March 26 , 2013

COMMENT LETTER ON MUTUAL FUND FEES CONSULTATION

CANADIAN SECURITIES ADMINISTRATORS
DISCUSSION PAPER AND REQUEST FOR COMMENT 81-407
MUTUAL FUND FEES
Issued Dec. 13, 2012

http://www.osc.gov.on.ca/documents/en/Securities-Category8/csa_2012123_81-407_rfc-mutual-fund-fees.pdf

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I welcome the opportunity to comment on the Mutual Fund Fees Consultation. My investment exposure to mutual funds has been negative. Not once during my many years of investing was I told in dollars and cents what I was being charged in fees. Nor was I ever provided the rate of return for my account. Regulators should compel dealers to provide this most basic investing information.

A February 2013 article *Lack of Duty* in Financial Post Magazine put it this way: " From trailer fees and back-door commissions to bought deals and closed-end funds, investors aren't getting the information they need to make intelligent choices." The same article also stated that Canadians , on average can expect to pay an asset-weighted management expense ratio of 1.93 % , more than double the 0.79 % Americans pay.

Another thing I noticed is that no matter how much I contributed to my RRSP , the amount of face time with my contact didn't vary ,which says to me fee schedules based on a percentage of assets are not fair.

According to a recent OSC investor Advisory Panel Report ,the top reasons for investors' decision to stay with an advisor are **financial performance** (31%), followed by organizational brand (20%). According to the report,a majority of investors see value in having financial advisers, believing their returns are higher because of their adviser (in fact, most retail mutual fund investors do not know what their portfolio rate of return is and there is an enormous amount of research asserting it is sub-optimal due to fees and conflicted advice).In fact , due to all the fees, my portfolio never even came close to meeting simple market benchmarks .It turns out that iresearch shows that a vast majority of mutual funds fail to meet their benchmarks over the long term.

A Morningstar research study **:*How Expense Ratios and Star Ratings Predict Success*** found that in every single time period and data point tested, low-cost funds beat high-cost funds. To see the results, http://news.morningstar.com/PDFs/spychart0810.pdf . Source: http://factualfin.com/blog/blog2.php/how-expense-ratios-and-star-ratings-pred This means that mutual fund fees are a critical issue for retail investors and the CSA reform initiative is especially timely in a period of low interest rates and slow economic growth.

I have the following recommendations based on painful experience :

(a). Unbundle fund fees so investors can decide on their own if they want to pay for advice. I want my advisor working for me , not the dealer or fund Company.

"Distribution channels that provide access to mutual funds at lower than industry average cost are gaining share over channels that have been slower to adapt to the changing demands of the investor. At the same time, manufacturers that have failed to offer investors the opportunity to lower their CoO, other than through the size of their portfolio, have been challenged to retain the interests of advisors and investors alike." Source : Investor Economics report prepared for the Investment Funds Institute of Canada [CoO = Cost of Ownership]

(b). Canadian fund companies should lower prices after a significant sum has been invested - it seems the MER stays the same no matter how much I have invested or for how long
(c). Prohibit Deferred Sales Charge funds from being sold to retirees/seniors -the early redemption penalties reduce liquidity and cause undue stress during market downturns.

(d). Do not allow income funds to be sold on borrowed money since most of the "income" is really just the investor getting his own money back. Very deceptive advertising.

(e). Set some rules for " Educational" seminars. They are nothing more than sales pitches in disguise and can be harmful to trusting seniors who are pressured to sign on the dotted line.

(f) Modify CSA educational materials to warn about all the potential bear traps involved with mutual fund investing. eg conflicts-of-interest , back end loads , impact of fees over time etc.

If the advice component of the management fee were purchased separately , it would be WIN-WIN for all stakeholders.

(a) mutual funds could be more reliably compared to benchmarks

(b) competition would be increased .Brokers who aren't paid by fund companies would be more open to recommending ETF's, direct purchase of stocks , index funds or lower cost mutual funds.

(c) Conflicts-of-interest would be reduced/removed [According to the 2012 Ombudsman for Banking Services and Investments Annual Report complaint data,. The major causes of complaints are unsuitable investments and excessive leveraging - 53 % of the people who complain to OBSI are 60 years of age or older (48% in 2012). A frequent theme of these complaints is that the faith the senior placed in somebody was either unwarranted or somehow violated.]

(d) advisors could function as true professionals rather than sales hacks

(e) mutual funds would have a competitive advantage over other products with embedded commissions.

(f) investor nest eggs would be better protected from mis-selling since the effects of bad advice will be more visible

(g) investors would begin to trust the fund industry again

Contact me if any additional information is required.

I greatly appreciate the opportunity to provide comments to you .

Respectfully,

Art Ross

cc British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Securities Commission of Newfoundland and Labrador
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Nunavut