilty until proven innocent. Again, find another industry where this is the case. A doctor can screw up a routine operation in Canada but the chances of anything happening to he or she, either in or out of court are virtually non-existent. The same applies to police officers. Professional misconduct in law enforcement usually means a suspension with pay. Yet as Ellen Besner never fails to remind us, advisors are held to a higher standard. My sister-in-law threatened to sue her brokerage firm because she incurred losses when stock markets collapsed in 2008. She was out of the country, on a cruise and had left no instructions as to what should be done if such a situation occurred. Yet, because she lost money, or more accurately, was temporarily down, she felt the need to blame someone. The particular fund she was in, she had specifically asked her broker to purchase. In the end, she received some financial compensation simply because the brokerage firm didn't want the hassle of a court case where the odds appear to be stacked in favour of the plaintiff.
- Given that the combination of people and money doesn't always produce model behavior, giving consumers the kind of advantage that the regulatory bodies seem to be providing means that most advisors and brokers are one irrational client away from potential financial ruin. So, in an industry where advisors have no control over how financial markets perform, unreasonable clients can and have won settlements simply by forgetting what they had agreed to. The way around this for advisors is to tape every conversation. Great practice for an industry built on trust. We have evolved to a point where regulators assume we're all the next Earl Jones unless proven otherwise.

The trend towards lowering fees may be a necessary one, but it is interesting that this appears to be what we've chosen to save the consuming public from. Comparisons of fee models involving different countries is often an apples to oranges one but if we assume that the US represents the best mode for comparison, then mutual fund fees in Canada are too high. However, the biggest single reason for this is due to the competitive nature of the US market. By that I mean that if you compare bank fees, mortgage charges, insurance, cellular & cable charges and credit card fees, Canadians pay more than their counterparts in the US, and in some cases, by huge margins. Given that all of the charges mentioned touch far more Canadians that those owning mutual funds, it is somewhat curious as to why we've decided that mutual fund costs are the central issue facing consumers today. My view would be that since the major banks are implicated in many of the other categories, and since they seem to be driving the regulatory agenda in the financial services industry, either directly or behind the scenes, they have a vested interest in shining the spotlight somewhere else.

Banks can charge as little as they do for their mutual funds because they have a number of other lines of business from which to extract money from the consumer. The funds are a lost leader as it were. And while individual advisors struggle under the weight and expense of regulatory oversight, banks seem to get what amounts to a free pass. I've had former bank clients question me on why I'm asking for so much information about them. When I mention the KYC requirements they point out that at the bank where they held their investments, they were passed from advisor to advisor. How can a client be protected in that environment ? The banks don't seem to be worried about it.

There are two significant trends in the financial services industry worth noting. One is that fewer and fewer people are coming into this industry, and more and more advisors are leaving it. For some it's the constant increases in expenses just to remain in the industry, most of them imposed by provincial regulatory bodies. For others it's the deteriorating economics of trying to compete against large, monopolistic institutions that seem to be playing on a decidedly uneven playing field. And for some, the stress of being evaluated and potentially fired or sued, for something you have little or no control over is more than they can deal with. As advisors leave and no one replaces them, consumers are left to their own devices, which countless studies have shown to produce less than optimal results, or they migrate back to the banks.

This brings us to the second major trend. Fund flows show a very clear pattern of money migrating to the six major banks while with a couple of exceptions, the independent mutual fund companies lose market share or trade it amongst themselves, or wait to be acquired. As such, as consumers have fewer advisors to turn to, they also have fewer investment products as well. The problem that the OSC may be trying to solve today is not the one they'll be facing in 10 years. In 2023, the major banks will probably control 90% of the financial products in this country. How that will benefit consumers is beyond me but if I've learned anything about living in Canada it's that Canadians seem to love large, inefficient and expensive bureaucracies. If we keep going down this path, we will deliver this industry to that fate.

As a final comment I will share a recent true story. My nephew was home at Christmas on a break from his MBA classes at Queens College in Charlotte, North Carolina. He went to the US over 5 years ago on a golf scholarship and is in the last year of his MBA studies. He is currently mulling over career choices, including the possibility of becoming a professional golfer. Although he knows the odds of success in that sport are incredibly long, it is something he'd like to pursue. When we got together, he asked about my industry and whether it was something I'd recommend. I told him to take a copy of any one of the 5-6 Investment Executive newspapers that were in my office. I told him to read one, and then we'd talk again in a few days. Later that week my nephew called me and said that after reading one issue, his first impressions were that "why would anyone want to work in this industry?" I told him that given the choice between pursuing a million-to-one shot of becoming a professional golfer or becoming an investment professional In Canada, the odds of success were probably better with him pursuing golf. Sad but true.

Sincerely
Alan Sevigny