Response to CSA Consultation Paper 81-408

1. Given that mutual fund managers' compensation is based on performance, and considering the fact (taken from Appendix A of the CSA Consultation Paper) that funds that outperform receive more sales and those that underperform receive less, then it is a contradictory argument to suggest that fund managers will underperform to increase cash flows into their funds.

2. The assertion that funds that pay commissions underperform those that do not was certainly not true during the market recession starting in 2007 and ending in March, 2009. All of the equity funds that I was using performed better than the corresponding ETFs or F series Index Funds.

3. Implied throughout this consultation paper is that investors should be investing in the best performing funds. The problem with this is that in my over 30 years in this industry, I have never seen a study, or seen any evidence, that there is a significant correlation between past and future performance. In fact, in an article appearing in February, 2017 in the AdvisorAnalyst.com entitled "Smart Beta Returns (Hint: History is Worse than Useless"), it shows a negative correlation. This was graphically illustrated by Nick Murray, an American who has been in this industry for over 40 years, at one of the last Mackenzie Universities that I attended. He gave the example of the best performing fund over I believe the previous 10 years. This fund had out performed its nearest rival by 4-5% a year. He then asked what we thought the average return was for the people who had invested in that fund during that time period. The correct answer was either -11% or -13%, I can't remember which. The reason for this was that most of the money was invested into this fund at or near its peaks.

Added to the problem of not being able to predict how an individual fund is going to perform is the fact that the relative performance of various sectors of the capital markets varies significantly (Please see attached Fidelity Performance Chart). Then you have Fund Managers having different management styles that perform differently depending on where we are in the business cycle.

So, unless you want to, at best, underperform, or at worst, lose money, you should not be concentrating your investments in the currently best performing funds. When my clients experience significant gains in some of their funds I suggest they take profits, moving those profits to either funds that are currently underperforming but with good growth potential or to fixed income funds until we experience a market correction.

4. One of the things in the CSA Consultation Paper that disturbs me the most is the assertion that we financial advisors sell the funds that compensate us the most. This shows a complete lack of knowledge as to what we do and how we do it.

Whenever we meet with a prospective new client or an existing client with changed circumstances, we initially do a complete financial review to determine the client or client's current situation. Then we discuss their goals and aspirations. After this analysis we discuss what they should and can be doing in order to meet their needs and achieve their goals. For a portion of the new prospects we have to say that we cannot help them because either they are not in a position to be helped or they are already on track to achieve their goals. Since most advisors hold licences that allow them to provide insurance, bank and investment products, we are able to provide the means by which our clients can achieve their goals.

After it has been determined that the client can and should be putting away money into investments either by doing a periodic investment or a lump sum, or both, and after having an extensive discussion and/or having them do a risk profile questionnaire, we look at providing the investments that will best achieve the investors goals. Especially for investors investing moderate to large lump sums of money, we look at recommending a diversified portfolio to protect them from having too much in the funds or sectors that might go down in value but still having some exposure to the sectors and funds that will perform the best during a given time frame.

For the mutual funds that I am recommending, I do not know exactly what the MERs are until we get to the actual discussion of these when discussing the client's costs. In other words, they play no part in my determining which funds the client should be using. When discussing how I get paid, I say that I get a portion of the MER. Because the MER is a percentage of the money invested, when they do well, I do well, and when they suffer, I suffer. So it is in both of our interests for them to do as well as possible.

One way that regulators could do more to protect the interests of the investor is to require that all persons entering this industry receive the training and education to use such a process.

5. In all scenarios that I have seen showing what investors would have to pay if we switched to fee for service, the vast majority of my clients would be paying more than they are now. For a significant number of my newest and smallest clients, they couldn't afford me and I probably couldn't afford to keep them. How can this be in the best interest of these investors? And for the investors who could benefit from fee for service, under the current system that option is open to them and their advisors.

You may ask why I should care about people with smaller amounts of money to invest; because they probably need the help as much or more than the affluent. Also, I get as much or more pleasure helping people with modest means to become and remain financially independent than I do making the wealthy wealthier.

6. The suggestion that funds invested under the DSC option may deter investors from redeeming even in the face of consistently poor performance ignores the fact that all fund companies have a wide range of funds that the investor could move the money into without incurring a sales charge or restarting the DSC clock. Also I would suggest that if there is a fund with consistently poor performance the fund company is going to give it special attention to get it to perform better. It has been my observation that it seems to be easier to make a poor performing fund perform better than it is to keep a top performing fund on top. In making investment recommendations, I often suggest investing a little higher percentage in funds and sectors that are currently underperforming, especially when I know the fund company and fund manager.

Although I seldom use the DSC option anymore, it can be an effective way for newer advisors to earn some up front income while allowing smaller investors an inexpensive way of getting financial advice.

7. As all of the previous points suggest, I do not believe that there is evidence that the imbedded commission structure creates a conflict of interest. Furthermore, I do not believe that transitioning to direct pay arrangements will stop unethical advisors from doing things that benefit them more than the investor. Many of us who have been in this industry for a considerable time know of

instances where investors have had significant assets churned away by brokers who were paid for every transaction. In the time before trailer fees were introduced, where an advisor was seeing a client with no new services that he/she could provide, he or she might be tempted to change investments to generate income for themselves. I would suggest this could become a significant problem again if trailer fees were eliminated.

To summarize, I believe that the current system serves all investors very well, allowing not just the affluent to get financial advice. I also believe that if Canada transitioned to a direct pay compensation model that it would be much more difficult to start a career in this industry, and many experienced advisors would leave. Consequently, a large number of people would lose access to an advisor.

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Performance varies year to year

Calendar year returns of Canadian & international markets

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Emerging Markets: 32.1%	Emerging Markets: 18.6%	Canadian Bonds: 6.4%	Canadian Small Cap: 68.9%	Canadian Small Cap: 35.2%	Canadian Bonds: 9.7%	Emerging Markets: 16.4%	U.S. Small Cap: 48.1%	U.S. Equity: 23.9%	U.S. Equity: 21.6%	Canadian Small Cap: 31.9%
Foreign Equity: 26.4%	Canadian Equity: 9.8%	U.S. Small Cap: -17.2%	Emerging Markets: 52.0%	U.S. Small Cap: 20.2%	U.S. Equity: 4.6%	Foreign Equity: 15.3%	U.S. Equity: 41.3%	Global Equity: 15.0%	Global Equity: 19.5%	Canadian Equity: 21.1%
Global Equity: 21.0%	Canadian Bonds: 3.7%	U.S. Equity: -21.2%	Canadian Equity: 35.1%	Canadian Equity: 17.6%	U.S. Small Cap: -1.8%	Global Equity: 14.0%	Global Equity: 35.9%	U.S. Small Cap: 14.3%	Foreign Equity: 19.5%	U.S. Small Cap: 17.1%
U.S. Small Cap: 17.9%	Canadian Small Cap: -1.2%	Global Equity: -26.9%	Global Equity: 13.0%	Emerging Markets: 13.0%	Global Equity: -2.7%	U.S. Small Cap: 13.8%	Foreign Equity: 31.6%	Canadian Equity: 10.6%	U.S. Small Cap: 14.6%	U.S. Equity: 8.1%
Canadian Equity: 17.4%	Foreign Equity: -5.3%	Foreign Equity: -28.8%	Foreign Equity: 12.5%	U.S. Equity: 9.1%	Canadian Equity: -8.7%	U.S. Equity: 13.4%	Canadian Equity: 13.0%	Canadian Bonds: 8.8%	Canadian Bonds: 3.5%	Emerging Markets: 7.7%
U.S. Equity: 16.1%	Global Equity: -6.6%	Canadian Equity: -33.0%	U.S. Equity: 9.3%	Canadian Bonds: 6.7%	Foreign Equity: -9.6%	Canadian Equity: 7.2%	Emerging Markets: 4.7%	Emerging Markets: 7.0%	Emerging Markets: 2.4%	Global Equity: 4.4%
Canadian Small Cap: 13.6%	U.S. Equity: -10.1%	Emerging Markets: -41.4%	U.S. Small Cap: 8.0%	Global Equity: 6.6%	Canadian Small Cap: -14.2%	Canadian Bonds: 3.6%	Canadian Small Cap: 4.3%	Foreign Equity: 4.1%	Canadian Equity: -8.3%	Canadian Bonds: 1.7%
Canadian Bonds: 3.8%	U.S. Small Cap: -16.5%	Canadian Small Cap: -48.6%	Canadian Bonds: 5.4%	Foreign Equity: 2.6%	Emerging Markets: -16.2%	Canadian Small Cap: -0.5%	Canadian Bonds: -1.2%	Canadian Small Cap: -2.8%	Canadian Small Cap: -16.3%	Foreign Equity: -2.0%

Sources: Fidelity Management & Research Company, Datastream. Total returns in CDN$. Note: It is not possible to invest directly in an index. Asset class performance represented by: foreign equity: MSCI EAFE Index; global equities: MSCI World index; emerging markets equity: MSCI Emerging Markets Investable Market Index ; U.S. equity: S&P 500 Index; U.S. Small Cap: Russell 2000 Index; Canadian equities: S&P/TSX Composite Index; Canadian small cap: BMO Small Cap Blended Weighted Index (Price Return); Canadian bonds: FTSE TMX Canada Universe Bond Index. As at December 31, 2016.