To John Stevenson

Subject Fiduciary responsibilities of advisors Feb 18th 2013

I am writing to provide to you my thoughts on this subject. I am, personally, a large investor—and have a very adequate advisory team for my own investments. My rule is to never rely on an advisor. I listen to them, but I make all my own investing decisions.

Additionally, I am the volunteer organizer of a group of about 60 investors, most of whom are small investors. We share investment experience and knowledge. In total, this group is very poorly served by the investing industry.

In my opinion, the problems start at the top –that is the owners of investment firms, mutual fund firms and related businesses. In Canada, since the chartered banks are the owners of the most of the organizations providing advice and products, this means the problems start with the leadership of the banks.

The whole industry is set up to ensure profitability of the banks (I should confess that I am—personally-- a large holder of bank stocks). Non bank owners—generally--- take the same approach. Therefore all mutual funds and structured products from these firms are suspect, as there are repeat conflicts of interest, especially in that the “advisors” employed by this organizations (at their branches) are expected to sell the funds, and structured products developed by their employer, regardless of how inappropriate those products may be for the small investor.

The second predominant problem is lack of knowledge. Brokers and bank staff are trained (if trained at all) to know enough about in-house funds and structured products—to sell such products to investors. They receive no training whatsoever in whether these products (or funds) are beneficial, or appropriate, for the investor. They have no knowledge, whatsoever, of alternative products; nor do they ever advise investors that alternative products should be considered.

I will mention one case which involved a CIBC “income fund”. The fund had a pathetic track record, yet it was the only fund being sold by the particularly branch of the CIBC. The staff at that small branch had absolutely no idea as to identifying the needs of the investor, no staff member who had never asked the investor a single question re his goals, risks preferences, debt level, etc.; yet the staff member, supported by her supervisor, was most empathetic that the CIBC income fund was the right investment. In fairness to the bank clerk, she was doing no wrong, because she knew of no other fund or product. She concluded her very brief explanation as to the merits of that particular fund, with this comment “well, you can buy that fund or you can buy GIC’s.”

The other areas of abuse, which we see repeatedly is advice driven by means of broker compensation. This is so prevalent that examples are almost unnecessary. One huge area is the annual fee in an account wherein the broker is given full discretion to trade. A few of our group have used these, and found that trades are made, which in hindsight, were bad in every aspect, except they were revenue producers for the advisor’s firm and for the advisor himself.

In an industry were the owners set everything up to garner maximum return for themselves, regardless of how appropriate the advice may be for the investor, can we be surprised when the brokers in their employ –do the same thing?

I wish you luck in attempting to make changes

One specific simple change could be that stock brokers, bank staff and mutual fund salespeople be required to explain to each and every investor with whom they have contact, the following;

“ I am not your financial advisor, my job is to sell stocks and financial products. It is up to you, Mr. Investor--- to determine whether or not these stocks and products are beneficial to you.”

James E. Graham
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