SIPA
SMALL INVESTOR PROTECTION ASSOCIATION

A Voice for Small Investors

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Comments on OSC Notice 11 -768 Priorities for fiscal year ending March 31, 2014
http://www.osc.gov.on.ca/en/SecuritiesLaw_sn_20130404_11-768_rfc-sop-fiscal-2013-2014.htm

Dear Sir;

We are pleased to submit our comments on the proposed OSC Priorities for F/Y 2013-2014 .

The Small Investor Protection Association (SIPA) was founded in 1998 and is registered in Ontario as a national non-profit organization. At the time there were no organizations interested solely in the welfare of investors.

We are pleased to offer our brief comments on this important issue based upon 14 years of interviewing investors who have suffered loss (in some cases extreme loss) due to the failures of the industry and regulators to afford adequate investor protection.

Since its founding SIPA has interviewed hundreds of small investors. Most of these investors have brutally frank comments about how small investors are being treated.

As a general comment, SIPA believes the Commission has a well thought through list of priorities. SIPA is encouraged with the OSC Outreach initiative, better disclosure actions, efforts to explore a best interests standard of advice and the focus on the need to promote improved, proactive compliance and credible deterrence, and to take effective enforcement action where warranted.

There are some issues however that we believe need attention and/or more emphasis.

Regulate the dispensing of advice The minimum standard, NAAF/KYC suitability process, in itself, is insufficient to properly construct, plan and manage an individual's portfolio to meet their financial liabilities over time. It is only really sufficient to support product sales on a set of simple parameters, even though the implied service, the one the investor has been led to believe they are often paying for, is not one that regulators are willing and able to regulate or enforce. It is the distribution system that must change before the advice business can be considered professional. While the end goal is to raise the bar on advisers, we must first raise the floor.

It would seem natural that an industry that deals with Canadians' life savings, and has the power to cause investors to lose all of their savings, should have a responsibility to come clean on fees. For some inexplicable reason the cost of a product is not considered in the suitability analysis even though fees and expenses are a major determinant of portfolio outcomes. According to the NASAA Investor Bill of Rights http://www.nasaa.org/2715/investor-bill-of-rights/ Investors have a right to receive complete information about commissions, sales charges, maintenance or service charges, transaction or redemption fees, and penalties. It should be a priority that this occurs.

It is misleading when the regulators allow the use of the term "Advisor" for representatives that are selling product and are not qualified or registered to provide advice. There is a registration category of "Adviser" for those qualified to give advice, but most investors are not aware of the significance of vowels in the regulatory system. The use of misleading titles is a big issue as it allows salespersons to masquerade as trusted advisers and thus suppress the importance of costs. Trailer commissions lead to skewed advice because "advisers" are in a deep conflict-of-interest. This misrepresentation especially impacts seniors, retirees and pensioners. According to OBSI 2012 complaint data, 53 % of the people who complain to OBSI are 60 years of age or older (48% in 2011). The major cause of complaints is unsuitable investments and excessive leveraging. A frequent theme of these complaints is that the faith the senior placed in somebody was either unwarranted or somehow violated.

The use of a senior-specific certification or designation by any person in connection with the offer, sale, or purchase of mutual funds, or the provision of advice as to the value of or the advisability of investing in, purchasing, or selling securities, either directly or indirectly or through publications or writings, or by issuing or promulgating analyses or reports relating to securities, that indicates or implies that the user has special certification or training in advising or servicing senior citizens or retirees, in such a way as to mislead any person should be ruled as a dishonest and unethical practice. We urge the OSC to adopt **NASAA MODEL RULE ON THE USE OF SENIOR-SPECIFIC CERTIFICATIONS AND PROFESSIONAL DESIGNATIONS** http://www.nasaa.org/wpcontent/uploads/2011/07/3-Senior_Model_Rule_Adopted.pdf without undue delay.

According to the OSC Investor Advisory Panel and IEF Report "Strengthening Investor Protection in Ontario-Speaking to Ontarians" http://www.osc.gov.on.ca/documents/en/Investors/iap_20130318_strengthening-investor-protection.pdf significant investor vulnerability prevails – an investor-adviser power imbalance exists for most, but is particularly **problematic for those who lack confidence in their financial literacy:** Ontarian investors lack confidence about their financial literacy – only 11% describe themselves as 'very confident'. This places advisors in a powerful position. A majority of investors (58%) rely on their financial adviser as their main source of investment information. Thus, a conflict-of-interest could easily lead to investors being mis-sold than if no conflict-of-interest existed. This is why we advocate a statutory fiduciary duty for those dispensing investment or financial advice as well as appropriate proficiency standards. An immediate consequence of this should be the prohibition of transaction-tied commissions.

It is apparent that guidelines and best practices with self-regulation are not sufficient in the absence of a fiduciary duty to protect investors when they are misled by misrepresentation and failure of the regulatory system to correct these malpractices. It is not enough to say that current regulations provide sufficient protection for investors when suitability is considered key but is not well defined. In the words of one compliance officer of a major bank-owned brokerage "All of the products on our shelves are suitable."

Investigate mutual fund industry practices The mutual fund is the investment of choice for Canadians. Over 12 million Canadians own them with total assets exceeding $800 billion and pay $4.6 billion annually in trailer commissions. While excessive fund fees can reduce Canadians savings by up to 50% over a lifetime as outlined in recent studies, other widespread practices in the investment industry can also result in Canadians losing all of their savings as well as their homes leaving them destitute and without hope. Excessive leveraging and unsuitable fund choices/asset allocation, driven by sales commissions/grids, are the primary reasons for extreme loss.

While individual actively-managed mutual fund fees have fallen slightly over time , the Investor Economics report on Fund Costs of Ownership *Mutual Fund MERs and Cost to Customer in Canada: Measurement, Trends and Changing Perspectives,* provides some interesting insights. One indicator is the explosive growth of mutual fund wraps. Fund wraps have captured nearly 80 cents of each dollar flowing into the mutual funds industry between 2007 and 2011.The increased importance of fund wraps which carry a MER premium relative to stand-alone funds (reflecting a higher equity weighting and supposedly expanded value proposition) counteracted the decline in industry asset-weighted MERs. In effect, tasks such as fund selection, portfolio design and rebalancing formerly done by the Rep were delegated to the wrap manager at a higher price. Wraps generally contain house/proprietary funds and so make no attempt to provide best-in-class economical funds. We therefore see no incremental benefit of wraps for the small investor and in fact question whether they are compliant with KYC/suitability rules in many cases. The benefit to the sales representative is more free time to explore fee generating opportunities. We recommend that as part of the 2013-2014 work plan, the OSC investigate and assess exactly what is occurring with Wrap accounts.

Other issues include but are not limited to the post purchase delivery of key investment decision documents, deficiencies in Fund facts particularly risk disclosure, controversial sales and marketing programs including “free lunch” seminars, the unwarranted emphasis on leveraging and the growth of troublesome Return of Capital funds.

Establish a mechanism for investor restitution The March 2010 Report of the Standing Committee On Government Agencies (Ontario) http://www.ontla.on.ca/committee-proceedings/committee-reports/files_pdf/OSC%20Report%20English.pdf recommended the establishment of an industry funded compensation fund . We believe that such a fund is needed in Ontario and suggest that it be included in the list of priorities.

Deal with complex Investment Products. Structured/hybrid products need to be better regulated and their distribution channels better understood. Structured products encompass a broad range of typically complex financial instruments. These instruments share the characteristic of having an embedded derivative that provides economic exposure to reference assets, indices or other economic values. Amid concerns about the risks posed by complex, structured products to retail investors, the International Organization of Securities Commissions (IOSCO) has recently published a consultation report http://www.iosco.org/library/pubdocs/pdf/IOSCOPD410.pdf that analyzes trends in the retail structured product market, and proposes a "regulatory toolkit" for IOSCO members (like the OSC) to use to address the particular risks that these products may pose to retail investors. SIPA believes structured product regulation merits inclusion on the 2013-14 OSC Priority list.

Review Regulatory exemption practices. In a highly complex industry with innumerable stakeholders, the temptation is strong to pile on the exceptions. The OSC must find a regulatory middle ground that recognizes the potential dangers of the animal spirits as well as stifling regulations. Producing an inner core of "right things to do" instead of mountains of contingent regulations will lead to better outcomes. Exemptions are generally not reviewed by the retail investor community, the very population that is most affected by the exemptions. In most cases we find that the exemptions effectively nullify sound protective measures that investors wrongly believe are in place. We recommend an overhaul of the assessment approach so that original protective rules are not removed without deep thought. The default should be: No exemptions. Regulatory exemptions can cause real harm viz. htttp://ismymoneysafe.org/research/OntarioGovernmentInitiativesAffectingNonBankABCPMarketWithDocs%2009112008.pdf

Address Reverse Takeover issues Sino-Forest, once a $6-billion forestry company has given investors a nasty taste for reverse takeovers .A U.S. hedge fund, rather than Canadian regulators, actually first identified major issues at Sino-Forest that subsequently turned out to have merit. With a reverse takeover, firms do not file a prospectus and are not exposed to the regulatory review process that goes with an IPO. In March, 2013 the OSC concluded that reverse takeovers are "not specifically problematic. That makes the OSC incongruent with both the U.S. and Britain, where regulators are cracking down on backdoor listings. Reacting to a series of embarrassing accounting scandals, the U.S. Securities and Exchange Commission tightened the rules on these deals a year ago, essentially eliminating the regulatory loophole. Britain's Financial Services Authority is similarly moving ahead with rules to ensure backdoor listings aren't used to take otherwise ineligible companies public. Why is Canada so confident that all is under control? After all, Canada's major exchanges are controlled by TMX Group, a for profit publicly traded company. Ed Waitzer, a prominent securities lawyer and former OSC chairman, has said, "It [TMX] is no longer a public interest entity." Because it's a private company accountable to its shareholders, he says, "they don't owe duties to the public at large." As a gatekeeper, TMX has little reason to discourage reverse takeovers - reverse takeovers bring companies to Canada; more exchange listings and more deals are good for the TMX and the bank-owned securities dealers. Given this obvious conflict-of-interest, we believe the OSC should not be ignoring the issue, including the role of the TMX in "facilitating" risky reverse takeovers that can harm retail investors. RTO's should be on the 2013-2014 priorities list.

Address No-Contest Settlements. We also note that the OSC appears to have placed the "no-contest settlement" proposal back on the table. While the issue is not specifically addressed in the statement of priorities, it is directly relevant to the objectives of strong investor protection and effective enforcement set out in the priorities. SIPA has previously provided a written submission opposing no-contest settlements and we wanted to take this opportunity to renew that opposition. We strongly believe that investor protection is undermined by no-contest settlements and we encourage the OSC to maintain the existing practice of extracting admissions from wrongdoers as a condition to a regulatory settlement.

In summary, investor education, disclosure, and other approaches are no replacement for honest, professional advice. Real reform requires that "advice" be in the investor's best interests.
We would like to see more solutions/decisions emanating from F/Y 2013-2014 initiatives. It is not acceptable to allow continual delaying of initiatives that are meant to improve investor protection. Given Canadian demographics, we believe the time is NOW for decisive regulatory action on some long festering issues.

Permission is granted for public posting.

Yours truly,

Stan I. Buell
President

REFERENCES

The references and research listed below were used in developing our recommendations.

Purse Strings Attached: Towards a Financial Planning Regulatory Framework.
http://www.piac.ca/files/pursestrings_attached_final_for_oca.pdf According to this report released March 26, 2013 by the Public Interest Advocacy Centre (PIAC) there has been some progress in recognizing the need for reform. However, the pace of this process has been slow for an industry entrusted with the financial security of Canadian consumers. "It's time all employees of the financial planning industry in Canada face the reality-they need to employ a uniform standard of care for investors, complete with a full disclosure of how they're being compensated," noted Jonathan Bishop, co-author of the report. The research reveals Canadian consumers are potentially leaving thousands of their retirement dollars in someone else's hands by not being fully informed .The report concluded that the time remains ripe for provincial consumer and finance ministries to work towards a regulatory framework for financial advisers.

The $25 billion annual mutual fund rip-off
http://cupe.ca/pensions/The_25_billion_annua
A comprehensive study by Canadian pension fund expert Keith Ambachsheer has found that defined benefit pension plans in Canada achieved annual average returns at least 3.8% higher than mutual funds with comparable investments. Defined Benefit pension funds outperformed the market by 1.23% per year, while mutual funds had average returns that were 2.6% below the market during the 1996 to 2004 period. Returns for most mutual investors were even less than this, as a result of sales fees and consistently poor selection of mutual funds by misinformed investors: buying high and selling low. This means that those with savings in mutual funds lost a total of about $25 billion a year from the higher management fees and lower returns compared to workplace pension funds. Higher management fees are responsible for about $15 billion of this.

Morningstar Research report :Global Fund Investor Experience 2011
http://corporate.morningstar.com/us/documents/ResearchPapers/GlobalFundInvestorExperience2011.pdf "**..**The story is less happy with Regulation and Taxation. Canada has steep investment taxes that are applied to fund management fees. Although Canada offers fund investors a tax break for capital gains and dividend income, their overall tax bill remains high. Additionally, taxes are levied on the service of fund management. This increases fund expenses. With regulation, Canada restricts competition by not permitting foreign-domiciled funds to register for sale in Canada. Nor does it offer fund investors the protection of a board of directors. **Canada fails for Fees and Expenses. Among the 22 countries in this survey, <u>Canada has the highest annual expense ratios for equity funds, the third highest for bond funds, and tied for the highest for money-market funds.</u> These costs cannot be explained by pointing to unique features of the Canadian fund market. Canada's method for computing fund expenses is the global standard, and its distribution model of**

financial advisors selling and servicing no-load funds is widely shared (although not by its southern neighbor, the United States)."

The Pension Fund Advantage: Are Canadians Overpaying Their Mutual Funds? By Rob Bauer Maastricht University and Luc Kicken ,October 1, 2008
Rotman International Journal of Pension Management, Vol. 1, No. 1, Fall 2008
Abstract: The institutional structure through which individuals accumulate retirement savings is an important issue. Ideally, it is expert and low-cost. This article compares the cost-effectiveness of the pension fund structure with the mutual fund structure. The authors hypothesize that the pension fund structure provides investment management services at lower cost because most mutual funds are conflicted between providing good financial results for their clients and good financial results for their shareholders. Specifically, they compare the investment performance of a sample of domestic fixed income portfolios of Canadian pension funds with those of a sample of Canadian fixed income mutual funds. **They find an average performance differential of 1.8 percent per annum in favor of pension funds. This performance gap is approximately equal to the average cost differential between the two approaches.** They conclude that high mutual fund fees significantly reduce the net returns of mutual fund investors. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1290645

CSA 2012 Investor Index The *Investor Index* also shows that the overall investment knowledge of Canadians is low, with 40 % of Canadians failing a general investment knowledge test. According to the findings, 57 % of Canadians say they are confident when it comes to making investment decisions. Yet most Canadians have unrealistic expectations of market returns. When asked what they think the annual rate of return on the average investment portfolio is today, only 12 % of Canadians gave a realistic estimate, while 29 % provided an unrealistic estimate and 59 % explicitly chose not to hazard a guess. Nearly half of Canadians (49 %) say they have a financial advisor, up from 46 % in 2009 and 42 % in 2006. However, 60 % of those with a financial advisor have not ever completed any form of background check on their advisor. Thirty-one per cent of Canadians say they have a formal written financial plan, up from 25 % in 2009. Although more Canadians have a financial plan, they are reviewing it less frequently (78 % say they reviewed their plan in the past 12 months, down from 83 % in 2009). http://www.securities-administrators.ca/investortools.aspx?id=1011

Risks to Customers from Financial Incentives
http://www.fsa.gov.uk/static/pubs/guidance/gc12-11.pdf [UK FSA] This is an excellent UK regulator document demonstrating how incentives distort advice. After extensive research the FSA found that:

• Most firms did not properly identify how their incentive schemes might encourage staff to mis-sell. This suggests they had not sufficiently thought about the risks to their customers or had turned a blind eye to them.

• Many firms did not understand their own incentive schemes because they were so complex, making it harder to control them.

• Firms did not have enough information about their incentive schemes to understand and manage the risks.

• Most firms relied too much on routine monitoring, rather than risk-based monitoring, such as performing more checks on staff with high sales volumes.

• Some firms had sales managers with a clear conflict- of- interest that was not properly managed.

• Many firms had links to sales quality[1] built into their incentive schemes that were ineffective.

• Some firms had not done enough to control the risk of potential mis-selling in face-to-face situations.

Such results have caused the FSA to essentially ban commissions.

Principle 6 of the G20 High Level Principles on Financial Consumer Protection states that "[f]inancial services providers and authorised agents should have as an objective, to work in the **best interest of their customers** and be responsible for upholding financial consumer protection… the **remuneration structure** for staff of both financial services providers and authorised agents **should be designed to encourage responsible business conduct, fair treatment of consumers and to avoid conflicts- of- interest**. [emphasis added]
http://www.oecd.org/regreform/sectors/48892010.pdf

A **2012 OSC IEF study** concluded " … Two-thirds of investors know little about their advisor when they enter into a relationship with that advisor. Only one-third gets to an advisor through a referral. The most common way to get an advisor is to have one assigned by a bank or financial institution. Investors trust this assigned advisor, because they trust their financial institution to do what is best for them..."

According to the latest **CFA Institute Global Market Sentiment Survey (2013)**, financial firms have themselves to blame for the lack of public trust in the industry. The survey found that over half of the respondents outside of Canada (56%) believed that the lack of an ethical culture within financial firms was the biggest factor contributing to the current distrust of the financial industry. In Canada that number was slightly higher at 58%. According to the survey participants, one way to regain the public's trust is through the improved enforcement of existing laws and regulations. Globally, 24% of CFA members agreed with this approach. Of the CFA members surveyed in Canada, 27% felt this was one of the best ways to improve investor trust and market integrity. Source:
http://www.cfainstitute.org/about/research/surveys/Pages/global_market_sentiment_survey_2013.aspx

Investor behaviour and beliefs: Advisor relationships and investor decision-making study OSC Investor Education Fund http://www.getsmarteraboutmoney.ca/en/research/Our-research/Documents/2012%20IEF%20Adviser%20relationships%20and%20investor%20decisio n-making%20study%20FINAL.pdf "… In summary, advisors are the key influence in investor decision-making. Investors rely upon their advisor for planning and asset mix advice, as well as advice on what specific investments to buy. Other sources of information are secondary to the advisor's opinion. Investors trust their advisor to provide advice that benefits the client first. This trust is underpinned by a belief that their advisor has a legal responsibility to 'put the client's best interest first'. With this as a foundation of investor belief, investors find little reason to be concerned about fees, and perhaps as a result, fewer than half of advisors disclose what they are paid…" Another troublesome finding is that disclosure of trailing commissions declines as the age of the investor increases. Some 40% of 20-39 year olds agree that trailing commissions were disclosed versus 24% for age 40-59 and just 18% for those age 60+. This suggests to us that a seniors vulnerability issue has developed.

What Do Consumers' Fund Flows Maximize? Evidence from Their Brokers' Incentives by SUSAN E. K. CHRISTOFFERSEN, RICHARD EVANS, and DAVID K. MUSTO. **ABSTRACT** We ask whether mutual funds' flows reflect the incentives of the brokers intermediating them. The incentives we address are those revealed in statutory filings: the brokers' shares of sales loads and other revenue, and their affiliation with the fund family. We find significant effects of these payments to brokers on funds' inflows, particularly when the brokers are not affiliated. http://onlinelibrary.wiley.com/store/10.1111/j.1540-6261.2012.01798.x/asset/j.1540-6261.2012.01798.x.pdf?v=1&t=hckxeghx&s=3bcea6c51c751e62a4f9b8a974adf03762dd1e61 February 2013.

90% SALES 10% ADVICE :A SNAPSHOT OF THE FINANCIAL PLANNING INDUSTRY

http://www.industrysupernetwork.com/wp-content/uploads/2011/10/A-snapshot-of-the-financialplanning-industry-110930-1010version.pdf **"**The facts set forth in the report support the position long held by ISN that ongoing commissions and asset-based fees for advice enable planners and dealer groups to earn 'passive' income at the expense of consumers and should be banned, along with all other forms of conflicted remuneration. If ongoing asset-based fees are permitted to continue, credible reform requires that these fees be subject to a regular 'opt-in' mechanism. The ASIC [Australian Securities Commission] report has pulled back the curtain to reveal the extent to which the structure of the financial planning industry impedes planners from being able to act in the best interests of their client. The Future of Financial Advice reforms are essential to restructure this industry to serve the interests of clients, who are relying on advisers to help them save for retirement, build wealth, and otherwise manage their financial lives. However, the financial planning industry has stridently opposed the key aspects of reform legislation that would clean up their industry. The ASIC report makes this opposition easy to understand: this is an industry built around conflicted remuneration and passive income charged to millions of unwary clients (often from their compulsory super) who receive no ongoing services. "

Financial Literacy is necessary but insufficient. The financial services industry argues that investor education, not regulation, is the way to salvation. This is a diversion. A Dec. 2010 study by Professor Saul Schwartz of Carleton University "Can Financial Education Improve Financial

Literacy and Retirement Planning?" found that rather than attempting to improve the financial literacy of Canadians, governments should seek to better protect consumers of financial products and services. http://www.irpp.org/pubs/irppstudy/irpp_study_no12.pdf

Adviser Risk

https://docs.google.com/viewer?a=v&pid=forums&srcid=MDQyNjM4MzIyMTkzMjczODgyNDABMTQxNTYxNzExMTMwMjcyMzE2NzEBV2lUMEYtb1ZrejBKATQBAXYy Trailer commissions are embedded in the management fee rather than shown separately. Many retail investors mistakenly believe there is no cost to buying or owning a mutual fund. They don't grasp the significance of distribution costs on Rep recommendations. Dealer Representatives aren't required to disclose all forms of their compensation, such as trailer commissions, that they earn from clients' fund investments. If mutual fund costs aren't mentioned to clients, they don't become a factor in a client's decision-making. This creates a risk for unsuspecting clients. [Costs deter only one of six investors from buying, according to an Investor Education Fund survey. This is a major financial competency problem in itself.]

Do advisors really help reduce the buy high, sell low trap or do they contribute to it?
In their study, "Assessing the Costs and Benefits of Brokers in the Mutual Fund Industry," Daniel Bergstresser (Harvard Business School), John Chalmers (University of Oregon), and Peter Tufano (Harvard Business School) analyze a database of U.S. mutual funds from 1996 to 2004. Their objective was to compare the performance of investors who bought funds through broker-dealers to investors who purchased funds directly. They found that investors with broker-sold mutual funds experienced "lower risk-adjusted returns, even before subtracting distribution costs." They also found that investors purchasing broker-sold funds were directed into funds with "substantially higher fees" and failed to show superior asset allocation. And as for helping investors avoid behavioral biases, "regrettably, the advisers generally demonstrated all the same biases that the rest of us have." Even without this study, one only had to look at how advisors overemphasized technology funds in the late 1990s and how many advisors are overemphasizing energy, gold, and foreign funds today.

2010 Advisor Survey Report: Fee vs. Commission Model
http://www.tofeeornottofee.com/2010%20Advisor%20Survey%20Report.pdf The 2010 Advisor Survey report contains original data collected by *To Fee or Not to Fee* (F2F). The purpose is to provide readers with an overview and comparison of the fee vs. commission financial planner/advisor practice models, which are often improperly contrasted and measured by others. It is also designed to provide benchmarking for the fee model. This is F2F's third time collecting data on the Canadian financial advisor, but first effort at collecting data from commission-based advisors. The important question on minimum asset size is on page 46.

What renders financial advisors less treacherous? – On commissions and reciprocity
https://papers.econ.mpg.de/esi/discussionpapers/2010-036.pdf "An advisor is supposed to recommend a financial product in the best interest of her client. However, the best product for the client may not always be the product yielding the highest commission (paid by product

providers) to the advisor. Do advisors nevertheless provide truthful advice? If not, will a voluntary or obligatory payment by a client induce more truthful advice? According to the research results, only the voluntary payment reduces the conflict- of-interest posed by advisors.

Do financial advisors improve financial performance? According to Do financial advisors improve portfolio performance?, a study of German investors at Vox by university professors Andreas Hackethal, Michalis Haliassos and Tullio Jappelli says they don't. The reason is the old bugaboo - costs and fees. Advisors add value but ... "*Even if advisors add value to the account, they collect more in fees and commissions than they contribute.*" Apparently the authors found that richer, older people tend to use advisors more which accounts for a preliminary gross conclusion that "*Investors who delegate portfolio management to a financial advisor achieve on average greater returns, lower risk, lower probabilities of losses and of substantial losses, and greater diversification through investments in mutual funds.*" They note that the financial industry would love to grab that statement for publicity. However, the net truth is completely opposite: "*Once we control for different characteristics of investors using financial advisors, we discover that* ***advisors actually tend to lower returns, raise portfolio risk, increase the probabilities of losses****, and increase trading frequency and portfolio turnover relative to what account owners of given characteristics tend to achieve on their own.*"

Financial Abuse - (this insightful exposition was written several years ago before the IDA morphed into IIROC). Author Andrew Teasdale is an expert on suitability, KYC and portfolio construction)
http://moneymanagedproperly.com/new_folder/rights%20and%20abuse/financial%20abuse.htm

The Changing State of Retirement in Canada – Fidelity (Oct, 2007)
http://m.twmg.net/state_of_retirement_cda.pdf A survey of more than 2200 households shows that Canadians are on track to replace only 50% of their pre-retirement income. To maintain a comfortable lifestyle they may need as much as 80% of pre-retirement income. That's one reason that investing fees and robust advice are so important. They can mean the difference between a happy retirement and a very stressful one.

Call for expanding CPP is bang on *" … In a speech at a pension-reform conference in Fredericton, [CIBC CEO Gerry] McCaughey cited new research from CIBC's economics department, which suggests that almost six million Canadians could see their living standards drop by more than 20% in retirement if current savings trends continue and that more than half of today's young workers can expect to see a significant decline in their standard of living when it comes time for them to hang it up.*

More surprising, McCaughey admitted that sacred cows, such as RRSPs and tax-free savings accounts, probably won't enable people to make up the shortfall. Many people don't earn enough to exploit these vehicles fully; and even those who do simply aren't saving enough. What's really needed to fill the gap, he says, is an increase in contributions to the Canada Pension Plan (CPP). Although McCaughey pitched this concept as providing a new choice to

Canadians, the true value of such an approach would be to limit choice. Only a public plan can compel higher savings rates by automatically enrolling people to make higher contributions and allowing their natural inertia to keep them invested. By limiting choice, a public plan can prevent people from chasing returns and making silly asset-allocation decisions as a result. Such a plan also ensures economies of scale, which means low-cost money management and no expensive distribution network to fund. This runs counter to what the financial services industry preaches, but McCaughey is correct in saying it." http://www.investmentexecutive.com/-/call-for-expanding-cpp-is-bang-on?redirect=%2Fsearch

Full McCaughey speech "Reigniting a Culture of Savings" National Summit on Pension Reform *Gerry McCaughey, President and CEO, CIBC* February 19, 2013 http://stream1.newswire.ca/media/2013/02/20/20130220_C6850_DOC_EN_23853.pdf Full CIBC Research report at http://research.cibcwm.com/economic_public/download/if_2013-0220.pdf Seems to say that new approaches to retirement savings are required-Bay Street may not offer a good solution for many. Among other things, fees stand out as a critical factor for retirement savings.

Alzheimers, Seniors and Fiduciary duty
http://www.investmentnews.com/article/20130224/REG/302249982?utm_source=issuealert-20130224&utm_medium=in-newsletter&utm_campaign=investmentnews&utm_term=text
Article covers advisor risks. Risks to clients are even greater.

Financial Knowledge and Rationality of Canadian Investors by Cecile Carpentier, Jean-Marc Suret : SSRN "... Canadian investors' financial knowledge is limited. On average, they obtain a mediocre knowledge score; only 5% score above 66%. The vast majority of respondents scored between 40% and 57%. Significant gaps were noted regarding knowledge of risk and return of asset categories. Knowledge of past returns of the main asset categories is abnormally low, particularly for equity, an area where all of the respondents are involved. Mediocre knowledge of the performance of categories and of the concept of risk premium calls into question investors' financial planning ability. One out of five investors is unaware that the return of a small growth company comes not from dividends, but rather from a capital gain. One-third of investors are certain that they will receive future dividends from a company that usually pays them. Almost 30% of respondents are unaware that stock indices are greatly influenced by the returns of the largest capitalization stocks. Three-quarters of investors do not systematically compare the return on their portfolio with that of a stock market index.
Half of the investors do not clearly grasp the link between lack of liquidity and share value. Many investors do not know that if they invest in the stocks of small companies listed on the TSX Venture Exchange, they might lose all their capital. The risks associated with shareholding are largely underestimated … " http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2038930

Mutual Fund MERs and Cost to Customer in Canada: Measurement, Trends and Changing Perspectives by Investor Economics [This report, sponsored by IFIC, is particularly illuminating as it points out many of the issues facing retail mutual fund investors] Mutual Fund MERs and Cost to Customer in Canada: Measurement, Trends and Changing Perspectives. We continue to argue that it is the *structure* of the fees that is the dominant issue, not the Canada-US cost differential. The structure causes a irreconcilable conflict-of-interest that is not in the best interests of mutual fund investors or professional advisors.

Strengthening Investor Protection in Ontario - Speaking with Ontarians. The study, conducted on behalf of the independent OSC Investor Advisory Panel and the Investor Education Fund (IEF), explores the views of more than 2,000 Ontario investors regarding their relationships with their financial advisers and how they perceive and use investment product information and advice. Highlights of the study include:

- *While investors generally trust the advice of their financial advisers, two things highlight the skepticism that many investors feel. Only 20% of investors strongly agree that they generally trust their financial adviser's advice and 25% strongly agree (39% agree- 64% overall) that how a financial adviser is paid impacts the recommendations that they receive. Advisers need to give their clients greater assurance that their best interest is being served.*
- *There is strong support for a statutory best interest duty: 93% agree that it is needed (with 59% strongly agreeing that it is needed).*
- *Investors want strengthened regulation of financial advisers, including clearer professional standards on use of the title, rigorous educational requirements and ethics training, and stricter regulatory enforcement of the rules.*
- *An investor/adviser power imbalance exists for most but is particularly problematic for those who lack confidence in their financial literacy. This places advisers in a powerful position. The majority (58%) rely on their financial adviser as their main source of information. More than four in ten do not know how their adviser is being paid.*

Source: http://www.osc.gov.on.ca/en/Investors_nr_20130318_iap-adviser-investor-relationship.htm

"We also note that the OSC appears to have placed the "no-contest settlement" proposal back on the table. While the issue is not specifically addressed in the statement of priorities, it is directly relevant to the objectives of strong investor protection and effective enforcement set out in the priorities. SIPA has previously provided a written submission opposing no-contest settlements and we wanted to take this opportunity to renew that opposition. We strongly believe that investor protection is undermined by no-contest settlements and we encourage the OSC to maintain the existing practice of extracting admissions from wrongdoers as a condition to a regulatory settlement."