The Beep Brief

A response to the CSA CONSULTATION PAPER 81-408
regarding the discontinuation of Embedded Commissions.

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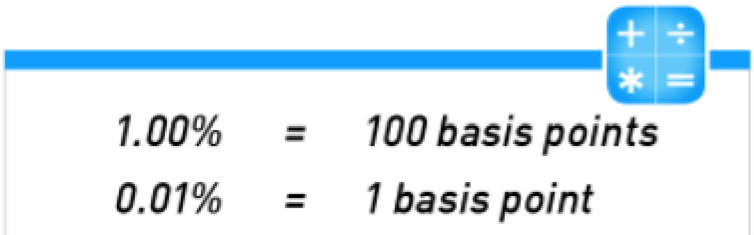
Submitted
June 9th 2017

Beeps

Definition of 'Beep'

'Beep' is financial industry jargon for basis point, which is 1/100 of a percentage point in the context of interest rates, bond yields and other debt instruments. The term came into popular usage as an easier way of referring to the basis points as bps. Because basis points express percentages of change, not dollars, they have limited use in quoting stock prices.
http://www.investopedia.com/terms/b/beep.asp



'Beep' Usage

Investment professionals regularly refer to 'basis points' when discussing things like bond yields and mutual funds.

Why does this seemingly tiny unit of measure—one basis point is equal to one one-hundredth of a percentage point—get so much attention? It's pretty simple: Basis points can add up to a lot of money for both individual investors and institutions.
https://www.wsj.com/articles/what-is-a-basis-point-and-why-is-it-so-important-1378324917

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Executive Overview

"The only aspect of investing, that investors' can control, is their Fees"

And what you can't control will erode your Nest-Egg. At present the majority of Canadians' get paid 2 times per month. Yet they pay their mutual fund fees daily; approximately 20 times per month. And they don't know their Total of Embedded Mutual Fund Fees. Nor their Embedded Commissions they are paying as well.

With the rise of low-fee ETFs, CRM2 sharing Fees & Performance (I've coined CRM2 to be CRM ½, explained later), the proliferation of low-fee Robo-Advisors, an overall decline of DB pension plans, upcoming regulations regarding financial industry Titles & Licensing, etc … the 'Billing System' of the Canadian Wealth Industry is being addressed through CSA 81-408 – CONSULTATION ON THE OPTION OF DISCONTINUING EMBEDDED COMMISSIONS.

The most lucrative aspect of the Billing System is Basis Points (a.k.a. Beeps); all sales people want Beeps. But Canadian Investors; including seniors and millennials, really want and need Liquidity and Advice. They aren't receiving this, thus, the following 3 statements:

Mutual Funds are a commission-based scheme masquerading as a semi-liquid asset class.
The Mutual Fund Industry is guilty of Commission Laundering
In 2017, DSC Month, and/or re-DSC Month, will be October.

Within the Beep Brief, you'll find **Solutions** to the Embedded Commission Billing System; including The Beep Ban (Solution2). And proposed Government actions (Solution1).

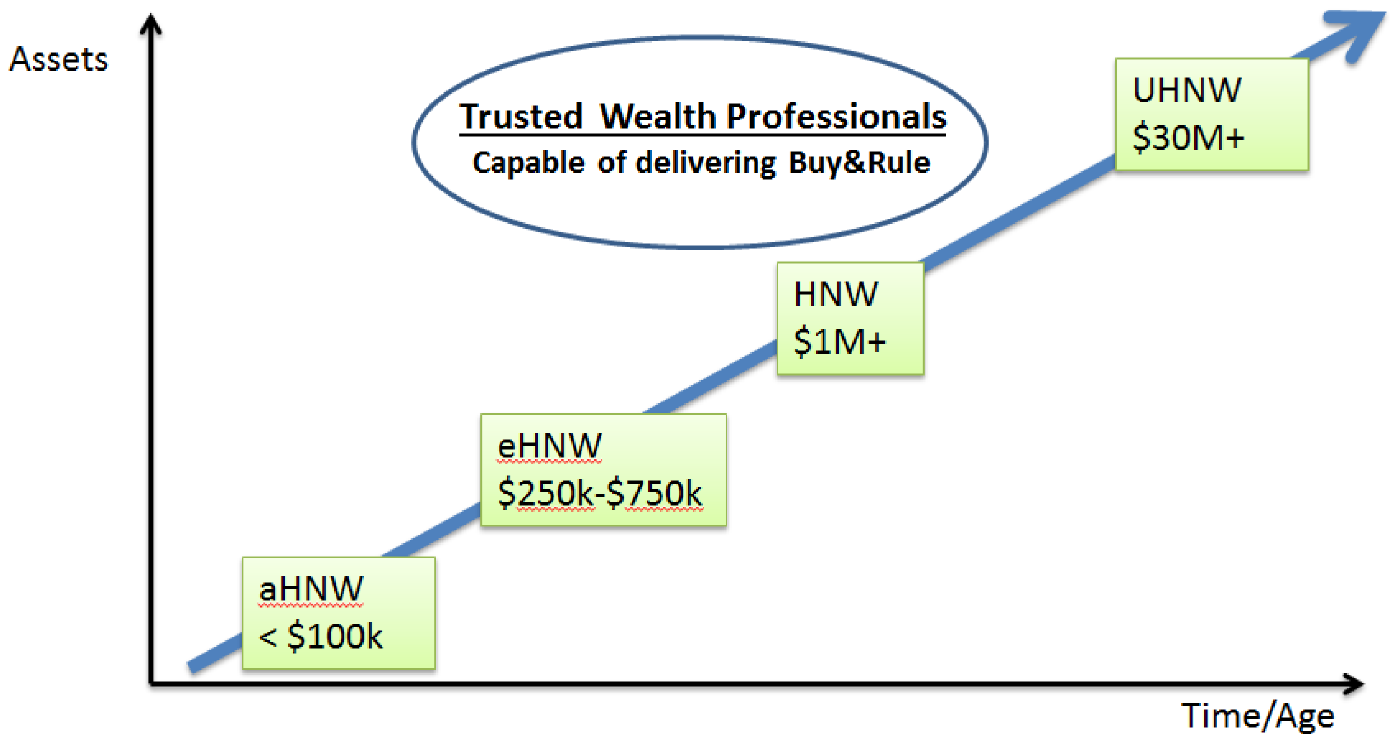
The Beep Brief also provides a look through the **Crystal Ball**; addressing the 'Advice Gap' for aHNW and eHNW. It is expected Robo-Advisors will 'take' the aHNW marketplace. IIROC

Advisors will dominate the eHNW and HNW marketplaces. And the UHNW may chose to move a portion of their assets to Buy&Rule ® as well.

The image below defines:

- aHNW; aspiring High Net Worth
- eHNW; emerging High Net Worth
- HNW; High Net Worth, and
- UHNW; Ultra High Net Worth

The Asset amount delineations are arbitrary, but quite close to actual High Net Worth 'practices' in place today by the Wealth Industry.



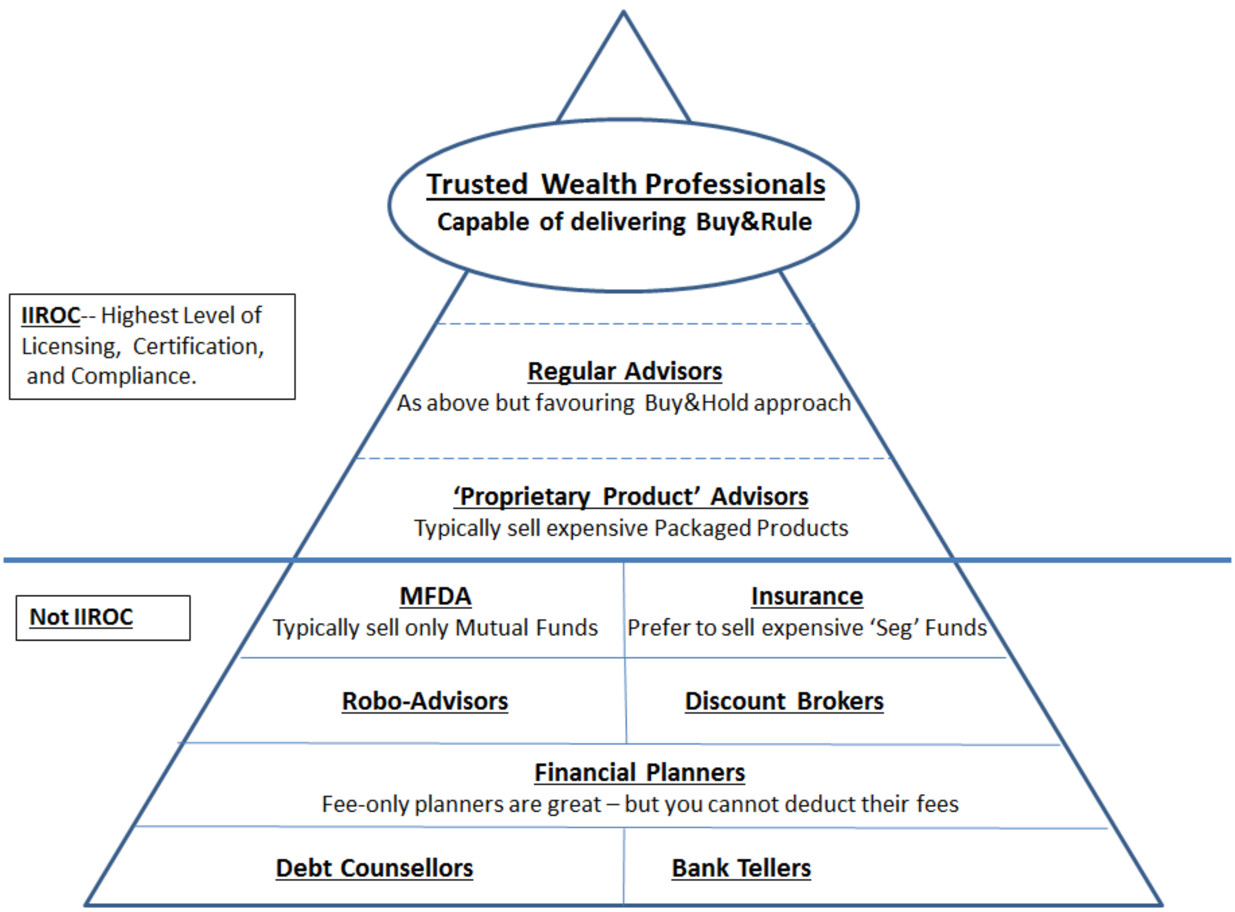
The overall theme of the Beep Brief is that Liquidity provides the Best Outcome, removing Embedded Fees will provide Liquidity to Canadians' and the opportunity to prosper.

Financial Literacy is only part of the solution; Regulators must provide Leadership such that the un-regulated marketing 'spin' of captive assets does not lead to Lesser Outcomes. Removing Embedded Commissions providers the Leadership necessary for overall Canadians' Wealth prosperity.

And there are other actions that Regulators can take; please see the 21 Solutions in the Beep Brief.

But it all boils down to Choice; where can I obtain access to ALL the Investment Styles (ie. Buy&Rule ®), ALL the Investment Products & Fees and ALL the Investment-related Services.

Choice = Liquidity



And IIROC advisors can provide the Choice.

Introduction

To the:

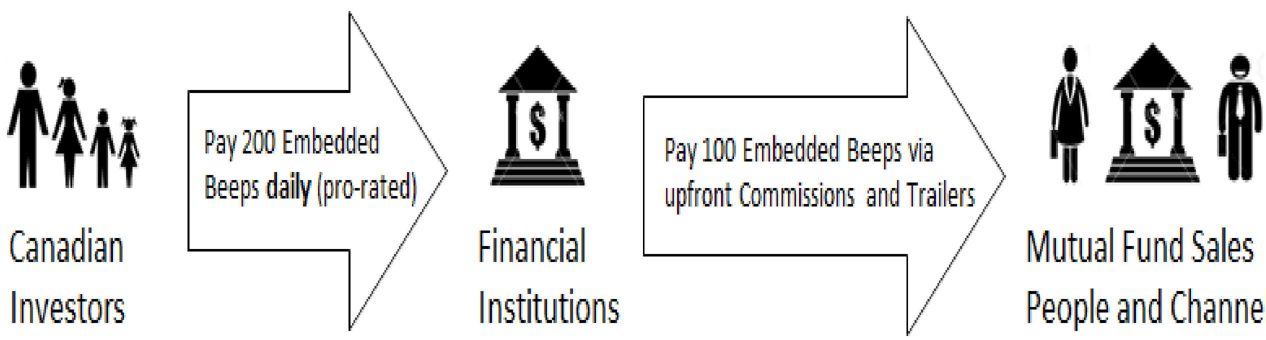
- British Columbia Securities Commission
- Alberta Securities Commission
- Financial and Consumer Affairs Authority of Saskatchewan
- Manitoba Securities Commission
- Ontario Securities Commission
- Autorité des marchés financiers
- Financial and Consumer Services Commission, New Brunswick
- Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
- Nova Scotia Securities Commission
- Securities Commission of Newfoundland and Labrador
- Superintendent of Securities, Northwest Territories
- Superintendent of Securities, Yukon
- Superintendent of Securities, Nunavut

My name is Gerry Gabon and I recently founded an innovative educational platform named Trusted Wealth Professionals. I am a software engineer (UofT - EngSci 8T5) with an MBA specializing in Finance (York - 1991). I have over 30 years of investing experience (direct trading, mutual funds, proprietary product sellers, discount brokers and two different full-service IIROC firms) and several pioneering roles with WealthTech solution providers (IBM, Financial Models, Certicom, SYMCOR, etc …). At Financial Models I sold PAGES; a Financially Intelligent Statement Generation software solution for the HNW Investment Counsellors. At IBM I deployed Broker Workstations for the Brokerage community while also porting Trading Systems. I also recently toured extensively the 'Individual Pension Plan' marketplace for Business Owners and met 100's of Advisors.

I am extremely passionate about connecting the Canadian investors with the trusted professionals they need to maximize their personal Wealth outcomes. And to that end, that is why I founded Trusted Wealth Professionals (www.TrustedWealthProfessionals.com) and why it will become the Trusted Voice of Canadians' Wealth. The Canadian Investors' Source (CIC Course) is on the website, but that is only the first step. Canadians' need to trust their wealth professionals and that mandate is quite too often fraught with many self-serving agendas; namely KYC – Know Your Commissions.

In our current economic environment, Baby-Boomers are aging, markets are experiencing an extended Bull period (with no hint of a Bear), ETFs are rising in AUM, CRM2 is half delivered (my own term is CRM ½), FinTech and Robo's are emerging, regulations and RegTech is evolving rapidly, etc … and it has become apparent that Profiteering is abundant within the Wealth+Financial Services Sector. The Beep Party is raging. Everyone wants Beeps.

Embedded Commissions, is just another form of Beep Sharing. For example, a 2% MER on a Mutual Fund is generally 'split' into two 1% halves. One half, 1%, or 100 basis points, is kept by the Mutual Fund Manufacturer (ie. Financial Institution) and the second half, the other 1%, or 100 basis points, is given to the Seller (the Channel and Sales People). So "100 Beeps for you and 100 Beeps for me". This is the 'Beep Party' a.k.a. Embedded Commissions.



This timely response serves to support the CSA's position that Embedded Commissions can have a negative impact on overall Canadians' Wealth. This submission will include a few diagrams, a couple of new colloquial expressions, and will introduce the following Points:

Mutual Funds are a commission-based scheme masquerading as a semi-liquid asset class.

The Mutual Fund Industry is guilty of Commission Laundering

The underlying preposition of the Beep Brief is that of Liquidity; best understood as non-Liquidity, or Illiquidity. If you are denied Liquidity, because of the underlying instrument, or the Sales Channel, your Outcome is lessened.

The Embedded Commissions within the Mutual Funds fee structure, and similar other Beep-based fees structures, from any/all Wealth industry participants, deny Liquidity to Canadian Investors. And when Liquidity is denied, sub-optimal Outcomes can be achieved. Please note this is only 99% proven via recent ETF vs. MF comparisons and summarizations of HNW clientele's investing approaches, but if you ask Canadians to choose from the Grid below, you'll see the informal results below.

Canadians' Choice for Products & Fees

Products & Fees	Embedded Commissions	Appropriate Transparent Fee for Advice + Service
Illiquid Products		
Financial Securities with Liquidity		

The reason is that you cannot trust self-serving surveys, if you were to explain to Canadians' the truth about their Choices, they choose the Green CheckMark above.
Please note that this submission to the CSA may not be your typical response. But in a professional manner, it is designed to be memorable, and in a free-format manner. And where possible, I provide **Solutions**, to Canadian Investors, Regulators and Industry Participants because I am purposefully not licensed to sell a financial security and that allows me to provide trusted and impactful Leadership.

Of note, I will probably term Banks' Advisors via the term 'Tellers', Mutual Funds sales people, and proprietary product sales people (ie. from Investors Group), interchangeably, as recipients of Embedded Commissions. And I'll probably touch upon why:

In 2017, DSC Month, and/or re-DSC Month, will be October.

Please enjoy the Beep Brief and if you have any questions feel free to contact me. Thank you again for your time and consideration.

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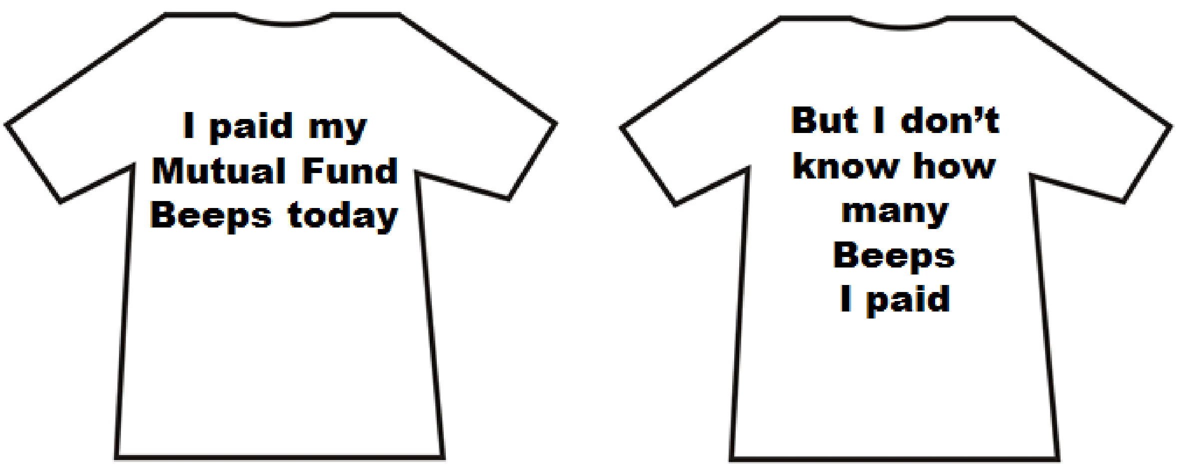
Thought Leadership re: Beeps

As a Canadian, and cognizant of commercial ongoings in North America overall, you are probably well aware that 'Everything is a Billing System'. Not only from my startup efforts and software engineering successes, but from my own personal consumption, nothing is more apparent than '<u>How are they going to charge me?</u>' I can belabor this point, but it is wickedly emphasized that during the Dot-Com Dot-Bomb period of 2000-02, when software companies that 'did nothing' except allow internet providers the ability to customize their billing systems, they were acquired for billions of dollars. Think now to your current cellphone carrier and the myriad of data plan options. Or consider your cable TV plan (if you still have one); look at the bundling and un-bundling options you have. We live in the world of Billing Systems.

And the financial services sector is no different, except the 'Billing System' is generally hidden; especially if you are invested in Mutual Funds. Ask yourself, "How many Beeps did I pay today?", "Did you get my Beeps today?", or "Did you correctly charge me the appropriate Beeps?" Maybe they gave you this T-Shirt as a form of reassurance.

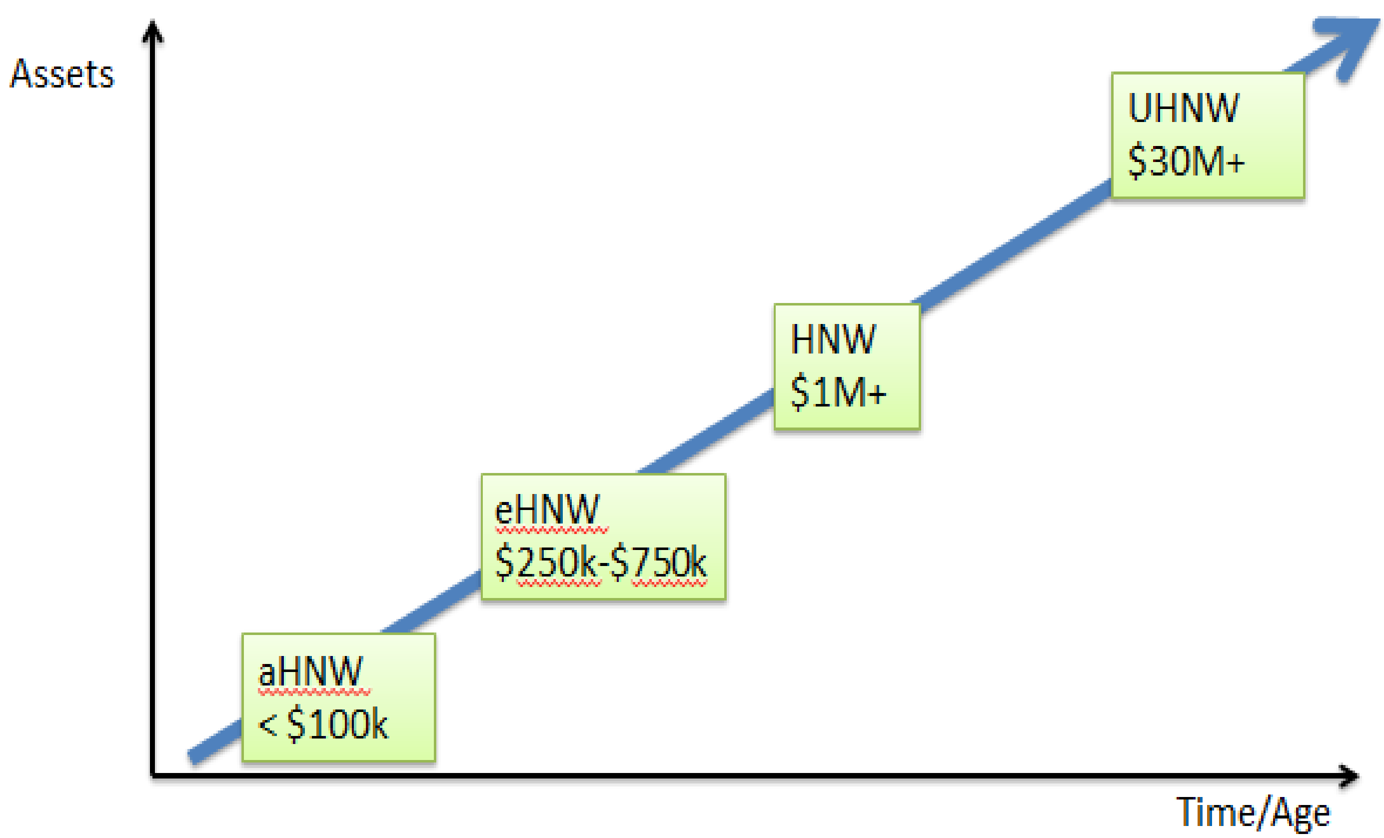


Front Back

So I honestly can't recall if I learned about the Embedded Commissions response from a colleague, or the OSC's GetSmarterAboutMoney (website or newsletter). But, in either case I felt it was important to dovetail this initiative into the mandate of Trusted Wealth Professionals. Thus, I obtained the 169 page PDF, CSA CONSULTATION PAPER 81-408, starting reading and making notes, and I participated in the associated Webinar. And then I started re-reading, and making more notes, and really appreciating the effort the CSA undertook to produce 81-408.

But as I started to respond, I realized the evidenced-based approach undertaken by the CSA was quite complete, and I don't have the time+resources to commission new studies based on my own unique prepositions.   What stuck in my mind was the comment made on the OSC's webinar is that they, the OSC, are seeking 'Something New'. And when that thought process was woven together with the Embedded Commission Point & Counter-Point that was played out in the media, the Beep Brief was conceived.   This is the opportunity to provide Thought Leadership to Canadians.

The starting point is understanding one of my favourite sayings "How Big Is Your Stack?". It's an analogy from the game of Poker that forces the card holder to 'compare'. And that is critical, the word 'compare'. If you compare yourself to the HNW figure below, a categorization and tiering of High-Net Worth people, you'll see where you stand. The lowercase 'a' is for Aspiring and the 'e' is for Emerging. The capital 'U' has been interchangeably termed 'Ultra' or 'Unicorn'. The start-point and end-point of the individual tiers were chosen by me and purposefully left with gaps such that it is known that 'gapping up' is a discrete step. The 'gaps' set higher targets such that when you have $800k you can say to yourself "I'm not a High Net Worth person yet until I reach $1M". HNW is defined as $1M in net assets, outside of principal residence/home.



It should also be noted that aHNW are just one college/university degree, or one wedding, etc … away from having to start Saving over again. And the tiers I have chosen also tend to coincide with chosen net asset levels by the highest licensed investment professionals; namely the full-service IIROC advisor.

Notwithstanding the stereo-typical objectives of the HNW community, you could express the investing needs of the HNW as per the grid below:

Tiers & Needs	Growth	Growth + Income	Income
aHNW	✓		
eHNW	✓		
HNW		✓	
UHNW			✓

The Financial Services industry is best served by providing advice + counsel via:

1. Fee Transparency; not via Embedded Commissions and certainly not via the initial convoluted CRM ½
2. Liquidity; not constrained by a Billing System, an 'at loss' Commissioned Sales Person or an after-hours settlement process.

Let's now take a closer look at the 2 main points I stated earlier.

Mutual Funds are a commission-based scheme masquerading as a semi-liquid asset class.

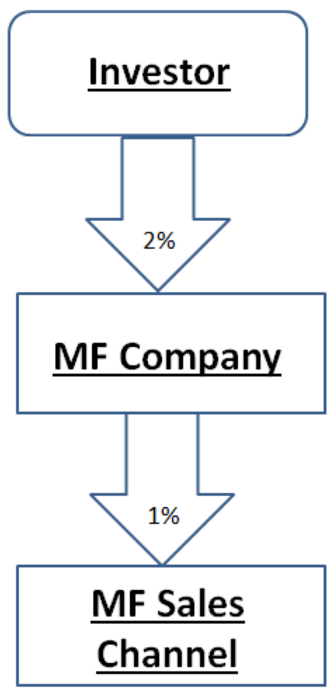
The Mutual Fund Industry is guilty of Commission Laundering

And we'll also consider this bonus point as well

In 2017, DSC Month, or re-DSC Month, will be October

It should also be noted, that just as 'Everything is a Billing System', the sales channel should not be ignored. The 'Sales Channel is Very Powerful' and should always be considered when innovation or disruption is contemplated.

The concept of the Sales Channel that I'll general refer to in the Beep Brief is illustrated below. I've used a few MER percentages, just as examples, but this is in my opinion a high-level view of the CSA's starting point to discontinue Embedded Commissions.



Point # 1 – First Half – "commission-based scheme"

Mutual Funds are a commission-based scheme masquerading as a semi-liquid asset class.

There are 2 halves to this statement about Mutual Funds

commission-based scheme
semi-liquid asset class

And the connector is the word **masquerade**.

Whether you consider, from an overall perspective Point #1 to be a harsh statement, or an illuminating statement, its origins are actually re-purposed from a similar statement about Hedge Funds. And there is a lot within the 14 words, so let's tackle the 3 main components in order.

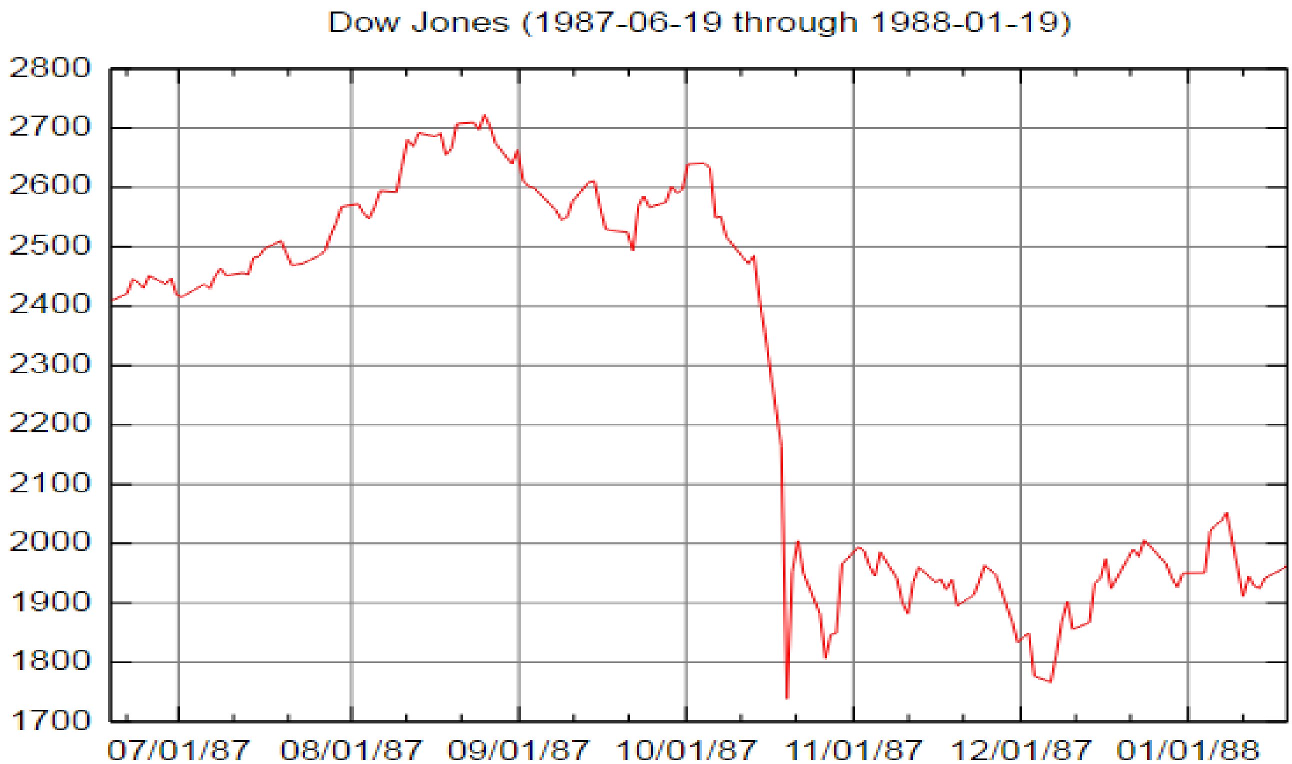
<u>"Commission-based scheme"</u>
Quick Background; and everyone has their own version of these details+facts.

In September 1987, MacKenize Financial brought a new compensation scheme North of the border, DSC's (Deferred Sales Charges); and introduced the DSC's through a new Mutual Fund called Horizons. Mutual Funds were typically sold with a 1-time upfront sales charge. Thus the 'hook' to keep investors buying the new Horizons Mutual Fund products was to pay the Sales Channel the upfront DSC fee, but lock-in the Investor with 5-7 year clause that made them liable for the Sale Channel Fee. So, a double-win was achieved, an easier lucrative sale for the Mutual Fund Sales Channel, and a guarantee to the Mutual Fund manufacturer that they had a recourse against any commission shortfalls (if the investor redeemed their funds).

All the subsequent Billing System terminology such as Front-End loading, no Load, Trailer Fees, etc … are just schemes to incent the Sales Channel to keep selling Mutual Funds.

Now MacKenzie was very fortunate as the Horizon product did not 'sell out' in September 1987, and later, in October of 1987 there was Black Monday, a decline of 22% on the S&P 500.

Afterwards it was a great buying opportunity and Horizons eventually became a flagship offering by MacKenzie. Black Monday is shown in the image below.



But without going into the euphoria of retail investors, many of whom had not seen a crash or a correction, and were struggling with mortgage rates of 14% (or higher), the DSC became the 'juice', the 'drug', the 'pill', for the Mutual Fund sales channel.

This translated into Buy&Hold, the absence of Advice, and made the Mutual Fund manufacturers increasingly more desperate/competitive to maintain+grow their marketshare. So commissions to the MF sales channel became the battle-ground. And the Billing System for Mutual Funds became paramount and the Beep Party started. The 'Scheme' was in full swing.

Plus the entry point into the Beep Party was joining the MFL; Minimal Financial Licensing, in other words, your Mutual Fund Sales Licence. Of note, in the coming months, the MFL will be explained in detail at www.TrustedWealthProfessionals.com.

As a side note, I had the opportunity, while at SYMCOR, to work with the CoreLan founders who built FundServ (no 'e' in FundServ), one of the first (and still in use today I believe) Mutual Fund settlement systems (circa late 1990's). This system essentially takes the daily NAV (Net Asset Value), from another system at 4:01pm (or later) each day, after the market has closed, and ensures the Mutual Fund Buys & Sells are properly administrated. The daily NAV is calculated by the Mutual Fund company first by siphoning their pro-rata amount of the MER before deciding how much is left, per unit, for the Mutual Fund investors.

So I pay daily my mutual fund fees, and we are back to the phrase '**commission-based scheme';** which begs the question "If it isn't a commission, what am I actually getting?" And "Why am I paying daily?" Of note, with a full-service IIROC investment advisor, you pay every 30 or 90 days, in arrears, the average AUM, for the period, and you can pay externally, not from cash within your account or by liquidating holdings. Please note, this external payment rule is changing slightly in 2018 for RRSP and TFSA (Registered plans) but will still remain the same for Taxable or Investment accounts (non-Registered). But it is key to note, that in a Fee-Based account, with an IIROC firm, you are paying once, in arrears, every 30-90 days, versus the possible 60 daily Mutual Fund fee (in a given quarter).

The question still remains, "What is my 100 Beeps to the MF sales channel getting me?" I'll claim it is not advice, because investing advice has two components; namely a Buy and a Sell. You can have a 'Paper Profit', but it is not realized until you sell. And if you Sell, your MF Sales Channel loses Beeps, there is no longer a commission for them (Embedded or otherwise). Do you ever sell a Seg Fund? Or a Target-Date Fund? Probably not, you Hold, so there is no Advice. Again, of interest, with a full-service IIROC investment advisor, you can Sell, and make a real profit. It is a commission to the investment advisor, if you are in a commissioned account, (these accounts are less than 10% of the accounts today). But in a Fee-Based account (more than 90% of the accounts today), you probably have 100, or 150 free trades (maybe more), and the advisor is still compensated if you are sitting in Cash/E (my own term for Cash and/or Equivalents).

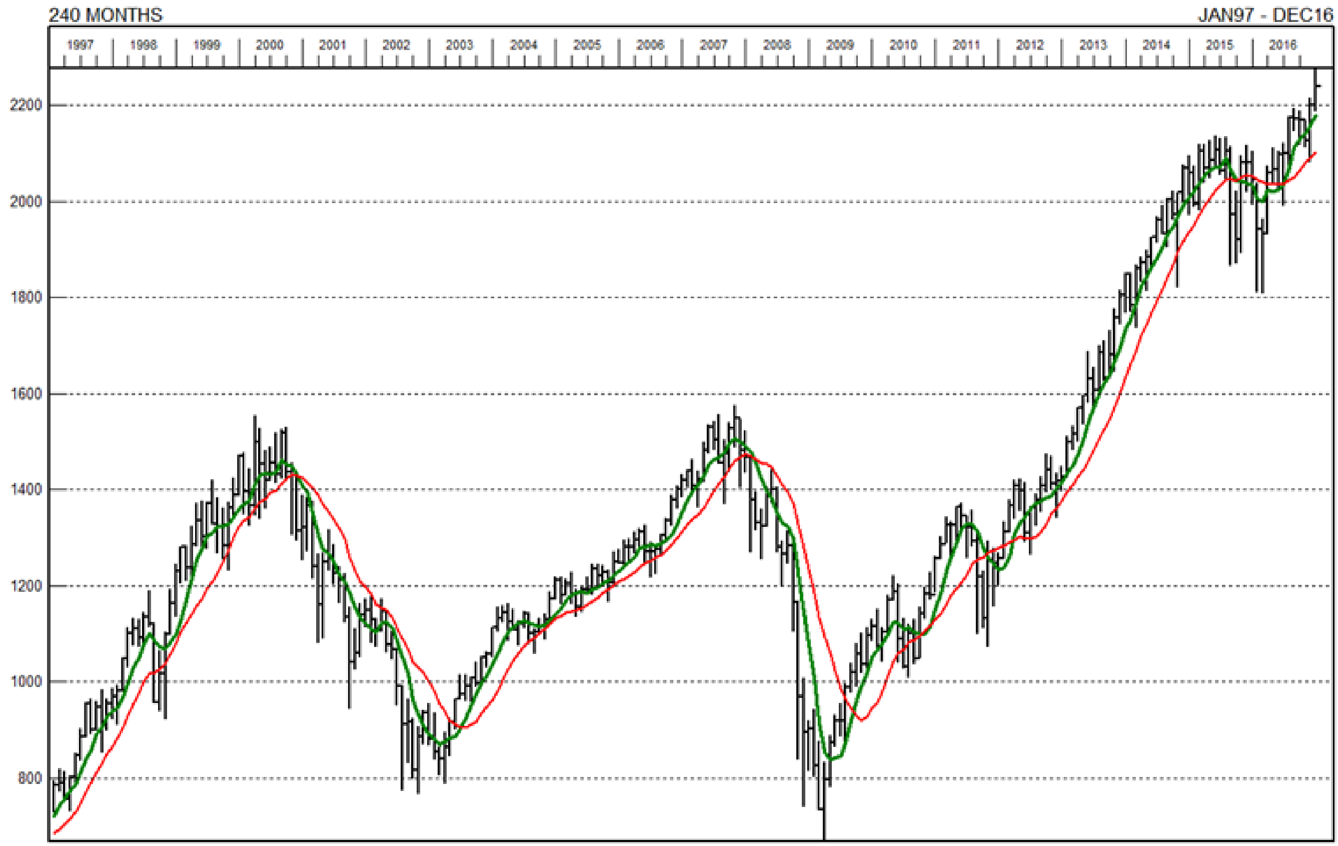
In 2016, there may have been a couple of times to sit in Cash/E. Brexit occurred in Summer of 2016 and in the Fall there was a USA election. And a pertinent FBI investigation. Then there wasn't an FBI investigation. Then the story continues into 2017. There was a FBI investigation. Then then FBI director got fired. Then there was a new FBI investigation. And on Thursday June 8th, we had ex-FBI testimont, and a British Election. All while 5 year Canadian GICs are yielding less than 2% and 'Trade Wars' are coming (ie. autos, lumber, dairy, etc …). Everyone has forgotten Chinese GDP, oil prices, real earnings, etc … but the point is that there may have been a reason to change Mutual Funds, if not Sell outright.

The 5 trading days surrounding Brexit are illustrated below. The market dropped for 2 days, about 900 points and then recovered in the next 3 days. No-one knew that in advance. You could have sat on the sidelines and slept at night. You may have wanted to Sell.

The USA election + Trump's victory was quite similar as well (but more pronounced), there was an overnight low but then an intra-day high that lead to the "march to 20,000" for the DJIA. But the Mutual Fund sales channel does not get compensated if you Sell and chose to stay in Cash/E; they lose Beeps. If you buy a GIC they lose Beeps as well.

If you look at the chart below, the last 20 years of the S&P 500, from 1997 to 2016, there may have been a couple of times to Sell. The last drawn-down, a Bear market between 2007-09, was 54% and took almost 5 years to recover. "Do you want to lose 54% or your current pay cheque?" If not, why lose (potentially) 54% of your retirement pay cheque. But wait, that can't happen now. So then don't look at the earlier drawdown of 2000-02 (a 49% decline I believe).

HNW investors can sleep at night because they have Liquidity. And professional Advice from the highest licensed advisors.. They can Exit & Enter the market, without impacting their Advisor Fee-Based compensation. Mutual Fund investors, aHNW and eHNW cannot achive this Liquidity.



John Grisham's first book, A Time to Sell, I changed the title a bit to make the point, illustrates that if probably better to Buy&Rule ®, more on this at www.TrustedWealthProfessionals.com in the coming months as well, than to Buy&Keep-Paying-the-Mutual-Fund-Sales-Channel-A-Commission.

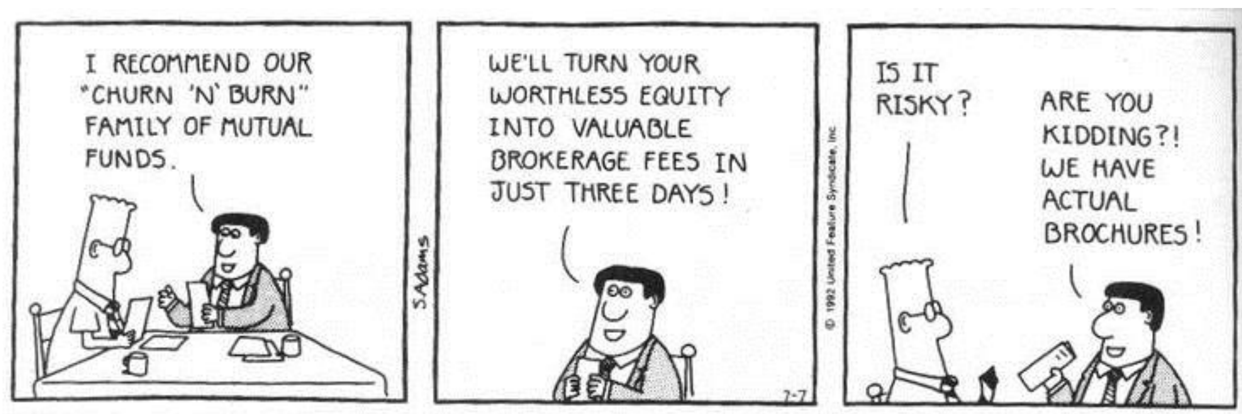
Sidenote: The Beep Brief was coined from another of John Grisham's books, The Pelican Brief.

And before I'm accused of turning the Beep Brief into a personal commercial, or hate-mongering against the Mutual Funds industry, let's concentrate on the topic of this subsection. You might need to be an industry participant, or sophisticated investor, to appreciate some of these thoughts, but here is why Mutual Funds are a 'Commission Based Scheme':

1. You don't Sell if and when the professional Rules indicate to do so. What if the market was down 50% and headed down 49% more tomorrow, would you sell? Would you Sell if the market was up 300% and everyone in the world (Jimmy and Warren Buffet included) were screaming "Over-Valued … Get Out Now"?
2. DSC's prevent you from selling (5-7 year contract). And in fairness to the much maligned Investors Group (and others) it appears that they are easing their DSC and re-DSC policies, but the wording in their latest press release (September 2016) implies if we've DSC-ed you before, we'll keep DSC-ing you again. Known as the re-DSC. Maybe I'm wrong, but I have a friend with a total of $800k at Investors Group and his RRSP holdings

span over 50 separate Mutual Funds, each with a balance of ranging between $6,000 to $28,000. 50 Different Funds? Really? 50 Different Funds? How did this happen? Well, when the 5-7 year DSC clock started expiring on the Mutual Funds, the Investors Group Mutual Fund sales person kept shoving the now commission-free funds into a new Mutual Fund that paid the upfront DSC commission (this is the known as the DSC 'drug', 'pill', or 'juice'; pick your 'poison' for the correct term).

3. Seg funds encourage you to hold for 10 years. Why? They virtually never pay out (the insurance). And if you need Growth, you don't need to annually pay 300 Beeps (or more). And yes I know that some Seg Funds charge less; just ask the 27 year girl who got hustled into a Seg Fund by her company's Benefits provider. She doesn't need any of the Seg Fund insurance benefits when she has 38 more years to go before age 65.
4. Target Date Funds encourage you to hold 'forever'. Why? What do the 100 Beeps for the Sales Channel provide for, Advice? I say NOT.
5. ETF's have no commissions and overall lower product fees, but your MFDA or MFL (Minimal Financial Licensing) sales person cannot sell them to you. And there is no Commission for selling an ETF. Please remember that a MFDA licensed sales person is one of the lowest forms of licensing for financial products sales people; and I'll reiterate, I term this licensing MFL.

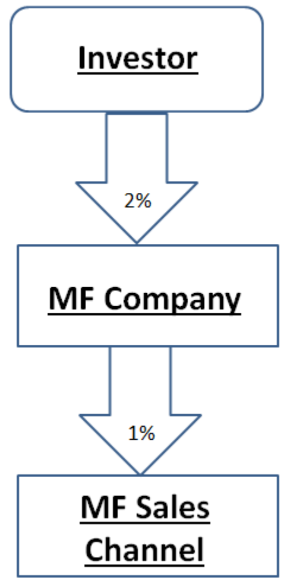


6. And Mutual Funds comprised of ETFs is just another way to keep paying Beeps (this is offered mainly via your bank). I'm astounded that Canadians' pay Beeps for this Fund-of-ETFs scheme. Quite astounded. Please see Solution 15.
7. Did you know your bank keeps an overwhelming proportion of the 100 Beeps typically paid to the Mutual Fund Sales Channel? So the Banks keeps the first 100 Beeps as the Mutual Fund manufacturer, and then the lion's share of the second 100 Beeps (no disrespect to the bank with the Lion-in-their-Logo; all Banks and medium to large Financial Institutions do this). It's known as Beep Hoarding. And it is quite profitable for the banks. That's why their Mutual Fund people turnover every 8 months, they want to sell Mutual Funds to you and get a full Beep Commission.

8. You paid for Beeps today to your mutual fund company when the NAV was calculated, but you don't know how much. You may have purchased the Mutual Fund through a Bank Teller, Mutual Fund Sales person, Insurance Sales Person or perhaps a Discount Broker, it doesn't matter, if the stock market was open today, you paid Mutual Fund Fees today and you don't know how much.
9. Discount Brokers, they prefer to be called Online Brokers, offer A-class, D-class and sometime F-class mutual funds. This may be changing (quite soon) and perhaps it will be enacted one day that D-class funds are not more expensive than F-class funds (sometimes). Better still, there's probably an ETF for your investing needs, that doesn't 'game' you in the highest Beep level; an 'A' class fund looks better to you then an 'F' class fund; think of school 'letter grading' to convince you why an 'A' is better than an 'F' and why this is part of a Scheme.
10. And there is always the nominal total amount of Beeps. Not Beeps a percentage but Beeps as a total dollar amount. CRM ½ only showed me half my Fees. The second half of CRM ½ (on track for 2018) will show me total fees; what the Beeps mean to my overall Wealth. I can't eat a Beep. Or spend a Beep. Everything has to translate back to dollars&cents. And this is a trick that was taught to me by an insurance sales person, human beings are bad at math, especially percentages. You can sell more to them when they don't understand the comparison to a big screen TV, a mortgage payment or a weekly grocery bill. If an investor is about to place $500,000 in a Mutual Fund with a 2% MER, tell them there are paying $10,000/year in total fees (not a 2% MER). Investors know if sales tax goes from 13% to 14% in Ontario, that the increase is 'not good' but they don't understand what difference a MER of 1.8% is versus a MER of 2.2% means; and this is amplified when the equivalent 'Indexing' ETFs is 0.07% to 0.25%. A Scheme is not portraying the Total Fees upfront, when buying the Mutual Funds, you have to wait for an End-of-Year-statement and CRM ½ + CRM ½ to understand what you really paid in total Mutual Fund Fees.
11. Over 30+ years of falling interest rates might mean that old ratios might not hold true in this period of sideways/rising rates (ie. Target Date Funds with Tactical Asset Allocation). The Scheme being that "Say Anything" and introduce new products at the top of a Bull market to keep the Beeps coming. Especially products like Seg Funds and Target Date Funds that lock clients into paying Beeps. Or DSC/re-DSC them at the top of the market. One day there might be a 'cooling off period' for Financial Services product purchases, but until then, Sell Anything will accompany Say Anything.
12. I don't understand why TERs, Trading Expense Ratios, appear to be uncapped. My gut feel says Bond Fund managers are going to have to 'trade' more frequently if interest rates keep rising. This seems to be an area where a blank cheque is issued to the fund manager. TERs = Beeps, but that's kept secret/unknown. The temporal update to this is that the USA mid to long bonds are not rising while Janet Yellen appears to be raising

USA interest rates in June. Possible inverted yield curve? End result, more Bond trading and higher TERs?   Uncapped and unknown ETRs.

13. But the perhaps #1 reason why Mutual Funds are really part of a **Commission-Based Scheme**, think of this image below.



Where else in your life do you pay the manufacturer first? What item -- food, hydro, property tax, cellphone, gasoline, insurance, etc – do you pay the Manufacturer first? And then they pay the Sales Channel afterwards? This Scheme infuriates me; where else do you pay the Manufacturer who then pays the Channel (for consumer and commonplace products)?

Think about this. The Mutual Fund sales company has no bad debts, no accounts receivable, no collection agency, no invoices to their clientele, etc … It's all part of an Embedded Scheme. And Commissions are buried within this Embedded Scheme. And they pay themselves daily. Did you get paid today? Do you get paid 238 times a year?   That's 250 working days minus a few statutory holidays.

There are 3 Known's in the Investing World:

1. There are Guaranteed Investments (think T-Bills, not Home Capital GICs)
2. There are **non**-Guaranteed Investments; pretty much everything else.
3. But, there are Guaranteed Mutual Fund Fees/Commissions. So much so 'Guaranteed' they're perceived as a form of Entitlement. A Right. If it is a Monday, Tuesday, Wednesday, Thursday or Friday, but not a market-closing holiday, you paid your mutual fund company today. But chances are you get paid bi-weekly, once every 10 business days. Albeit small payments, but you are paying daily your pro-rated Beeps/MER.

That's why it is a Scheme.

Point # 1 – Second Half – ”semi-liquid asset class”

Mutual Funds are a commission-based scheme masquerading as a semi-liquid asset class.

If you have purchased a Labour Sponsored Fund, for the upfront tax break, you might have found that there are only 2 very short windows per year to sell your investment (it is possible the window is only open for a few minutes, I'm not joking). <u>Illiquid</u>.

You might have purchased a top-off-the-market exotic Structured Note, fully well knowing that you need a few phones calls, and possibly a few days, to sell in a Secondary market (probably below market value). <u>Illiquid</u>.

And you've got any stock, bond, or ETF in the world, and the local stock market is open, and you can sell (or even buy more). <u>Liquid</u>.

Those are the definitions of Illiquid vs. full-liquidity. But Mutual Funds are semi-liquid. You can Sell or Buy at 4:01pm EST, after the TSE or NYSE has closed (we're using the common exchanges for reference). You can't Buy or Sell during the trading day, but you don't need to wait Days to transact. <u>Semi-Liquid</u>.

So as I type the Beep Brief, I occasionally glance at the clock, it's 11:33am and then 2:28pm, I just heard that Bombardier is receiving consideration from the Canadian Government. My belief is that there are 10 more years of growth in Bombardier and I can buy the individual shares (BBD.B) or an ETF holding the shares. Right now. <u>Liquid</u>.

But not with a mutual fund. I have to wait until to 4:01pm to get 'filled' (and only then will I know the final price). But that's only the case if place the order online. It's the same scenario if I want to sell BBD.B as well (or the ETF holding BBD.B). I just want to sleep at night. I don't want to even buy GOLD (that's Randgold Resources Limited). Same goes for Nike, TransAlta, Amazon, CIBC, etc … if there's news, or if I have idea that is percolating in my brain, I can buy or sell individual shares, or ETFs, when the market is open, <u>but with a mutual fund I transact when the market is closed</u> (seems 'weird', almost counter-intuitive to the word 'investing'). <u>Semi-Liquid</u>.

And if I'm not online with my Mutual Fund company, if I deal personally with the mutual fund sales person, or her/his company, then I need to pick up the telephone. I want to Sell my Mutual Funds. Let's assume that interest rates are rising and are now at 18% as they were in the mid 1980's and I want to sit in GICs. All my friends are doing this now. Or even more plausible, I just want to have 6% a year as a rate of return, net of fees; pension style investing.

And I want to sleep at night. I've met my objectives for the year, I'm good with stepping out of the market (there is a lot of turmoil at present). So if you want to Sell your mutual funds, the sales process has now reversed, you are going to have to be really persuasive because there is a Loss that is going to occur. A Beep Loss. To the Mutual Fund Sales person. And a Beep Loss Prevention Mechanism now kicks in. You're essentially replacing a non-Guaranteed investment return with yourself (you are the investor) and taking a Guaranteed Commission away from a Sales Person. There is going to be a 'fight' to keep the Mutual Fund Sales Person's Beeps.

But aside from the human interaction, convincing the person who Beeped you, to unBeep you, is an effort that the retail investor is not well enough armed enough to undertake as the Beep Loss Prevention Manual possessed by the Mutual Fund Sales Person is quite extensive.

The bottom line is that Liquidity matters; if the underlying systems don't allow you to transact when you want to, or the Mutual Fund Sales Person doesn't want you to transact (ie. Sell) when you want to, you've been denied liquidity and by then it is too late. Bad Outcomes prevail.

Note1: I have taken it upon myself not to convey portions of the Beep Loss Prevention Manual, other than to say, the best counter starts with Liquidity Paper from yourself. Perhaps a 'play' on Liquid Paper, but your Liquidity Paper starts with a T2033/T2151 for different types of Registered money, or an Account Transfer Form from your new institution (they'll handle it for you). Allow 2-4 weeks and there might be small fees ($150 –ish) along the way. Either way, your investments are not permanently held at any Financial Institution; so your TFSA, RRSP, Pension, Taxable/Investment, RESP, etc … accounts can be moved where necessary. REPEAT – The Beep Loss Prevention Manual is where the Conflict of Interest arises; the Advisor will not prudently 'raise' Cash/E because she/he doesn't get a commission cheque (possibly a Clawback as well; it depends upon the Commission Scheme and Billing System deployed).

Note1 Caveat: You'll soon find out if you have Proprietary products, Deferred Sales Charges (DSC's) or other exorbitant fees within your account holdings+investments. Try to determine if you have 'Fee Creep' when moving your assets as well; that is unknown and increasing Fees that keep Creeping/Popping-Up when you're moving assets. And I've been asked a few times already, "Should I move from Investors Group to a full-service IIROC life-licensed investment advisor, without knowing what my DSC fees will be?" And my answer is that assuming you have a worst case 250 Beep DSC Holdback, you might find that Fee-based full-service IIROC life-licensed investment advisor actually costs you less over a 5 year investment time period, thus justifying the Fees. I won't use Fear to make this point, that Buy&Hold-ing through a 54% market is minor compared to 250 Beep DSC Holdback. Nor the point that full access to all investment Products, Services and Styles trumps the restrictive proprietary offerings. But I'll go out on a limb to that say that if we know 50% of marriages end in divorce, mainly based financial issues, then 50% of financial relationships end because of non-financial emotional issues (ie. Trust or Betrayal; I saw this on Oprah a few years ago). Anyways, you'll know when to issue your Liquidity Papers. Your new Wealth Institution can help you in this regard.

I'm not saying you need to stay invested, or exit the market, or rotate holdings through your portfolio, but if the Embedded Commissions Scheme are affecting your liquidity, either monetarily, procedurally, or psychologically, through word-of-mouth with your Advisor, or not, it ultimately affects Liquidity.

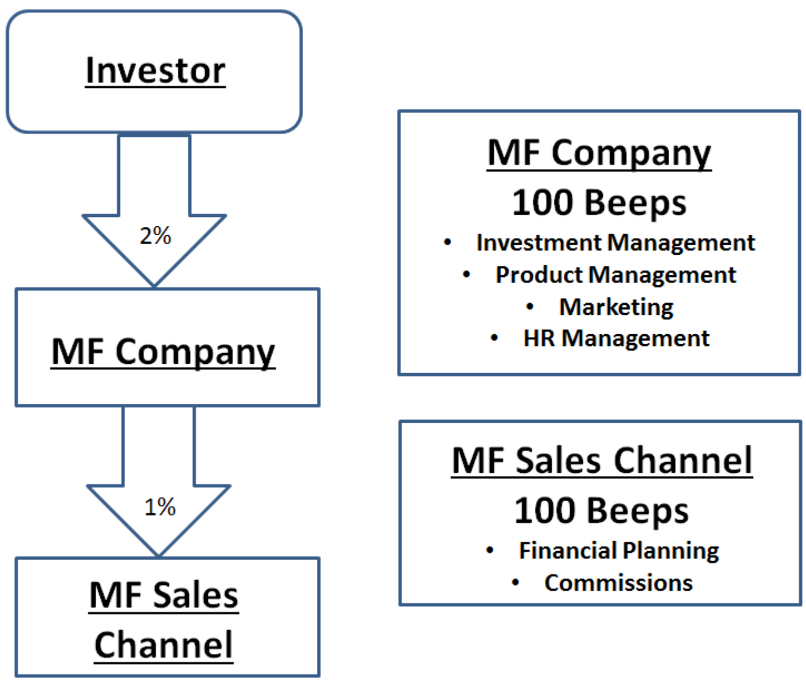
And lack of Liquidity is not good for Investors' Outcomes.

Point # 2 – Commission Laundering

The Mutual Fund Industry is guilty of Commission Laundering

Phew. I came to this conclusion, rightly or wrongly, by Googling and chatting with a variety of financial professionals. There are great articles on the Globe and Mail's website and Advisor.ca that deal with 'deductibility investment management fees'. If you Google that 'string', they will be the first few hits, and feel free to avail yourself of them. But I do think I'm correct in this regard, so here goes.

The background to the Laundering claim is that the entire MER, 200 Beeps, is deductible because it isn't a Commission and it isn't Financial Planning (both non-deductible by the CRA). Thus the entire MER is viewed as Investment Management Fee or Product-related fees. The 100 Beeps for the Mutual Fund company is clearly not Commission, as it is Investment/Product management fees. OK, I hear you, but I don't buy it. So let's look at the Beep Flow.



My thinking is that I have explained in Point 1 that there is no Advice nor Service within the Mutual Fund Sales Channel so the second half of the 200 Beeps paid by the investor, 100 Beeps, should not be deductible. It's a Commission only (and why you would keep paying it annually is criminal).

I know this is upsetting. And I have seen the IFIC breakdown on where the 200 Beeps are spent. And I'm not even concerned about why an ETF can deliver the same 'portfolio' for 4-7 Beeps, but we'll use 30 Beeps as an average (thanks CETFA for this fact).

MF Company

100 Beeps

- **Investment Management**
- **Product Management**
- **Marketing**
- **HR Management**

ETF Company

30 Beeps

- **Investment Management**
- **Product Management**

MF Sales Channel

100 Beeps

- **Financial Planning**
- **Commissions**

I haven't exhaustively surfed every Mutual Fund company's website, just a 'chosen' few, and I've read advertisements in the Globe and Mail (32 years and onward of continued daily reading), but I have noticed the word 'Commissions' with every description of Mutual Fund fees. That alone doesn't make the second 100 Beeps non-deductible; especially if I'm on the Mutual Fund company's website and it is the Sales Channel I'm concerned about.

And it doesn't matter that there is 'wordplay' regarding the words 'Advice' and 'Service'; it seems Commissions are the new 'Service'. Please ignore the spin.

Also, the presence of Mutual Fund Sales Persons T4 slip , or really the T4A, perhaps T5, but mainly T4A, for Commission Income isn't proof enough that the second 100 Beeps are really a Commission.

It boils downs to the fact, that beyond the Financial Planning, Licensing matters. Selling a Mutual Fund, with a Buy&Hold approach, DSC-ed or not, with an accompanying Trailer Fee, is a Commission. Because your Advice is always not to Sell; the second half of investing (Buy-ing first and then Sell-ing second). And that is non-Advice. And also not 'good' Advice.

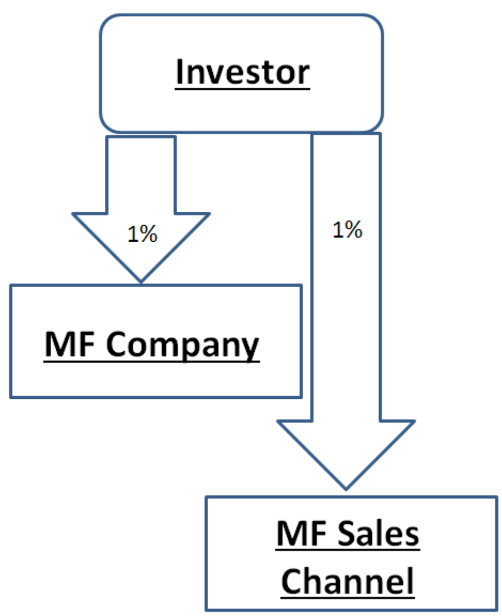
A Full-Service Life-Licensed IIROC advisor, hopefully one who practices Buy&Rule ®, and doesn't suffer from Financial Decidophobia (fear of making financial decisions), actually makes Buy&Sell decisions daily. This includes Portfoliio re-balancing via Buying and Selling, profit-taking by Selling, Buying new issues, Buying and Selling for Tactical Asset Allocation purpose based on KYC's and IPS's. Whether it be within a Discretionary account or not. In a Fee-Based account, this is not Commissions. This is Advice. This is Service. Deserving of Beeps. The full-service IIROC advisor does this daily, it's part of the work they do work clients. Mutual Fund Sales People do none of this, they aren't licensed to do so, they don't do any of this Buying and Selling advice. Sure they perform minimal KYC and IPS efforts, but not deserving of Beeps. Yes they perform some FinPlan work (I'm not sure of their licensing in this regard), but that's non-deductible work anyways.

If you don't have the Licensing, with corresponding Education, where the daily practice of evaluating Buying&Selling decisions exist because it is your job, then the second 100 Beeps is non-deductible. It's a Commission.

And it is Commission Laundering because if the same 100 Beep fee was payable directly the Mutual Fund Sales Channel it would be only Commission.

Buying&Holding a Mutual Fund, let's say 7 years until the DSC wears off, is not Advice; this is ignoring that there could be a 'Time to Sell'. Sending me a statement quarterly telling me the value of my holdings is not Service; it's a necessity, perhaps just to get into the Wealth Industry 'game'. Trying to make the argument that Commissions = Advice = Service because the MER is paid to the Mutual Fund Company, doesn't mean that a Commission is not a Commission.

In the following picture, if the second 100 Beep fee was payable directly the Mutual Fund Sales Channel, the payment would be recorded as a Sale; possibly deserving of a commission.



And if the compensation to the Sales Person was 100% variable, they had no base pay, and was based on Beeps, it would be a Commission for sure.

In the case of the Banks, where they sell their own proprietary Mutual Funds, through their branches, the Banks 'Beep Hoard' and the Teller (they were called Front Line Advisors in a recent CBC investigation), only receives a Bonus. A small bonus what I've learned; the bank Beeps Hoards the majority of the second 100 Beeps. That is why there is incredible turnover at the banks with respect to who is managing your account. The good Tellers get their CSC licence, join an IIROC firm and encourage Follow-Me-Beeps (while referring back to the replacement Teller, who soon has a depleted 'book'). The disgruntled and perhaps OK Tellers get their MFDA/CLU license and cherry pick their 'bank book' by High-Beeping (migrating their HNW clientele and possibly locking them in with Seg Funds or Target-Date-Funds). But all of this is reality only because a Commission, evidence by a Beep payout and lack of Licensing/Advice, is really a Commission. Laundered or not.

Of note, if you can't go to Cash/E because of the Sales Channel compensation scheme, please start completing your Liquidity Papers (transfer to another Wealth firm, perhaps via a Trusted Wealth Professional).

Consider this Compensation grid below. Based on the person serving you (so you can't skirt the rules and have one IIROC person, in a province far far far away, that is the defacto or totem IIROC person in your firm).

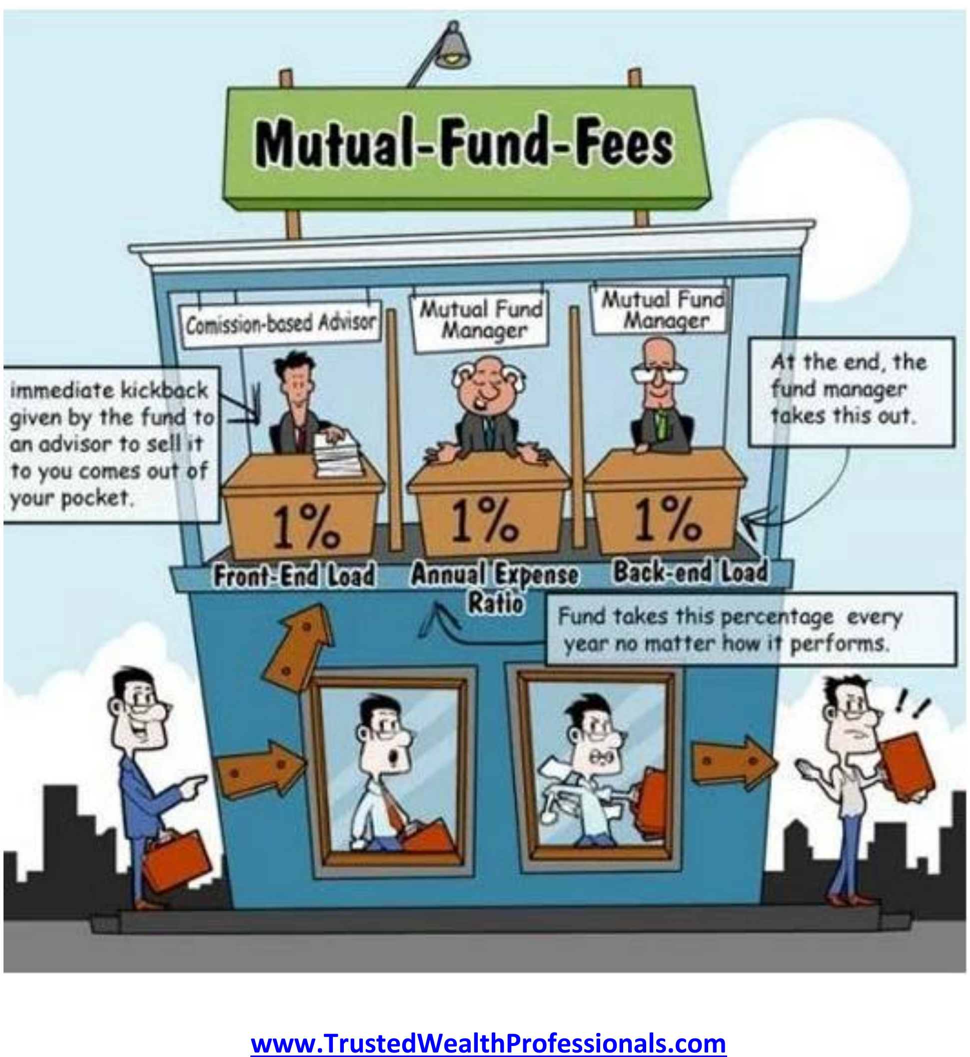
Licensing & Compensation	**Non-IIROC-Licensed** Ie. MFDA, CLU, other	**IIROC Licensed**
Compensation Alternatives	Flat bonus or tiered structured (can't look like a Beep). Can't be Laundered via creativity.	Beeps or other. All options available

There is more to share in the **Solutions** section of the Beep Brief (see Beep Ban; Solution #2), but my viewpoint is that if/when the CSA discontinues Embedded Commissions, the Mutual Fund Manufacturers and Sales Channel will have to get very innovative as they've had the good Beep life for 30+ years. Uber-like disruptive solutions and Robo inspired innovative FinTech platforms are coming; until a Bear market surfaces.

Nothing moves in a straight line. Bulls and Bears are conjoined. And the lack of Advice in a Bear market will be catastrophic as more and more Boomer have invested in the Equity market, and interest rates up/down will affect the Bond market. Canadian's need Advice, and they are not receiving it at present, because if they were, the Asset Mix of Mutual Fund investors would look more and more like that of the HNW at IIROC based firms; where capital preservation is a concern.

But no Mutual Fund Advice means Commissions only, and Commissions Laundering, as the 2nd 100 Beeps would not be deductible if the Mutual Fund Sales Channel had Commission based accounts (vs. Embedded Commission today). Or if you paid the Mutual Fund sales person directly, it then be a Commission.

After-thought. The 'Advice Gap' has been bantered about in the press as a 'hole' where upscaling the Mutual Fund Sales Channel would leave small investors without Advice. Robo's will address this marketplace. The real point is that there won't be free Beeps to the MFDA-licenced Mutual Fund Sales People any more. The small investor (aHNW) will probably be 'moving up' with respect to Advice + Service when they deal with a Robo as there is a Portfolio Manager and Discretionary component to this Beep-based channel as well.



Quick Summary (from an email I typed to a friend), regarding Advice

Oxymoron: Mutual Fund Advice

3Points

Point1. IMHO 'Advice' has to include 'Sell'. If you're not Selling, and only Buying, as in Buy&Hold, then that's a SalesPerson. It's the new KYC – Know Your Commission. Plus 'Selling', perhaps through Rules-Based-Investing (ie. Buy&Rule ®), allows you to take profits and minimize losses. That's why Investing is Buying&Selling. Just Saving, approximated buy Buy&Hold is a Sales-effort, from a Sales-person (proprietary offering or not).

Point2. What is Advice? The definition of Advice? It cannot be FinPlan because we know that is not deductible. So if you had to contrast Advice vs. FinPlan (from a Mutual Fund or Bank Teller's standpoint), I'd think you see that everything is FinPlan or a Sale. Holding a Balanced or Conservative or a Diversified or a Seg Fund or a Target-Date Fund, based on a Pie-Chart, is not Advice. It might be that the Mutual Fund industry is terming 'un-licensed FinPlan advice' as Advice. But it is still non-deductible by the CRA; if it is a FinPlan then it is a FinPlan (whether you have MFDA or CFP designations).

Point3. Licencing matters. We might as well say there is no Advice unless you're CSC-ed and IIROC-ed. Therefore investors via MFDA and other Proprietary Product sellers (ie. Insurance, Bank Tellers, Investor's Group, MD Management, etc …) are getting no Advice unless the person in front of them is CSC and/or IIROC. And the counter-point is that there are IIROC-licensed individuals who are dumbing down their offering, becoming relationship managers, and just acting like MFDA or FinPlan folks. That's a shame as well; 'Bad' IIROC Advisors.

No Advice means Commissions and thus that is Commission Laundering. Sure, the eHNW, HNW and UHNW, who are still in Mutual Funds might feel as if they are getting paid special attention because of their AUM, but it is still not Advice. Perhaps the challenge is to assume everything related to an Embedded Commission is not Advice, and let it be proven otherwise.

Or perhaps unless you can sell all the products, ie. ETFs. Stocks, Bonds, etc … your offering is termed a Commission (that gets Laundered in the current system).

BONUS Point – DSC Month

In 2017, DSC Month, or re-DSC Month, will be October

Usually every month of the year is DSC month. But this October will be extra special as the Mutual Fund managers who feel threatened by the upcoming second half of CRM ½, and a lot of great new Regulations, will be under sales pressure when 3Q17 has completed. So, 270 days will have passed in the 2017 calendar year, sales figures will be calculated, and year end projections plus plus commissions (via T4A) and bonuses will be closer to being envisioned within a Mutual Fund Sales Person's personal bank account.

Or perhaps it will be DSC Month, just for the purpose of keeping your job.

The Mutual Fund sales people will be passing this message along to their Sales Teams. We may have started to return-to-the-norm in the markets, the press will remind us of October's market performance in an odd-numbered year, the Black Swan could be Donald's wife leaving him, USA GDP may be tracking above 3% or below 1%, and European elections in Germany and Italy will be closer (if not passed already). Italian elections might be the next Brexit.

So why will this October will DSC Month, or re-DSC Month? There will be a Social Explosion far worse than French's ketchup being un-shelved. It may not play out in the press, but the sales pressure to lock-in customers will go through a 'last hurrah'.

I'll present a few diagrams of possible industry turmoil and changes in the **Solutions** and the **Crystal Ball** sections of The Beep Brief. But the last chance to get mega Beeps, the biggest commission cheques possible, for the Mutual Fund Sales People (Managers and Teams) will be October (the sales cycle could close in November or December, but it will start in October). Decent weather, a mindset that isn't on Santa Claus, CRM3 possibly to be enacted in the Insurance Industry in early 2018, all will drive the frenzy. The weak Sales Person performers, and the lowest 1 or 2 quartile performers, may find themselves selling Real Estate.

Summer will be slow, but in September the marketing campaigns will start in earnest. ETF fees will be shining a light on Mutual Fund Marketing (and associated HR staff). And door-to- door tactics will be employed; the ability to 'Say Anything' to get Beeps will surface. Insurance has already moved online and underwriting below 55 is no longer required. Lots of multi-channel competition with Robo-Advisors, all based on 3Q17 performance numbers and knowing that 2018's RRSP season is right around the corner.

The Beep Battle will be on center stage. This might be the last year of Easy Beeps. 'Say Anything' to 'Sell Anything' and lock-in Beeps will be the marching orders. And DSC's offer the best payout Commission payout (to the chagrin of the Canadian Investor).

"I'M HAVING TROUBLE SLEEPING, ROB. DO YOU THINK YOU COULD EXPLAIN, ONE MORE TIME, HOW YOU PICKED OUR MUTUAL FUNDS?"

Summary (before Solutions are presented)

Stop the Construction.

It's actually Destruction … to Canadians Wealth.

Ending Embedded Commissions will reduce Titles and move assets to Robo-advisors. Please see the **Crystal Ball** section after **Solutions**. You still solve a ton of problems in the industry including Best Interests and Titles. And Seniors can still have Commissioned based accounts, make 5 trades/year, and get GICs, T-Bills, Rate-Reset Preferred Shares, etc … from IIROC-based advisors.

The investment Style practiced by the Mutual Fund industry is Buy&Hold. But this is really Buy&Keep-paying-me-my-Commissions. Investing is about Buying and Selling, Buying good quality assets when they are undervalued and Selling them when they are overvalued (in general). But in the Mutual Fund arena there is no Selling and it isn't their limited licensing (MFL – Minimal Financial Licensing) that encourages them to turn a blind eye to Selling, or their lack of product availability/choice, it's their Commission plan, the Beeps, that encourages Mutual Fund Sales People to sell the Most Expensive Fund with the Highest Margin (proprietary products) with the Highest Commission. Embedded Beeps, with DSC's, rule the day.

'Say Anything' to 'Sell Anything' with High Beeps is the mantra.But the overall thesis of the Beep Brief is these 2 main Points:

Mutual Funds are a commission-based scheme masquerading as a semi-liquid asset class.

The Mutual Fund Industry is guilty of Commission Laundering

And this Bonus Point

In 2017, DSC Month, or re-DSC Month, will be October

I applaud the CSA for this undertaking regarding discontinuing of Embedded Commissions. They have done their home in CONSULTATION PAPER 81-408. There are many facts and a ton of details in the 169 page document.

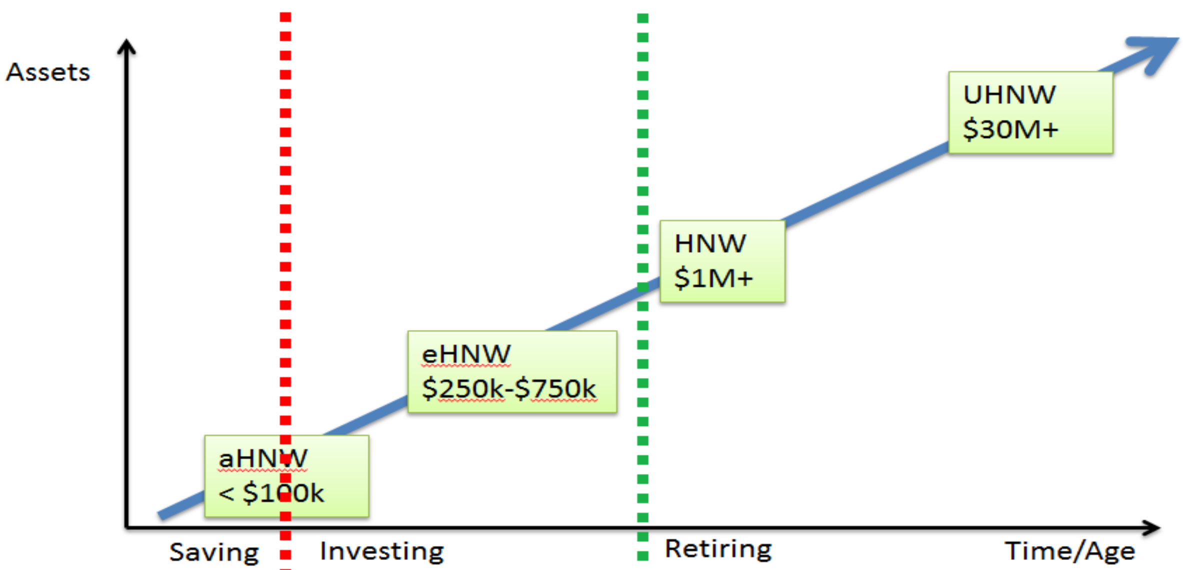
Removing of Embedded Commission enhances the Canadian Investors' Liquidity. And Liquidity is good for Best Outcomes.

I know it is scary for the Mutual Fund industry to accept the removal of Embedded Commissions, change always is.

And that reminds me of this visual.

Do you know what this chart is? To me, it looks like nothing moves in a straight line and within the up-sloping Trendline there are Ups & Downs along the way. I'll give you a hint, it's almost a 20 year period, of an Index, that is near and dear to Canadians' hearts ♥. It shows there are times to Buy and times to Sell, and there was also a 10 year flat period as well. And this is on the Home Page of www.TrustedWealthProfessionals.com as well. Do you know the Index?

There have been ill-advised wording changes recently by the Mutual Fund industry, one of them is 'Investment Funds' replacing 'Mutual Funds' (it really means Beep-generating Funds). It reminds me of conversations I've had in the Pension marketplace about people who will 'Say Anything' to get Beeps for AUM (Assets Under Management). At some point Canadian's will transition from Saving to Investing. And then at a later point, they'll move from Investing to Retiring. As they traverse these 3 stages, they'll need Growth, Growth+Income and finally Income from their assets. I've arbitrarily depicted this below, in the HNW Spectrum graph I portrayed earlier in The Beep Brief.



And Canadians' can't keep losing Beeps to the Sales Channel. Beep Preservation is paramount as Canadians will need to keep in mind these 2 emerging facts:

1. The Government cannot look after you, to your current standard of living.
2. You'll need more money/assets than you think. Whether it is because you're living longer, or inflation, or whatever. You'll need more money/assets.

So the opportunity exists now to Rule Your Wealth.

And I don't agree in its entirety with the argument that Canadians need to become savvier with respect to their financial choices. <u>The Wealth industry has to be presented to Canadian Investors in such a way that the correct Choices, and Best Outcomes, are the default settings</u>.

If you consider a food supermarket, any one of the larger chains will do. You walk in with cash (or a debit card) but no credit card, and in any aisle there are all the products side-by-side, with Nutrition labels (albeit still confusing). Your health choices have now been narrowed down for you. So have your spending limitations. Gasoline prices are generally 'displayed' so as to be seen from a distance. Store flyers, online or in a newspaper, are everywhere; there are specials, there are sales. But in the Financial Services sector, the overall Wealth industry, there still is mystery, hidden costs/fees, a non-transparent Embeddedness, that does not serve the Canadian consumer/investor. This leads to Beep Profiteering. And it creates sub-optimal outcomes for Canadians overall.

Canadians' need Investing Liquidity. They need Fair Choice. They can't deal with all the Schemes and Billing Systems. They need Advice, real proper Advice. Without Conflicts of Interest. At present, en mass, Canadians have the Wild Wild West of Products & Fees, with no real Service or Advice defined. The last I heard was 23,000 Advisors, with over 20,000 securities, creates a mind boggling array of investing Permutations and Combinations. Note: I just saw 120,000 'Advisors' mentioned in a CBC article on Sales Practices at Big Banks.

Ironically, the CSA has an opportunity to provide Leadership to this plethora of Choice + Customization by making the default option the Best Possible Outcome (see Solution #1).

But as an industry-whole, the Mutual Fund Fees can be formulized to be:

  No investment Advice
\+ Various levels of Service/Statements
\+ Embedded Fees/Commissions
\+ None-to-Great levels of FinPlan (Financial Planning)
<u>+ MFL (Minimal Financial Licensing)</u>
= Commissions Scheme

Don't let the Advice BS (Big Story) fool you, Embedded Commissions, in the overall Wealth Industry, Financial Industry, the Insurance Industry, etc … are not in the Canadian investor's best interest. Embedded Commissions affect Liquidity, and the denial of Liquidity affects overall Best Outcomes; evidenced by Wealth/Asset performance. Embedded Commissions does not equate to Advice.

Thank you again for your time and consideration when reading this Beep Brief. I do have enough material for the second phase of the Beep Brief, but that is for another day.

I'll get on to the Solutions now.

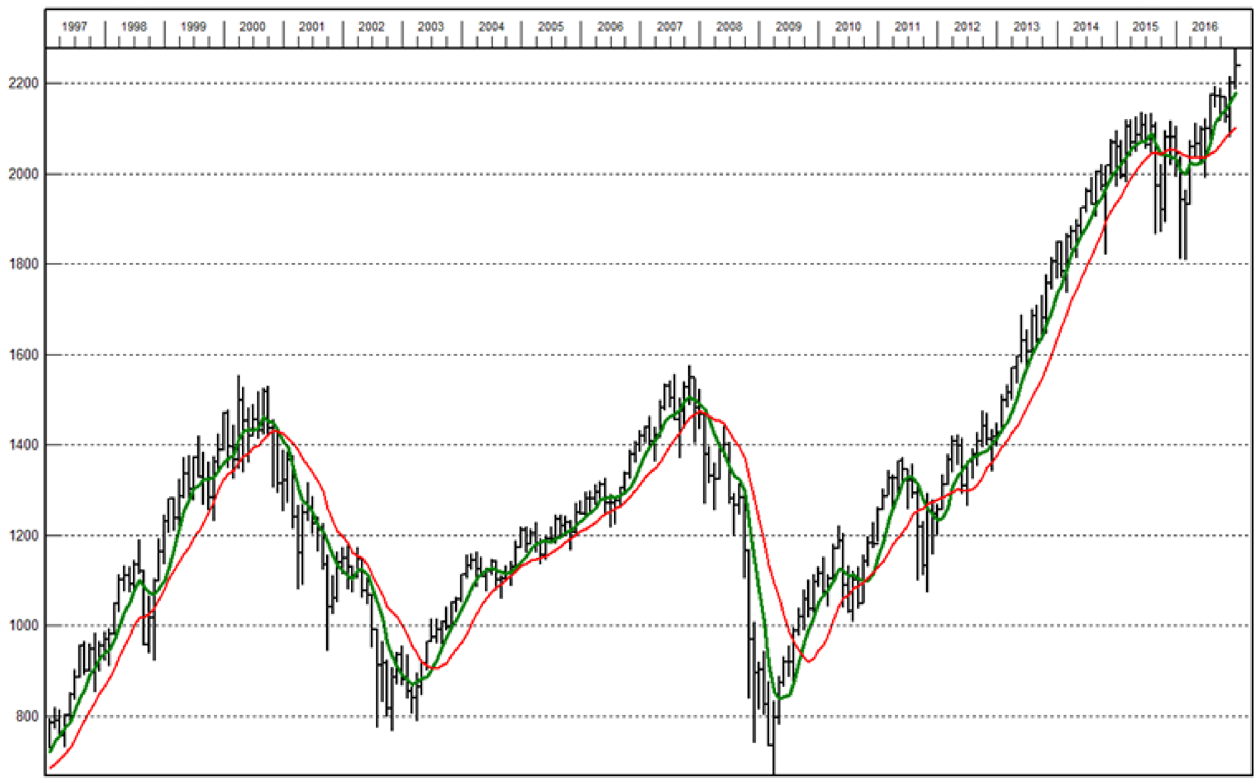
And thank you again for your time.

Solutions – Before the Crystal Ball

Solution 1 – Must see IIROC Advisor in order to receive CPP and/or OAS

One Bear market, will diminish Canadians Wealth drastically. And stress all levels of Government. The quasi-Bear market could be a return to the 'norm' slowly over the next 5-10 years; that's stagflation. And again, stress levels of Government.

Was the Mutual Funds Sales Person's Advice, or Mutual Fund company's Advice, ever to get out of the market? Do they really want Canadians to participate fully in a 54% decline; last evidenced between 2007-09? Or a Dot-Com rise into a decline of 49% during the Dot-Bomb?

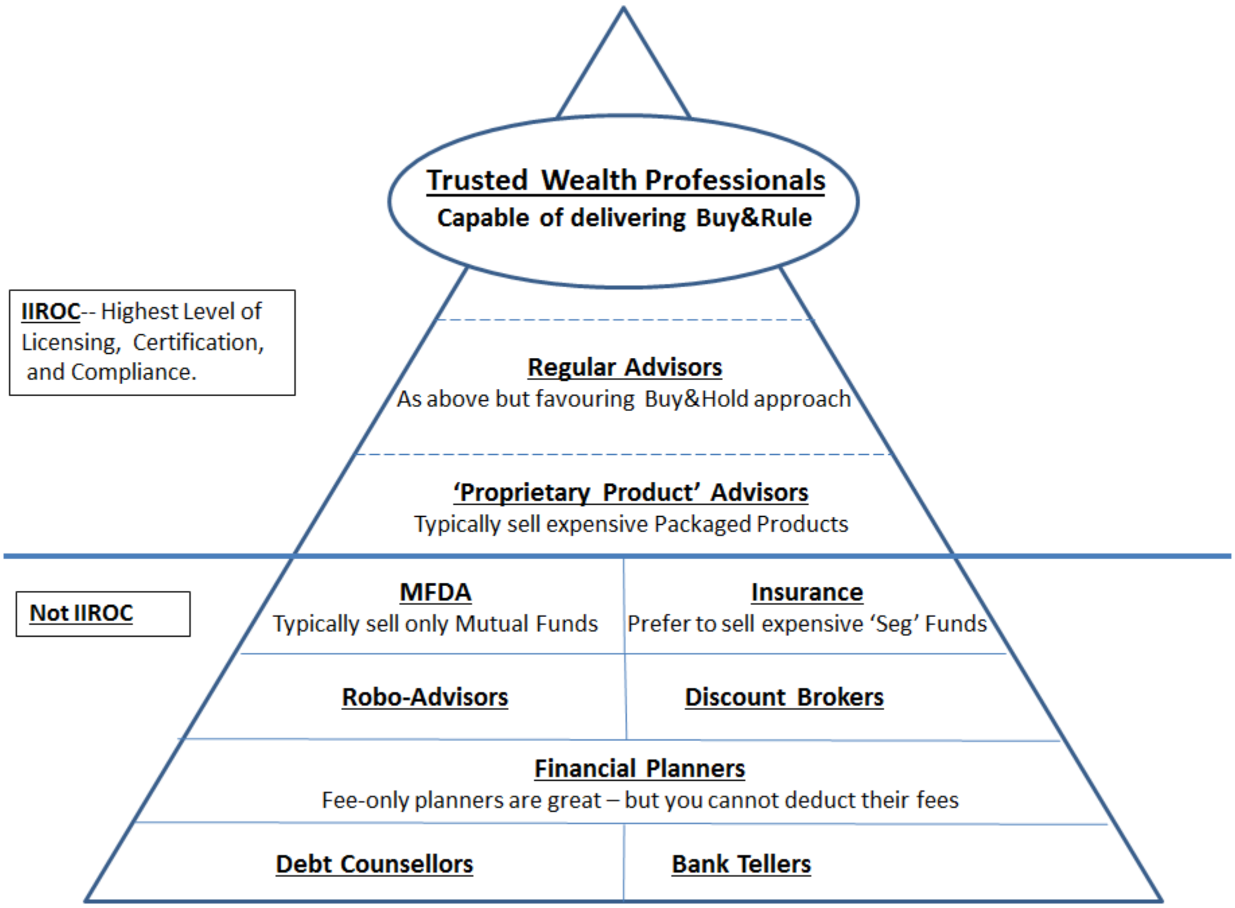


I'm not fear mongering, I'm just illustrating history. In the chart above, over the last 20 years, there have been two major Bear markets. The market moves in Bulls and Bears. It goes up and down. It doesn't move in straight lines.

A new law/regulation is coming. Mandated by the Government.

If you're entitled, and you want your CPP, and OAS, you must go see a full-service IIROC life-licenced non-proprietary investment advisor. Every 2 years. Starting at age 55, maybe age 45, or when your investible assets (across all accounts), surpasses $100,000.

Note: Average 'book' for an IIROC advisor is $150M across 150 'families', so $1M per account. This is the type of advice/service that we want to connect with Canadian investors.



Note: TWP Triangle explained in Solution2

OK, bold and new and innovative thinking, Yes. Scary to a lot of industry participants at present, YES. But if you have an emissions check on your car every 2 years, and a principal residence designation now on your tax return, etc ... it's an easy extension. The government, so that is Justin, Bill and Stephen on a Federal level and Kathleen plus Charles on the Ontario Provincial level, mandate that you must signoff on a bonafide visit/consultation with someone that can open your eyes to all the investment products and services. And perhaps all the investment styles. And Fees aussi.

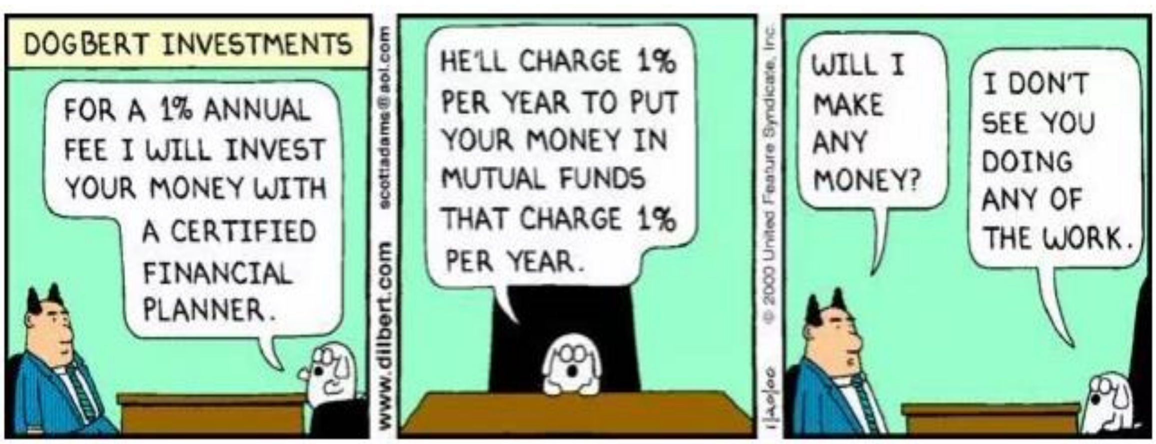
Re-Cap: If you want/need your CPP + OAS go see a Trusted Wealth Professional (TWP). A full-service IIROC life-licensed investment advisor. Not MFDA. Not insurance. Not a Financial planner. Not a Debt Counsellor. And not anyone from your bank (ie. Teller).. And not a wannabe 'bad' Full-Service advisor (who jiggles or trades on Mutual Funds based on the sway of a free lunch from a Mutual Fund company). But rather a true TWP who can practice capital preservation and understands the usage of Tactical Asset Allocation. A true TWP who can go 100% cash (or equivalents, termed 'Cash/E') if the investments + market dictate so. I can sit in

100% cash/E in my accounts – can you? The next best option is to slide to the safety-end of your IPS ranges (ie. 10% equity if the range is 10% to 60%). An Investment style of Buy&Rule ® inherently includes the needed 'flexibility' and appropriate Licensing.

Why? We are increasingly every day so much more dependent upon the government to look after us. It's astounding. And despite a few great ideas I have to change this dependency, I can't cut this umbilical cord. But the Government, at all levels, needs to make sure that we Canadians grow up and can look after ourselves. And we can't do it ourselves with the Up-Selling, Cross-Selling, Locked-In Products (proprietary or not), and Beep-based schemes within the overall Wealth/Financial sectors.

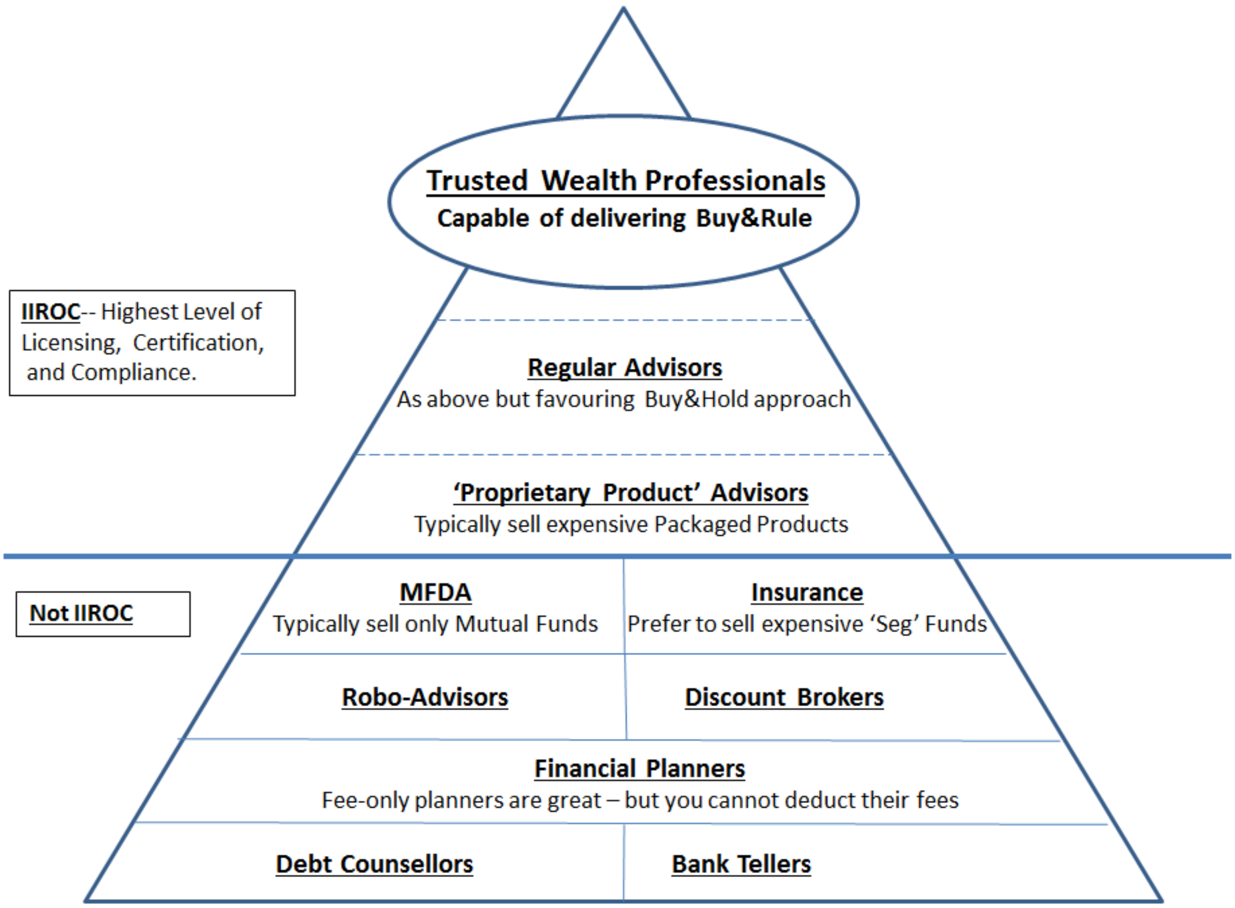
If a bank owns a full service brokerage firm, then minimums should be set for mandatory in-house referrals; from the banks themselves, their insurance arms, bank-owned discount brokers, Robo's they own, etc … to full-service brokerage IIROC-licensed firm they own. As an aside, I've been told by the smaller IIROC firms, that this is where they 'pick off' the majority of their clients/assets. Banks with Tellers are far from well versed to deal with a small independent IIROC professional firm. Holding AUM at the bank branch is a short-term asset-grab as the bank will lose the AUM to their small IIROC firm competition (eventually).

<u>Solution1a</u>: if you don't meet the criteria for Solution 1 above, then you probably should visit with a Debt Counsellor, if appropriate, and also stop financial institutions from growing the Canadian individual's debt levels as well. Why give a new credit card, or HELOC, to someone who already can't make monthly payments, or is within $200/month from declaring bankruptcy.



Solution2 – Beep Ban

Just in case your eyes move towards the diagram below, I'll say it again, ban Beeps for non-IIROC licensed Sales Channels (or similar regulations). And this is a direct Sales Person connection, not one IIROC licensed person in your firm, in a city far far away, and/or a non-IIROC Sales Person dealing with the Canadian investor.



The diagram above is self-serving for Trusted Wealth Professionals. I know there are many other categorizations of 'Advisors', but from the Canadian investors standpoint, from those that have $10,000 (aHNW, aspiring High Net Worth), and through to the $250,000 level (eHNW, emerging High Net Worth), this is a sufficient distinction. The HNW already know who a trusted wealth professional is.

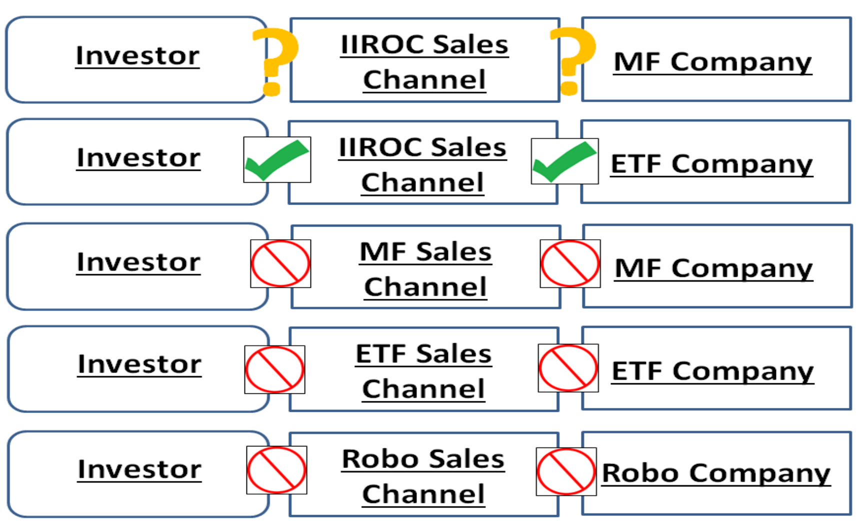
And perhaps with an admittance of the overuse of the word 'Beep' in the Beep Brief, I'll admit that, but the Embedded Beep Scheme has led to greater scrutiny of the Mutual Fund Sales Practices.

So, what would a Beep Ban look like? Essentially, you can't share Beeps amongst multiple parties and you need to do 'work' for your Beeps. You can term 'work' as Advice or Service, but I'll re-mention that your 'work' must be that of an IIROC advisors. And yes, there are IIROC advisors who only do the 'work' of the MFDA Mutual Fund-licensed Sales Person (but I can't provide that detail in this Beep Brief, but it is sad that there are 'Bad' IIROC Advisors).

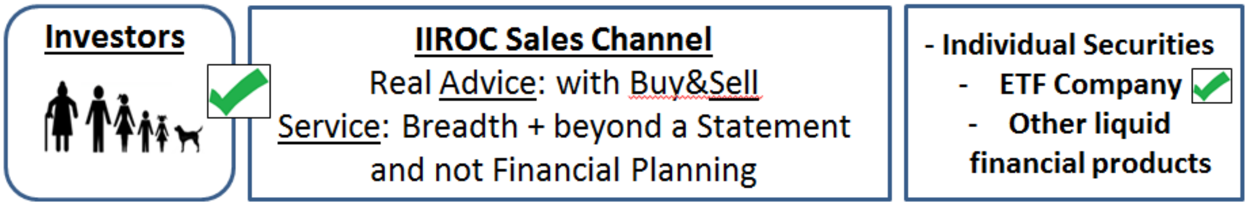
<u>Beep Ban</u>

1. Don't allow Beep pricing for non-IIROC advisors. Ban Beeps for the MFL; Minimal Financial Licensing (ie. MFDA, Insurance, etc …).
2. Don't allow Beep pricing for Insurance wrapped investments.
3. Don't allow Beep pricing for any entity/advisor that doesn't Buy&Sell themselves. If they are just a middle-person, flat bonus compensation systems will suffice.
4. Ban Beeps for any type of Sales Channel and Ban Beeps for WealthCo's where Accountants, Actuaries, Lawyers, Fee-Only Planners, etc … try and receive Beeps from the HNW clientele. There will be emerging Wealth Companies (WealthCo's) that will create pricing structures to extract the most amount of money from their clientele, and some of this will avoid the Fee scrutiny of CRM ½ . The first instance of this is Financial Planners (including Fee-Only) and Accountants, referring HNW clients to mutual fund firms and participating in the Mutual Fund Beeps. And this is starting to emerge in the Robo marketplace as well. The same referral arrangement exists in the Insurance marketplace (but you need certain licensing for legitimate referrals).
5. Only 1 Beep-biller per aHNW, eHNW, HNW and UHNW unless you have the requisite Licensing/Service/Advice. And any Beep sharing must be disclosed in writing (Beep referrals, Beep splits, etc …) and additional waivers signed showcasing the nominal and percentage amounts per annum.

Just a simple way of illustrating the Beep Ban is portrayed below. But let's not forget about the Canadian investor and the Investments + Liquidity.



It might be better to look at 'OK Beeps' with this diagram



Advisors who flip Mutual Funds, or Advisors who charge more mutual funds in a Fee-based account, should would be excluded from receiving Beeps. Please see Addendum 1; the beginnings of a Bad Advisor Blog.

"The weakest kind of referral, of course, is the lead capture"

You shouldn't be receiving Beeps for passing along someone's name. Or a similar weak effort.

Solution3 – No Insurance + Investment mixing/wrapping

Don't allow the mixing of Insurance with Investments (ie. Seg funds). Don't allow insurance 'wrappers' around Robo's offerings or offerings from other investment companies (for the purpose of minimizing regulation). Or delaying the removal of Embedded Fees until the second half of CRM ½, or CRM3 for the insurance industry in 2018-19, is delivered.

Solution3a – Seg Fund's have an 'advantage' as Investments bypass Probate tax. If the CRA and related interested parties (Justin, Bill, Stephen, Kathleen, Charles) care about tax revenue, they'll address the arbitrage advantage of Seg Funds, and the $15 tax per $1000 assets (please do not use 1.5%, people can't do 'percentage' math). Take away the Advantage, so you can't wrap Investments with insurance, and purposely avoid paying tax. This could be a great revenue source for the CRA. Keep in mind that Canadians are living longer, so more fees are generated by these Seg Funds and greater Nest-Egg's are accumulated. Why allow an Investment to bypass Probate?

Solution3b – Make Seg Funds, for those Canadian investors' that really need them, based on ETFs only (no manager turnover, cheaper, etc …). So you'd have Seg ETFs. Possibly look at Target-Date ETFs as well (no holding underlying mutual funds).

It might be easier to discontinue Seg Funds.

Solution4 – Benefit Plans

Corporate Benefit Plans ie. For example, your employer matches your 3% with 3% of their own. No more Mutual Funds; need go to ETFs. Separate the investing via RRSP/Retirement-Plan, from your Dental/Vision plan (generally offered by an Insurance Company). And provide Liquidity by being able to transfer (perhaps 1x/year, or 2x/year, automatic (?), to a Full-Service IIROC, Discount, or Robo). Make it easy for this to happen, perhaps mandatory.

Solution5 – Define Advice (in a clear and differentiated manner)

This is a joke I thought of:

KNOCK KNOCK
"Who's there?"
"Mutual Fund Sales Person"
"I thought you guys only KNOCKed once a year… when it was RRSP season?

The sad thing is that most Mutual Fund Sales People only call 1x/year, about mid-February timeframe, to ask for more RRSP dollars. And they call this Service/Advice. ☹

The opportunity exits to define Advice. And Advice Tiering. Plus define Service. Advice is not a Financial Plan. There has to be an aspect of a 'Sell' (IMHO; in my humble opinion). And transacted themselves by the 'Advisor'. Buy&Hold is not Advice, nor Service. And this needs to be Standardized across the entire industry. Plus approved by the CSA/OSC and the CRA. It may be that non-IIROC companies/Advisors will never be providing Advice.

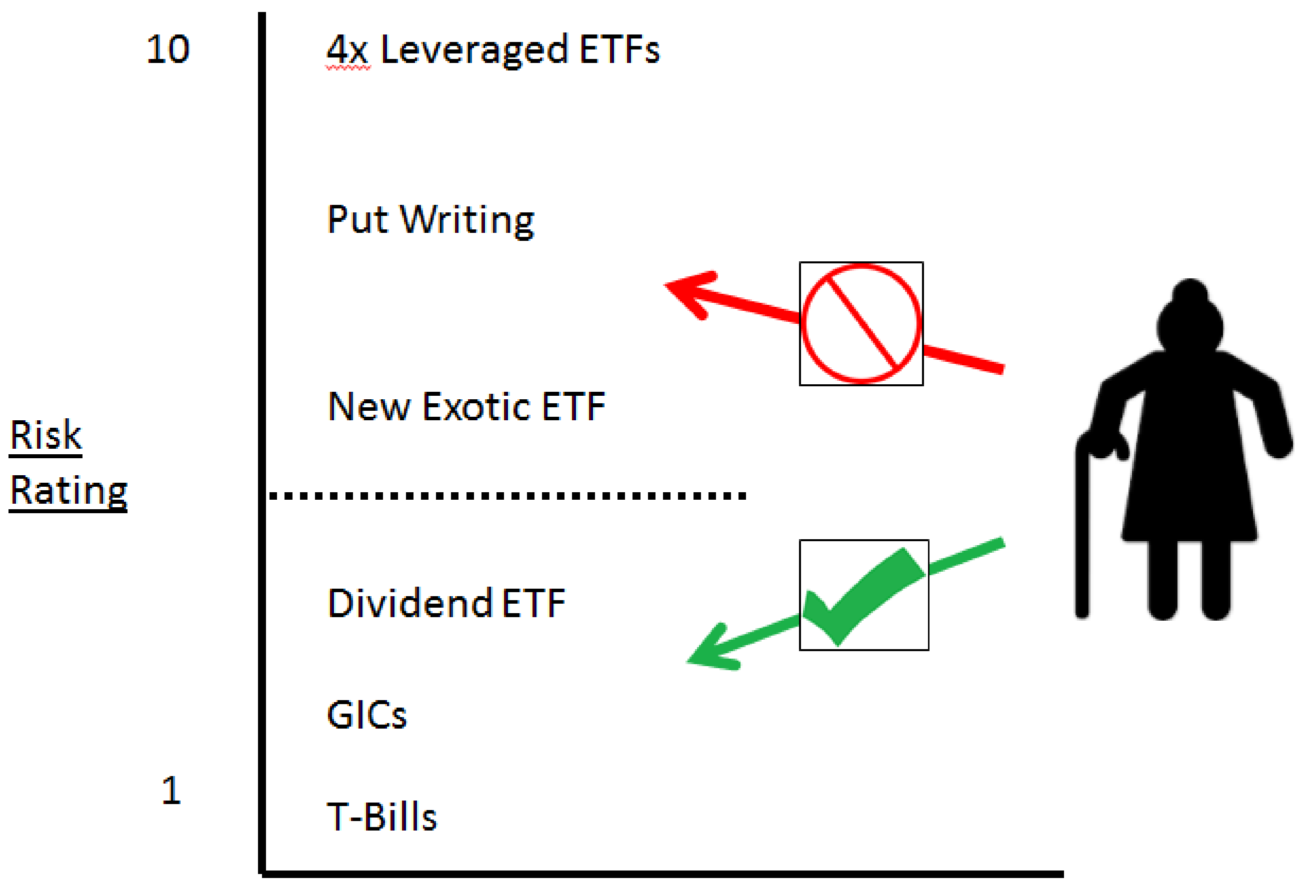
	FinPlan$ & Description (nondeduct)	Commission$ & Description (nondeduct)	Service$ & Description (CSA apprv.)	Advice$ & Description (CSA apprv.)	Other$& Description (CSA apprv.)
$0 to $10,000					
$10,001 to $50,000					
$50,001 to $100,000					
$100,001 to $250,000					
$250,001 to $500,000					
$500,000 to $1,000,000					

Solution6 – Security/Product Risk Ratings

There should be Tiered Risk Ratings for Products. And for Tiered Risk ratings for Seniors, you can't cross the line (see image below). And if you can't BackTest the product through an entire market cycle (so Mid-2007 was last Peak), and if it didn't exist through this time period either, then it is too risky (high risk rating or non-rated; sign an additional waiver if you want this).

If the Mutual Fund doesn't create an 'S' class fund for Seniors, and an 'M' class for Millennials, then they might as well be in invested in ETFs. Actually I don't think either of these will occur (maybe I'm wrong), so perhaps you should just invest in ETFs regardless.

But I read a good point that Seniors that shouldn't be in Mutual Funds because they've already paid high fees their entire investing life. So, if no 'S'-class Mutual Funds, go to ETFs.



If you happen to examine the Judgements from the Complaint process, that are in the press, you'll often understand that Canadian Investors' being placed into an inappropriate/risky product is prevalent more than 50% of the time.

Solution7 – Standardized AUM Grid

Need standardized industry-wide GRID for AUM-levels – so, $0-$250k, $251k-$500k, etc … Or whatever levels are chosen to discern smaller accounts and then larger accounts. This is just an example below. Every financial institution has to use the exact same ranges.

$0 to $10,000
$10,001 to $50,000
$50,001 to $100,000
$100,001 to $250,000
$250,001 to $500,000
$500,000 to $1,000,000

Solution8 – Standardized Investor Fee Interface

I don't think the Regulators should get into the 'bedroom' of Sales Management. Me: I've been on the Sales side of Hi-Tech solutions for 30+ years. I've been a quota-bearing sales representative for over 10 years and also consulted in this regard for the last 15 years. The complexity within the compensation plans at major hi-tech firms (e. Nortel, Oracle, Microsoft, etc ...) would astound you. Especially with their compensation plans for their different channel structures. Complicated and convoluted. I think the Regulators should stay out of this area, but please keep in mind that everything the Canadian investor sees as a Billing System means that there is a synonymous Compensation System for the Sales Person/Channel. This gives rise to KYCP; Know Your Comp Plan (aka. "Where do my Beeps come from"?).

But there should be an IFI, IPI or ICI – Investor Fee Interface, Investor Pricing Interface or Investor Commission Interface, just like a GUI (graphical users interface) or UI (User Interface) or UX (User Xperience). Focus here, not inside the company, but external between the Investor and the Company. Just like 13% HST in Ontario, your cost is known, it is clear and it is

1-time. And it is standardized across all retailers. What is and what isn't taxed (necessities) is known, the Mutual Fund industry thrives on the 'not known' (ie. Embedded Beeps).

Solution8a
Need consumer acceptance of **ALL** new pricing schemes; through public + industry consultation.

Solution8b
Need consumer acceptance of **ALL** new products; again through public + industry consultation. It's too difficult for the Investor to learn KYP; Know Your Product. Or, KTPWJMU; Know The Product We Just Made Up.

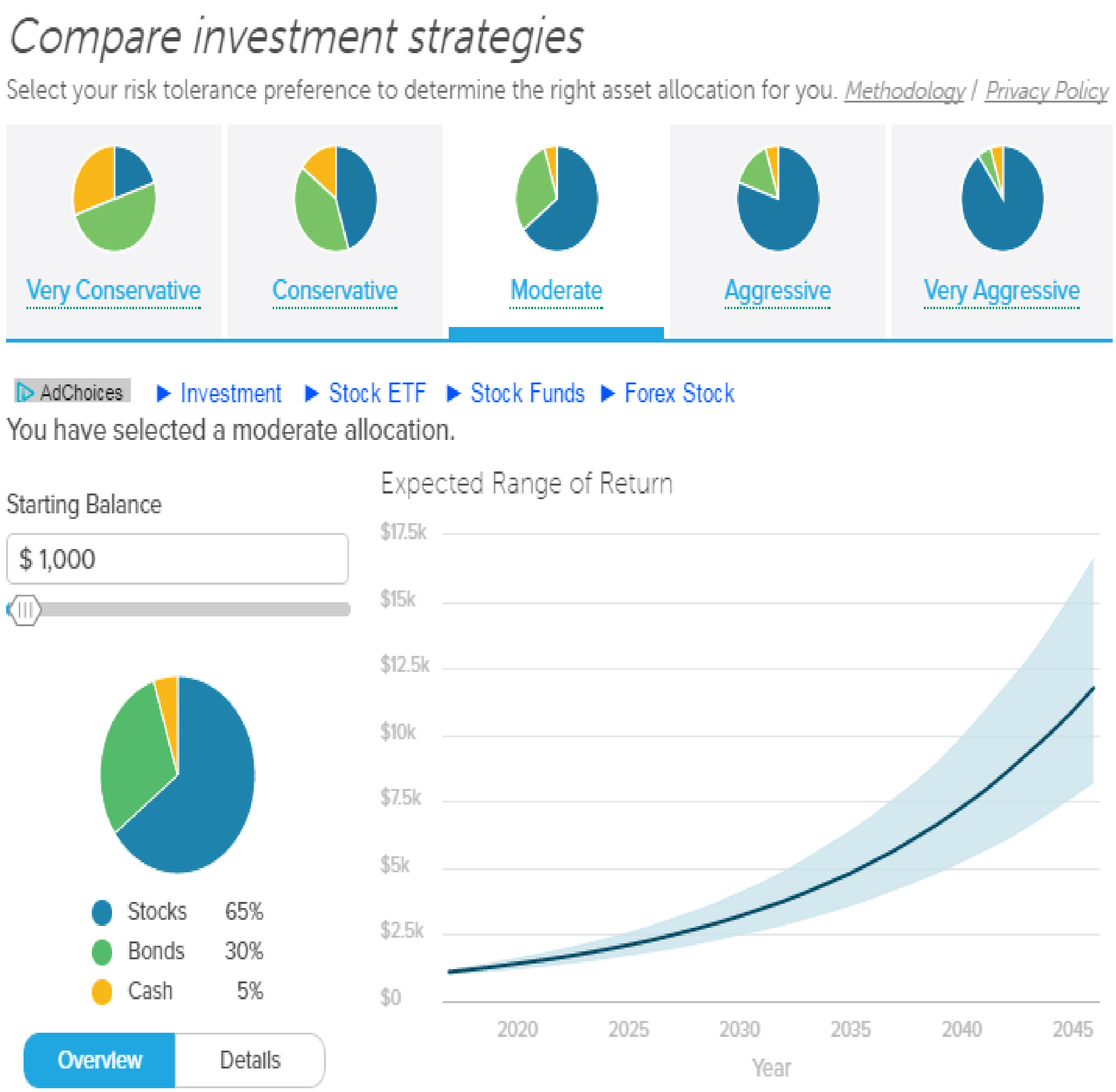
Solution9 – Lower Price is the Law
Test annually (or semi-annually) the total cost of Fee-Based vs. Commission accounts. If lower in Commission accounts, possibly move Investor to a Commission account. Or sign waiver (and state 'Why' you aren't switching). There are Pro's and Con's to this as different IIROC Advisors may not be capable of managing Commission based accounts (ie. the 'Bad' Advisor).

Solution10 – Can I have a graph please of my Asset's Performance
My personal #1 priority is the industry need graphs in statements; visuals. Robo's are winning in this regard. Ironically at Financial Models, 17 years ago, we could show a pie-chart, or any chart type, of your assets, holdings, etc … The software was Financially Intelligent. This should become mandatory as 85% (or more) of the population processes visually.

Solution11 – Risk Profiling needs a complete overall

Risk Profiling in KYC's and IPS's is horrendous IMHO (in my humble opinion). There is a great need to have actual market examples. And proposed securities/investments as well in the Risk Profiling. The KYC and IPS is done in absentia of investing ☹. And please use standardized terms.

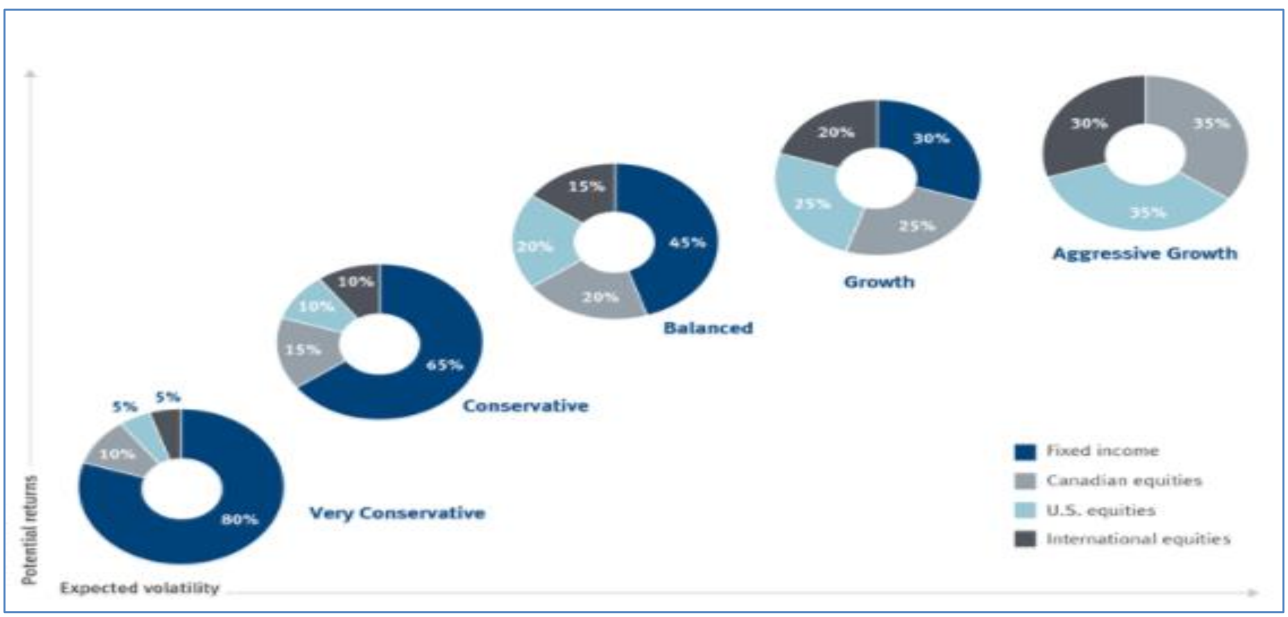
Did I tell you about my own Mystery Shopping experience? I planned on booking 'investment' conversations with 5 of the major banks. The idea, just walk into a bank branch and tell them I want to invest. I literally said that I was investing directly already but wanted to see how the branches programs with portray me and classify me with respect to 'risk'; I was after the proverbial pie-chart. I wanted to go through their Risk Profiling questionnaire.

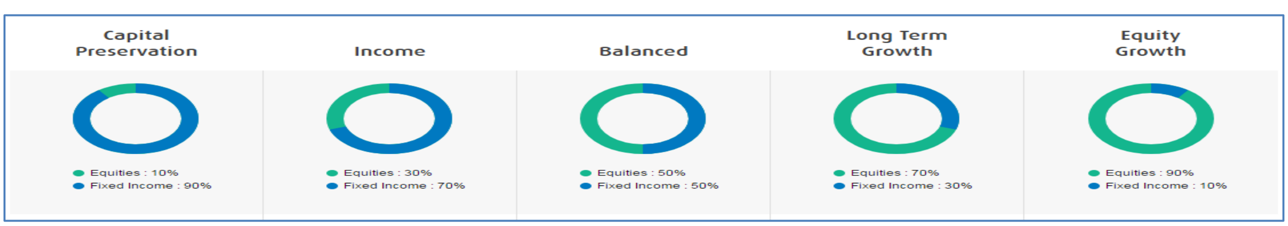


I only actually went to 2 of banks. Both turned out to be 'product sales'. I'm OK with that, I actually expected that. The 'sadness' of the experience was that at one of the banks, their 'top' Teller, a salesperson, with a planner designation (CFP I think), asked me two times to change my 'risk answers', and actually did present to me the option that she was quite familiar with (the one question where she wanted me to change my answer). I was honestly flabbergasted, the lady tried to have me change my answer, and it made me think she didn't know the talk track to the other options. It was the question somewhat worded "If you invested $100,000 and it dropped to $90,000, what do you do?" Then there were 4 multiple choice options; A, B, C and D.   I picked option C but she only knew the answer to option B ☹

<u>Solution11a</u>

The Pie-Charts need to be standardized for Canadian retail investors. There are three Pie-Chart series presented below; all with different order and naming conventions.





And actual market investment 'visuals' matter. The Primer below is an example of poorly communicating 'risk' and 'reward'; borrowed from a CIBC website. Read the words.

A Primer to Market Downturns

Be the first to write a review

All market slumps are not the same. Here is how to recognize different types, and what they mean.

If you're like many Canadians, you've been getting nervous about your investments because of the rapid up-and-down swings of the stock markets. To help you understand and cope with these market swings, let's take a look at the different types of downturns.

Declines

A decline - usually lasting a few weeks to a few months - is a short-lived sell-off by investors in reaction to some unexpected bad news. An example was the 554-point drop (a 7.2% decline) in the Dow Jones Industrial Average, one of the most closely watched indexes, in October 1997. Fears about how the weak Asian economies would affect earnings expectations in North America resulted in significant "knee-jerk" selling. Soon, however, the Dow adjusted itself, and it ended the year higher than it had started.

Corrections

When a decline approaches the 10% level over a short period of time, such as a few days, it's usually considered a correction. Corrections can be caused by significant increases in interest rates, reductions in overall economic activity, or perceived overvaluations of stocks. A severe correction can occur as a result of a particularly negative political event. For instance, the Dow fell 21.2% over a three-month period after Iraq invaded Kuwait in August 1990. Interestingly, in a study of the Dow's movement since 1900, Ned Davis Research, a financial research company, found that severe corrections are followed by "bear" markets 58% of the time.

Bear markets

A bear market is a prolonged period of declining stock values that can last a year or longer. The market is considered "bear" when stock prices fall about 20% or more and stay down. Broad economic factors, such as unfavourable interest rates and an economic slowdown, trigger a self-perpetuating spiral of selling. This is in contrast to a "bull" market, which is a prolonged period of rising stock value.

Crashes

Much less common than the above is a crash, when stock prices drop more than 10% in one or two days, resulting in severe sell-offs by scared investors. Only two crashes occurred in the last century: The first was on October 29, 1929, and the second on October 19, 1987. Usually, a crash is caused by a dramatic reversal of basic market assumptions. Although not a "crash," the financial crisis of 2008 caused the Dow's worst-ever week: Starting October 6 of that year, the index fell 18.1%.

Whether it's a brief decline or an extended bear market, you can use some simple strategies to see a downturn through. A long-term focus, combined with a well-diversified portfolio, will ensure that the bumps along the way don't derail your plan.

Read the 'spin' in the Primer above. Contrast the longevity terms; days, weeks, months, etc … Read the actual numbers and 'example' numbers. And keep in mind that 85% of people process visually.

As unfair as this will seem, but do any of the Marketing personnel have degrees/certification in financial services. Better still, are they Licensed? And I'll go one step further and say that the Compliance department approved this. ☹

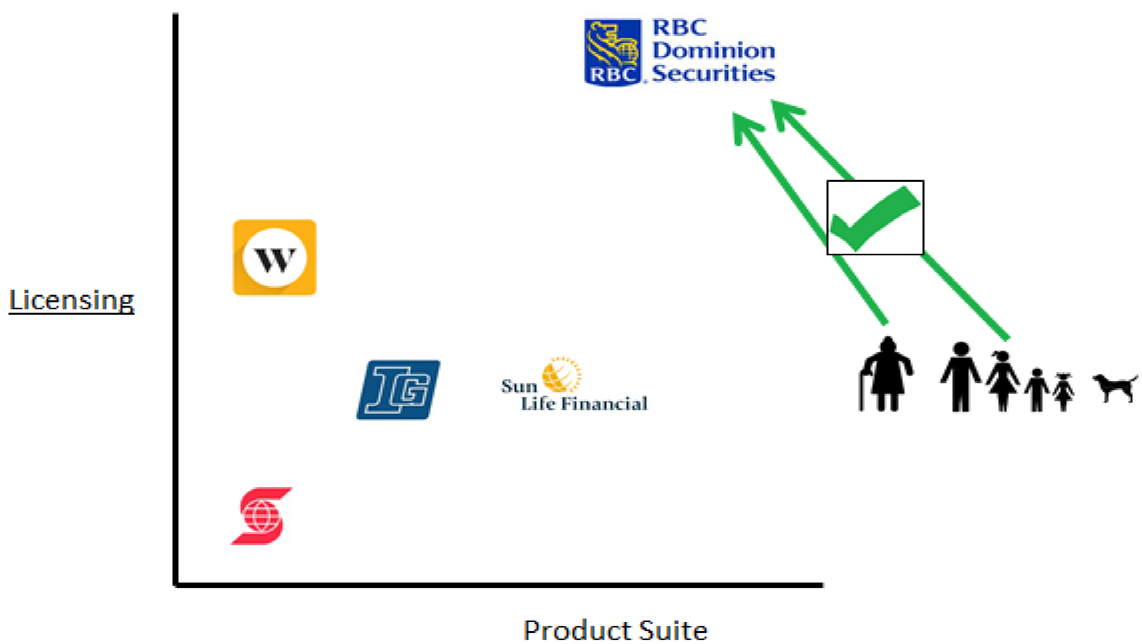
Solution12 – Make the default case the correct case.
Discount brokers selling Mutual Funds; A-Class and F-class. Possibly limit to D-class or just remove Mutual Funds from their offerings. Curtail their Product Suite offering to only ETFs. I think Discount Brokers will start branding themselves now as Ethical Compensation brokers; at present they are not doing themselves a service by collecting A-class or other Trailer fees

Solution13 – Rate the Advisors
Advisors should have a Risk Rating. 100% Yes. My Advisor makes a difference, does yours? Investment Style matters as well. Just off the top of my head:

- Your tenure in the business, in years, or your Mentor team's tenure in the Investment busines? Note: Investors Group, 4 years of experience is not 'Senior' advisor.
- Have you experienced a complete market cycle? Started pre-2007. Have you seen a period of rising interest rates. Started pre-1985?
- Can you handle a Commission based Account? Really? Even if it means less compensation to you?
- **Licensing matters**, where are you on the Licensing Ladder, at the bottom? Are you part of the MFL?

And there are a few other 'choice' questions I have to determine if an Advisor can be Trusted or not. But the Investor should also sign off on the fact that they've seen the Advisor's Report (on IIROC's website, or any other official Regulatory website).

Solution14 – Industry GRID
Should be an industry product GRID that distinguishes limited product sellers and proprietary product sellers. And it will be Cross-referenced with licensing. The starting point will be Product Suite vs. Licensing. Investor's must signoff on this.



This will show who has Minimal Financial Licensed (MFL) representatives (ie. major Canadian banks). You could also explicitly show Cross-Referencing of Licensing with Proprietary Products. Maybe there should be an Open 'Book Look' to see what Products the Wealth Companies are actually selling; in other words, make it easy for the public to identify you as a Proprietary Product Seller. It be great also to cross reference this with performance over a complete market cycle. Hmmmm.

True Story – I actually heard my bank branch representative tell a client that the Brokerage firm "charges commissions". It was delivered in a Do-Not-Visit-Them tone. Sad ☹.

Sessions 8 and 9 of the Canadian Investors' Course on the Trusted Wealth Professionals website are as impartial and fact-based as can possible be. But it may be that Canadians need a bit of Leadership. And yes, this will come across as extremely self-serving, but in today's society where we are so enamoured by the Wealthy Celebrity, sports player, music artist, etc … why not showcase the Advisors that serve the wealthy?

TWP | Trusted Wealth Professionals

CIC

See **Crystal Ball** in the following section on how this can be addressed.

Solution14a
There should be a Menu of Products, for any particular category, a product GRID per se. This GRID would show all products with their total cost (total cost, not partial cost like CRM ½ or how the Banks are portraying their Services these – see Solution 15). Like a restaurant menu; you should see low priced entrees, medium priced entrees and the most expensive entrees. And/Or it should be signed-off on by the firm's management. Note: the GRID could look a paint-chip-strip as well.

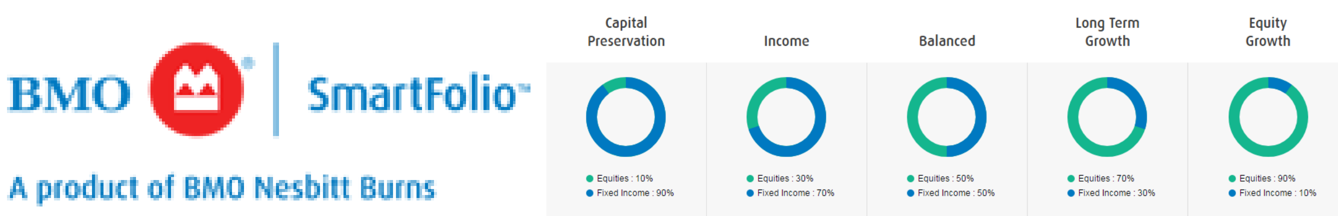
<u>Maybe 3 Investment Options always need to be presented</u>; Low, Medium and High Priced.

Why? There are almost 3000 stocks on the NYSE, and 22,000 mutual funds (OK, there are a lot of duplicates, with A-Class, F-Class, D-Class, etc ..)

Horizons S&P/TSX 60 Index ETF charges 0.03% at present; 0.07% after September. Vanguard and Blackrock have similar priced ETF products that equate to Closet-Indexed Canadian Equity Funds (which charge a lot more). The Globe&Mail's website indicates there are over 1000 securities to participate in the Canadian Equity marketplace (way too many IMHO); 1237 to be exact at the date of me generating the following image.

Solution15 – Funds of ETF is not the same as buying ETFs

Please disallow Mutual Funds, primarily holding ETF's, and sold as 'ETFs.'; mainly by bank branches. <u>These are really Mutual Funds, generally proprietary, with a new fee structure, the 2-Fee-Structure ☹.</u> Innovative yes, I'm OK with that.   But no-one at the bank branch has an IIROC license. Packaging 'securities', so they can be sold by Minimal Financially Licensed 'Tellers' is not in the Best Interest of Canadians.



And you need to do math + calculations to put MER + Advisory-Fee together.

"All ETFs have management fees and expenses (calculated as management expense ratio - MER) which are in addition to the ***<u>annual advisory fee</u>****. The MER is embedded within the pricing of the ETFs themselves and will not appear as an expense item on your account statement(s). The MER of the ETFs held within your portfolio are anticipated to be a weighted average of 0.20% to 0.35% of the value of your SmartFolio account."*

Note: Advisory-Fee does not mean Advice.

Our fees explained

Our commitment to you
Our goal is to provide clients with full disclosure with respect to the fees and interest rates they pay for certain accounts and transactions. This page outlines the range of charges you may incur, depending on the types of accounts you hold and the transactions that occur within these accounts. Any fees charged to your accounts will be detailed on your client statements. If you require any additional information regarding your fees, please contact one of our dedicated representatives at 1-844-895-3721

In general
- Fees are charged per account unless otherwise stated
- Accounts can be grouped by household to benefit from lower pricing at higher asset balances
- Fees are subject to change
- You will receive 60 days' notice for any new or amended fee
- No commissions charges on trades

BMO SmartFolio advisory fee:
Pay one advisory fee which is calculated as a percentage of your total assets in your BMO SmartFolio account(s). The advisory fee is charged quarterly in arrears and is based on average total assets in your BMO SmartFolio account(s) during the calendar quarter.

The advisory fee covers:
- Professional portfolio management including monitoring and rebalancing
- Support from a team of dedicated representatives as you need it

The advisory fee follows a tiered-pricing schedule based on the value of your BMO SmartFolio account(s).

Minimum Quarterly Advisory Fee $15

Asset value	Annual Rate
First $100,000	0.70%
Next $150,000	0.60%
Next $250,000	0.50%
Above $500,000	0.40%

The minimum quarterly advisory fee of $15 will be waived if you deposit $250 or greater in your account during that calendar quarter. If the minimum fee is waived, the tiered advisory fee schedule above will apply.

All ETFs have management fees and expenses (calculated as management expense ratio - MER) which are in addition to the annual advisory fee.

The MER is embedded within the pricing of the ETFs themselves and will not appear as an expense item on your account statement(s). The MER of the ETFs held within your portfolio are anticipated to be a weighted average of 0.20% to 0.35% of the value of your SmartFolio account.

For more information about the management fees paid by the ETFs in each ETF portfolio, please speak to one of our representatives at 1-844-895-3721.

Other account fees
Other fees apply for the administrative requests detailed below:

- Transfer-out of a Non-Registered or Registered Account, Full and partial: $135 per account
- Partial withdrawal of a Registered Account (excluding TFSA): $25 per request
- Full Deregistration of a Registered Account (excluding TFSA): $100 per account
- Cheque requests: $10 per request
- Paper statement requests: $5 per statement

Interest rates
Interest on a credit balance in your account is subject to change without notice, may vary according to the size of the balance and may be subject to minimums, as described more fully in the BMO SmartFolio Investment Management Agreement. Interest is not paid if the amount accrued is less than $5 per month. BMO Nesbitt Burns may earn revenue from the use of cash credit balances.

Foreign currency conversion
BMO Nesbitt Burns will act as principal for foreign currency conversions in your account unless otherwise disclosed. When a transaction requires the conversion of currency, BMO Nesbitt Burns will convert the currency at rates established or determined by BMO Nesbitt Burns or related parties. Exchange rates are subject to change without notice and may vary according to the market, type of currency in which the trade is transacted, and the value of the gross amount of the trade. In addition to the commission or other fees applicable to the transaction, BMO SmartFolio or parties related to us will earn spread revenue up to 1.5% from a foreign currency conversion.

Closing fees
You will be required to pay any accrued unpaid advisory fees up to the date of closing. These fees are subject to GST, QST, and/or HST where applicable.

You will be charged for any sales, use, goods and services, harmonized sales, value added, and transaction taxes which are incurred by or that may be charged to either you, BMO Nesbitt Burns or both (whether jointly or severally) by any governmental authority in any jurisdiction as a result of transactions in your account.

Try and add these two Fees together

The MER of the ETFs held within your portfolio are anticipated to be a weighted average of 0.20% to 0.35% of the value of your SmartFolio account."

Asset value	Annual Rate
First $100,000	0.70%
Next $150,000	0.60%
Next $250,000	0.50%
Above $500,000	0.40%

I know the Jeopardy champions can't do it; have you noticed they always 'miss' the math questions?

Solution16 – Transparency
Transparency of MF's/ETF's. Maybe not so much ETFs, but what are Mutual Fund's holding for 89 days before they 'window dress' their portfolios at quarter? Are they holding Valeant for 89 days to see if it pops? If we're dealing with Embedded Commissions, I think we'll soon be dealing with Embedded Securities and Positions. It might be high TERs (Trading Expense Ratios) that shines light on this 'dark' area.

Solution16a
There should be a 'PP' designation on Proprietary Funds/ETFs/Products. Meaning that the investor understands this may ultimately deny liquidity; or hurt returns if sold/transferred. But I know this will get 'spun' into a 'positive', that's OK. In essence, start disclosing the reason 'why' proprietary products are more appropriate to the client's objectives, constraints, risk profile than products from other third parties (available from the advisor). Or ensure the investor has 3 or 4 choices (across a price range and possibly Proprietary).

Solution17 – Wealth Industry Marketing
Limited Financial Services + Wealth Marketing. I read an article once, that described it was useless for banks to market as the 5-6% churn was unavoidable, and inevitable, and the only new business was immigrants. It was a study, as part of an advertisement, from a Big Consulting firm (could have been Deloitte or Accenture or KPMG or IBM), published in the Globe&Mail or National Post. It might have been a Big Data story. I just can't find it now (and I've tried) but I fullly acknowledge that the other side of the coin is that FinTech startups are the real threat, so 'Big Bank' and 'Big Insurance' Marketing, as bloated as it seems, might actually be effective to holding churn at 5-6%. But if we experience a Bear market, watch out for Regulation in this area. Wealth Industry marketing will start to track that of the Cigarette industry; Embedded Commissions are bad for Your Health. And too much Wealth Marketing will be scrutinized.

Solution19 – Mutual Fund Fees
Personally I'd love to see an indepth review of Mutual Fund fees; specifically, are they correct? Are they shown in conjunction with the TERs? Perhaps reported more frequently (daily on a website, maybe detailing the NAV calculation). I could be wrong, but the multiplicative and accumulative aspects of withdrawing 1/250th of a fee daily still makes me wonder if Mutual Fund investors are paying too much (ie. Is the Mutual Fund industry displaying linear math … but Mutual Fund investors are paying accumulative math?!?!).

Afterall, you don't get a receipt when the MER is deducted from your Investments everyday ☹.

Note: This may be a repeat, but with my trusted wealth professional, full-service IIROC, I pay every 90 days for my Taxable, RRSP and TFSA accounts. It is based on average asset value and this is the last calendar year I'll be able to pay for my TFSA and RRSP externally. But I pay every 90 days. In arrears. And I get a statement. And I can see my accounts online and I can talk to someone about it (my Trusted Wealth Professional).

<u>Solution20 – 'Lower Fees Should be the Law'</u>

(A quasi Repeat of Solution 9). Fee-Based Accounts with IIROC advisors shouldn't be higher than if you invested in Mutual Funds directly, so the Total Account Fee, that includes an F-Class fund should be examined in context of the A-class Mutual Fund fee. If you're paying more in Total overall Fees, although it could be for an exotic Mutual Fund, you should signoff on a separate waiver. Or just get an ETF. Better still, buy the individual securities. There are multiple ways to expose your portfolio to International and Emerging markets as well as new/niche sectors. Many many ways. Or maybe get a Trusted Wealth Professional.

<u>Solution21 – Account Fees</u>

My Trusted Wealth Professional has 2 different types of Fee-Based accounts; one for Growth and one primarily geared towards Income. The Income account has a restriction on Equities. This might be pervasive across the IIROC industry, I'm not sure. But there is merit here.

<u>Solution21a – Volume Discounts</u>

As your assets increase in value, at an IIROC-based firm, the Total overall Fee decreases. Every firm has their own discount schedule, but I'm in favour of standardization across the industry.

<u>Solution Summary</u>

Basically I'm advocating that the Advisor demonstrate their value; through Licensing, Service and Advice. Earn your Beeps. Do work for your clients, real Work. Stop fooling unknowledgeable Canadian Investors. I'd start with the Beep Ban and hope there isn't a social Fee revolt during the next Bear market. The Government can't afford to maintain our current lifestyle because we paid too much in Fees, or in Embedded Commissions.

The Crystal Ball -- An Epilogue and Foreshadowing

The Mutual Fund industry as a whole should look at adding new services and offerings, based on increasing their licensing and technology. I'd personally love to see a graph in my monthly statement, and access a graph online as well. And I'm OK if there are 100-1000 new IIROC firms.

But let's come back to the cries of 'Advice Gap' by the Mutual Fund industry; this is their own problem (IMHO). MFL (Minimal Financial Licensing), limited+proprietary products, and an Embedded Commissions first sales approach have created an 'Advice Gap' already. The Mutual fund industry is literally stating that, at present, they don't deliver Advice to their clientele.

Oxymoron: Mutual Fund Advice

Like Hidden/Embedded Commissions, Hidden/Embedded Advice is really Non-Existent Advice. Transparency of Advice and Service does not exist as there is no Advice + Service. See thoughts in the preceding Point #2

As in every sales based culture, the Mutual Fund Sales Channel is 'Whale Hunting', they are looking for a Mega Beeps client.

Yes, if you have $1M or $2M AUM, you're getting good/great Service and maybe Advice, but I always wonder what will happen if the market declines by 54% again. Even a 20% decline, or an average Bear market decline of 38%, will not be welcome by anyone in the Boomer age group. You can't re-gain Time, that is why you need to look at Buy&Rule ® as a method of capital preservation.

It is time for the MF industry to grow up. Their 'gravy train', a.k.a. Embedded Commissions only serves them, not their clients.

There are lots of '5 Forces' methods, Michael Porter's 5 methdology, of looking at the future of Mutual Fund industry.

1. Mutual Funds could be 'dissolved' entirely, unless Specialty Funds, otherwise Canadian Investor's will gravitate towards Robo's/Discount-Brokers and buy/utilize ETFs
2. Mutual Fund Manufacturers acquire Mutual Fund Channel (ie. GWL just bought FHG)
3. Mutual Fund Channel(s) acquire Mutual Fund Manufacturer(s); not likely
4. Investor pays directly to the Channel a full 2%; not likely to happen.

But my gut feel is that structurally, nothing will change, it is too difficult to transact M&A, but the Manufacturers' have already thrown the Sales Channel under the proverbial bus when CRM ½ required the Mutual Fund Channel's fees be shown first (while hiding their own portion of the MER for another year).

The Mutual Fund Channel is going to 'lose' in the present regulatory + consumer environment, so it needs to re-invent itself with Licensing, their own Robo's, and Service (ie. Graphs on statement). They need to go into full Beep Protection model. As there is quite a bit of 'direct' selling these days as well.

Note: I submitted a letter today to Liberal MP Wayne Easter, Chair of the Finance Committee, regarding the Hearings into the Sales practices of Canada's Big Banks. Sales Practices Canada-wide are going to be examine closely in the coming years; Insurance and Real Estate will be examined as well, anywhere the Beep Hunt is prevalent, there will be scrutiny and regulation.

And if the industry is already bloated with Sales Channel headcount (compared to UK + AUS), then not to worry; rightsizing will be welcome.

Fees, in the absence of definable Advice + Service will continually find a lower and lower point for the Sales Channel.

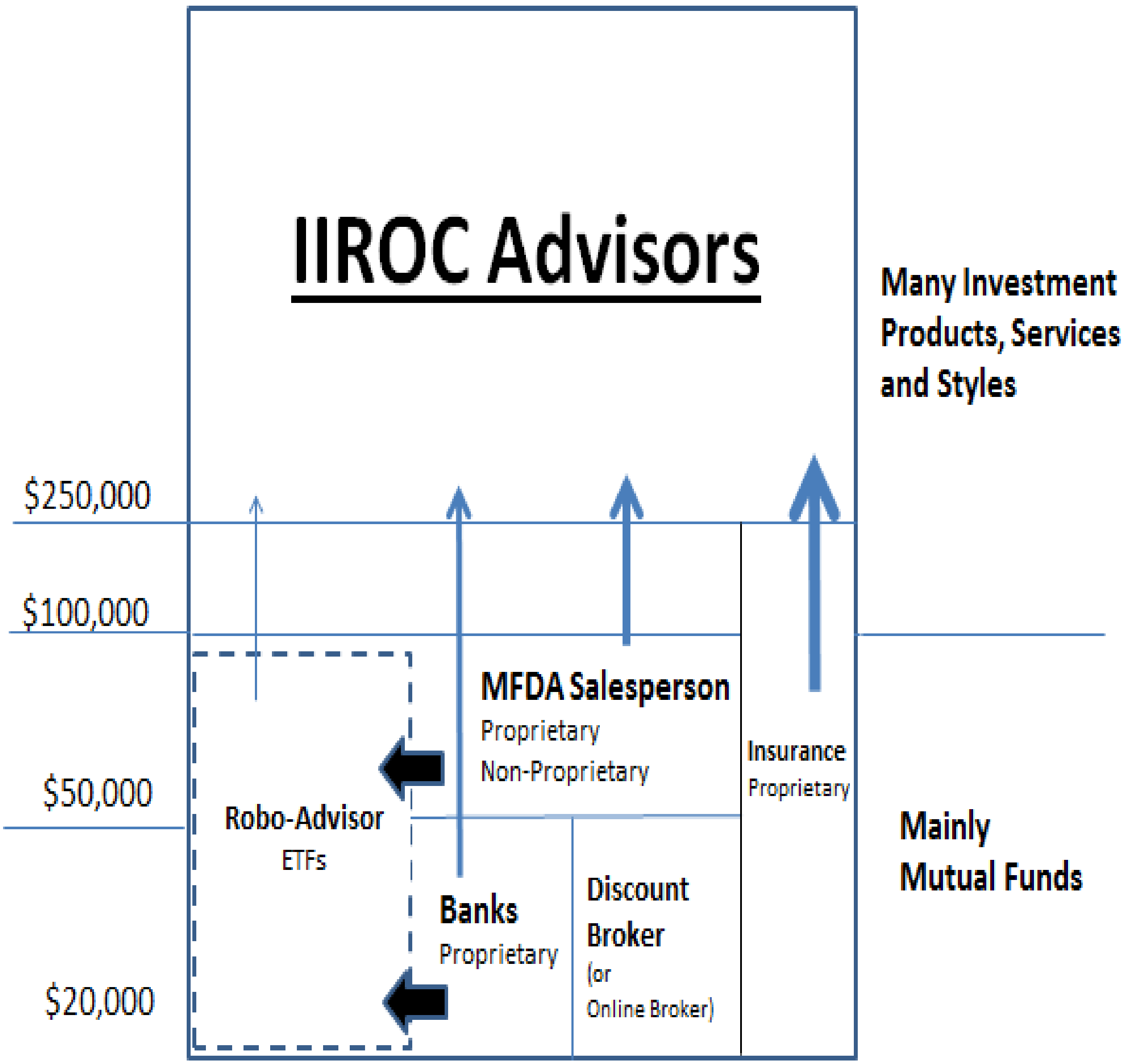
So thinking about:

1. CRM2, Fee and Performance disclosure.
2. the rise of cheaper ETFs,
3. discontinuation of Embedded Commissions,

there is a grim picture painted for the Mutual Fund industry.

And if that jab-hook-jab combination doesn't knockout the weak providers, then a Bear market will be the uppercut that finishes the job.

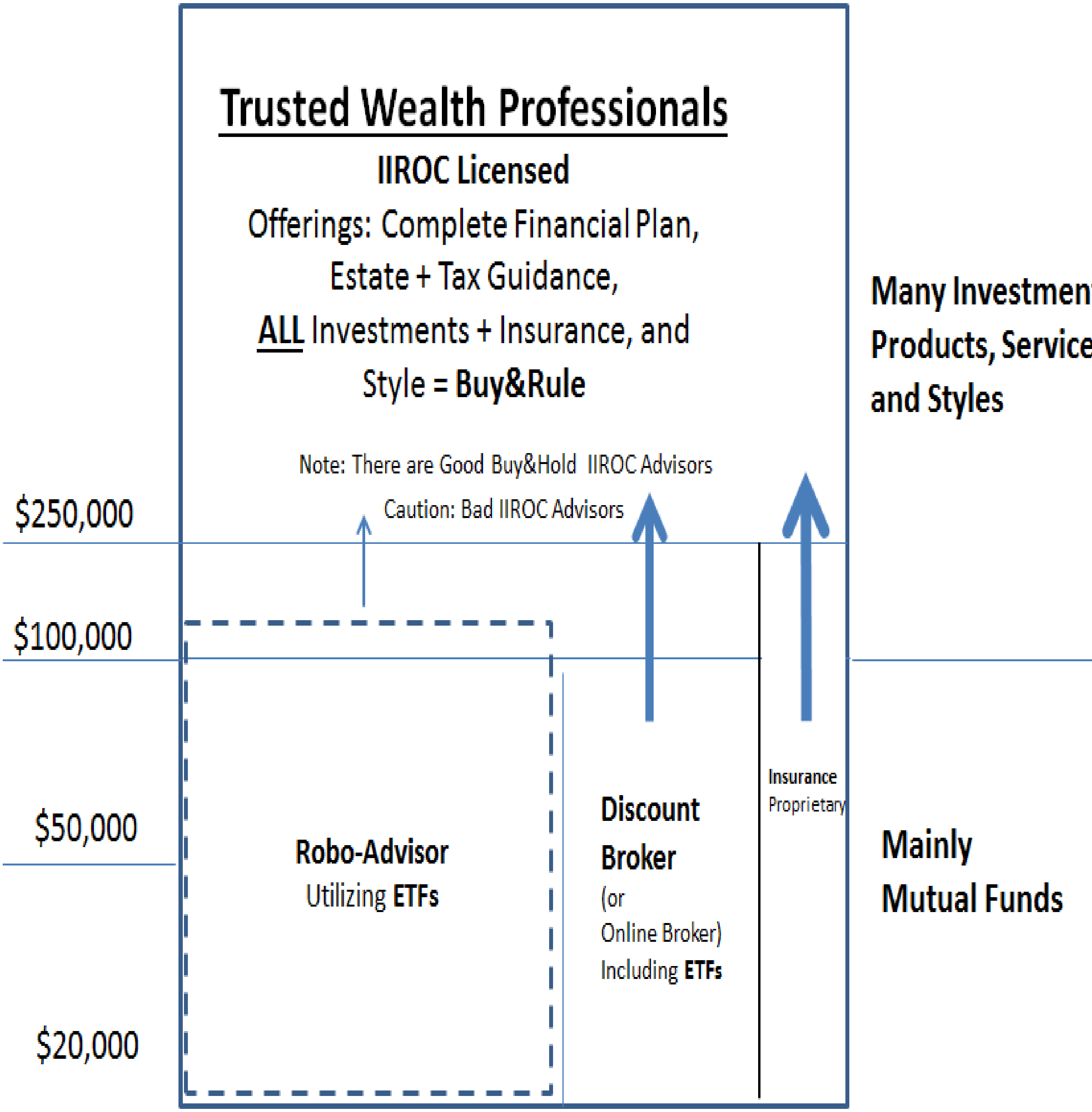
The MF industry needs to re-invent itself. The starting point is the Who Are The Players and Where are Assets flowing diagram below. The arrows show the 'theoretical' flows that are occurring today; think and thin arrows denote volume of flows.



Theoretically, the small accounts will migrate to Robo-Advisors. Large accounts will be gobbled up easily by the IIROC Trusted Wealth Professionals. Discount Brokers and the Insurance Channel will have eroded Asset Bases. Banks and Mutual Fund Sales Channel will lose heavily. Again, this is only theory.

But maybe it is reality.

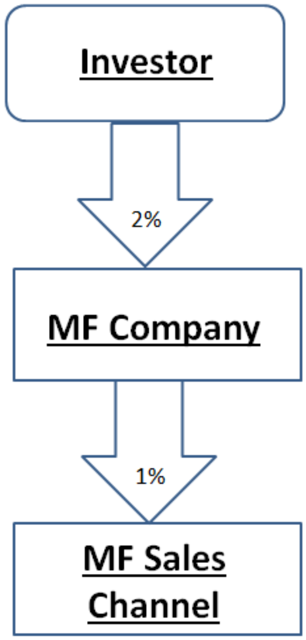
So the 'new' Wealth Industry Players and Assets are as follows:

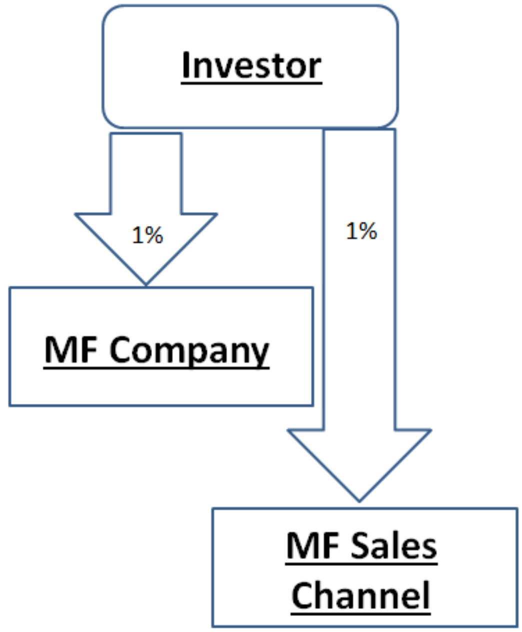


And maybe I'm wrong. Maybe not. But obviously biased. ☺

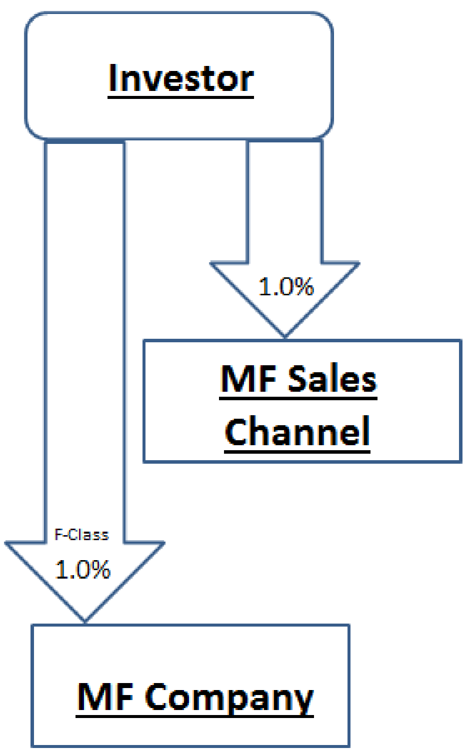
But the days of $1M accounts being unconsciously invested with a Robo, during a Bear market, are light years away.

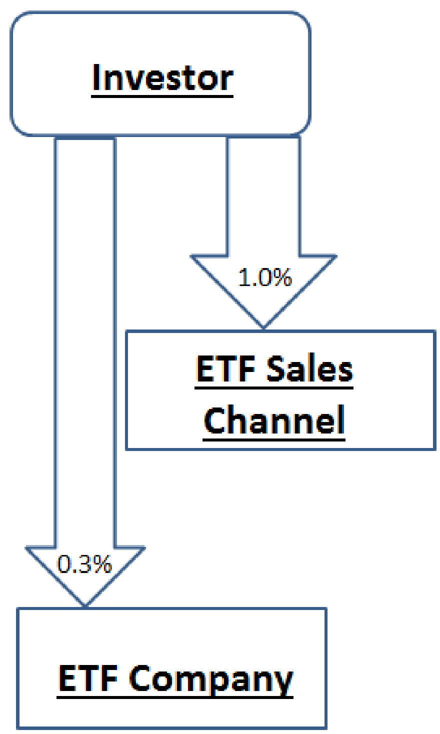
So the starting point, is how does the Sales Channel convince the investor to remain with the Mutual Fund Sales Channel, possibly through this dual Fee option (see 'right' image below).



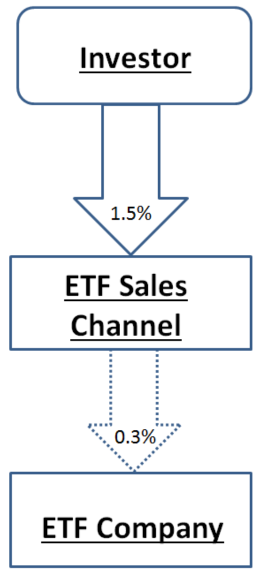


The Investor would essentially 'write' two cheques in that model. Even if the Funds were now F-class, or cheaper ETFs were used. But if the Mutual Fund Sales Channel up-licenced themselves to IIROC, and started sell ETFs, we'll see this switch occur.

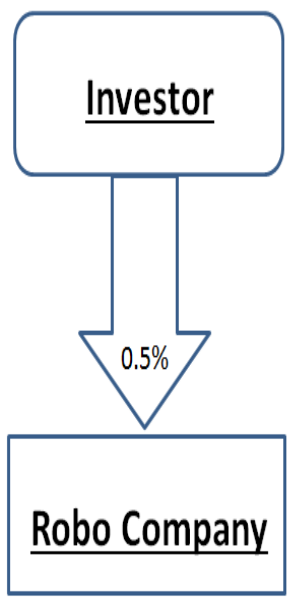




But it will probably appear as:



More expensive to the Canadian investor, but the long term threat is this model:



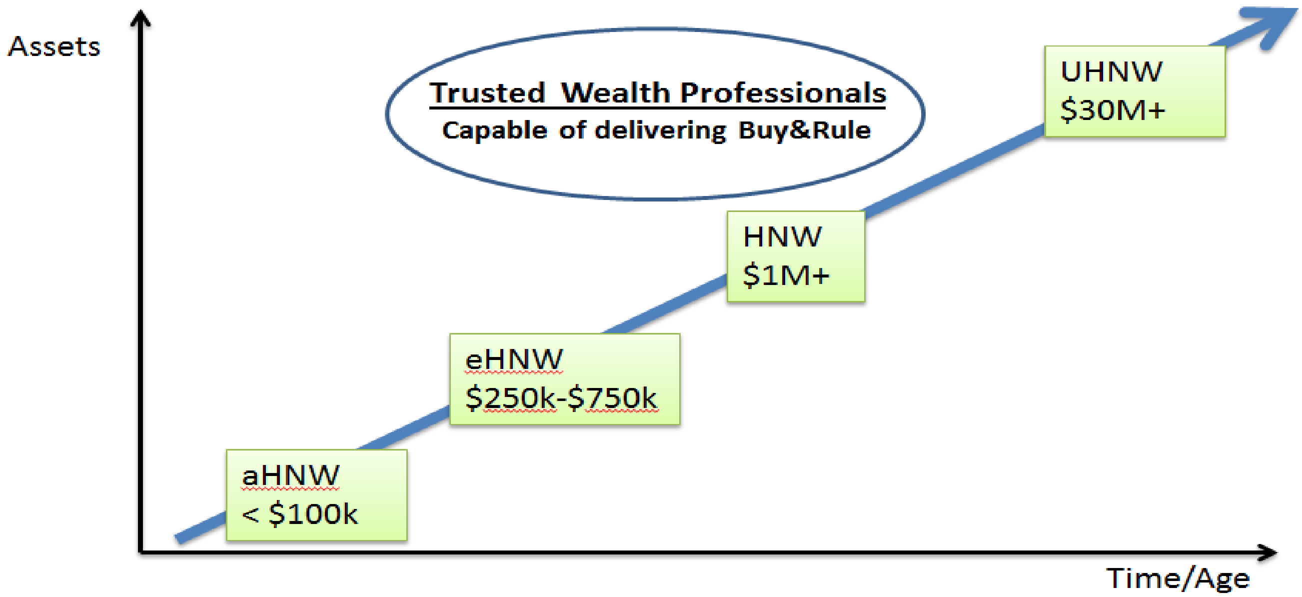
The point being, licensing matters. And if you have more+higher licensing, you can do more work for your clients, and charge higher fees.

Personally I think the Brokerage firms should lower their minimums and create Platinum, Gold, Silver and Bronze levels of Advice+Service. And start picking off the aHNW to eHNW marketplace; between $50k to $250k. If you start treating this niche, similar to the Service+Advice delivered to the full HNW client, you might end up with the most AUM ☺

The simple logic for the Crystal Ball is that the:

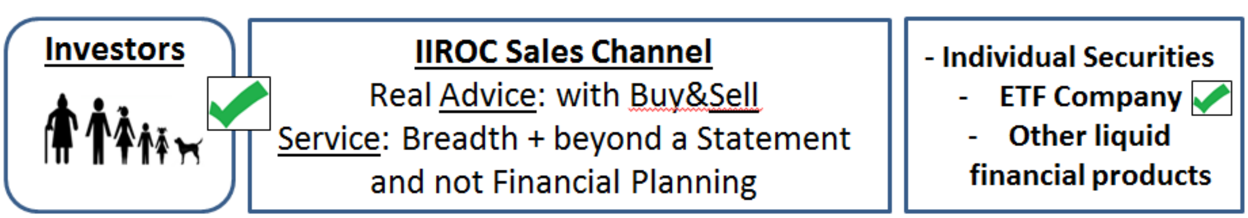
1. Highest licensed,
2. Full access to all Products and Services (a form of Liquidity),
3. Complete Tax, Accounting, Estate, etc … counsel, and
4. Practicing all Investment Styles, including Buy&Rule ®

will be the IIROC Life-Licensed Investment Advisor. All the Canadian investors want this Advice+Service offering; who wants an Advisor with lower licensing? Less Products + Services?



As mentioned above I believe that the IIROC licensed firms, will start to encroach into the aHNW marketplace as well; lowering their limits. This will be a strategic preemptive move against the Robo's. A Bear market will help in this regard. Just watch out for the 'bad' IIROC advisor. And I also wonder how many Robo's will survive the next Bear; there are going to be common acronyms, such as CDIC and CIPF, shared with

So, as Wealth Increases, as the rungs of the HNW Ladder are climbed, Canadian Investors will flock to the IIROC Sales Channel. The Wealthy, the HNW, know where to obtain Advice+Service.

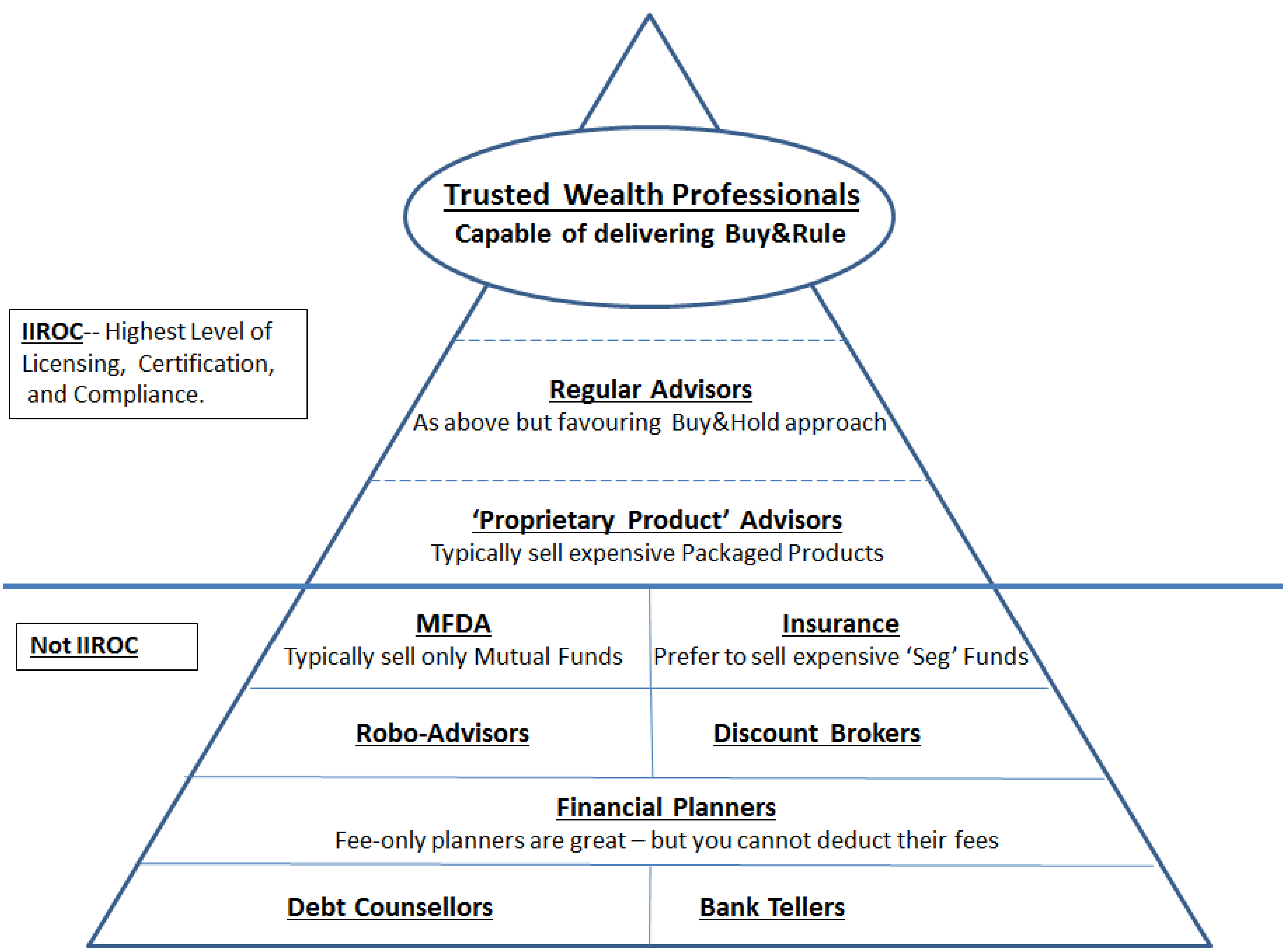


It may be the opportunity of a life-time, that as our current over-heated Bull market, returns to a Norm, via a:

1. Crash
2. Correction
3. Trickle-Down
4. Sideways Slide
5. Trickle-Up (but with lower growth than Inflation)

that the Investment Style Buy&Rule ® becomes the ideal haven.

The next Bear could be Gentle, or a ferocious Grizzly, but given a choice, I'd like to miss the most of it. That's why I have a Trusted Wealth Professional and don't use Mutual Funds. Capital Preservation and Liquidity are two components of the Advice that has been shared with me; reflected in my investment initiatives.



Addendum 1: The ‘Bad Advisor’ Blog may start

Up-Beeping is something that the ‘Bad Advisors’ are great at. If you left your MFDA sales person and transferred your assets to a full-service IIROC broker who has Financial Decidophobia (fear of making financial decisions), but they are a great relationship person, and they love the free lunches that mutual fund companies provide along with baseball tickets, luxury cruises, spa outings, Sonoma wine tasting ‘junkets’, etc … you may just find that your total Beeps now are greater than your Beeps you paid when transacting directly at your Mutual Fund company.

So you owned A-class mutual funds previously and now you own the F-class, but your total fees are higher. The average UpBeep is from about 200 Beeps to 225 Beeps.

And keep in mind your overall Wealth performance as well as some of these ‘Financial Decidophobia’ & ‘Relationship-type’ advisors are often swayed by the Mutual Fund sponsor of their latest Lunch&Learn or XMAS party. This is when Up-Beeping becomes Beep Churn (with not often positive results). But if you move from A-class to F-class, for the same Fund, and your total fees have gone up, this is bad news. You probably need lower priced no-commissioned ETFs (unless utilizing a specialty Mutual Fund).

Or you need to leave your Bad Advisor.

Addendum 2: Fee & Advice After-thoughts

Let's think about this example. Buying/Owning/Selling a home. Using round numbers as an example, you bought a home for $1M and paid 3%+3%=6% as a commission to Real Estate Agents. So that's $60,000 in Commissions. You pay your property tax, your utilities and upkeep. And now your Agent comes by and offers you a Valuation Service priced at 0.00365% to tell you what your house is worth; that's just $10/day. Do you buy it? It's made easy for you; automatically deducted from your bank account. And only $3650 per year? It could show you comparables in your neighbourhood? Perhaps via Monthly reports!

But you think that you don't need it, it's free online, or it doesn't matter now (you're busy and exhausted from commuting). You think it's a Scheme, it's a redundant, often free and value-less service. You can find out the value of your home, to the same degree of error+accuracy online now.

Please don't get charmed into thinking that a statement (online or not), or an annual phone call to inquire about a possible RRSP donation, is actually considered Advice or Service. IFIC's own statement shows that the average Canadian Mutual Fund investor has $46,000 at the end of 2015. So if we add a bit to that, and call it $50,000 now, there is no set standard level of Service or Advice that applies to a Mutual Fund investor. Hence it's all Commissions and Financial Planning, both of which are not deductible as ruled by the CRA. Note: I think the Fund Manager is doing all the work (if they aren't Closet Indexing).

Anyways, how do you feel about these 3 Advice+Service+Fee scenarios?

1. An 88-year old man had $2M in Mutual Funds at an Orangeville bank branch. He thought he only paid $100 a year in fees; that's what the Teller at the Bank told him. He recently passed away. Fee Shock was not the cause of his death.

2. A 55-year old recent divorcee, and first-time ever+anything investor, was convinced by a mutual fund sales person to invest her 2015 settlement proceeds of $600k in 'safe' mutual funds. Her first statement of 2016 showed her Oil based holdings were worth less than $500k. It did get worse, before it got better, but it still hasn't recovered. She's still alive. And single.

3. A 75-year old Grannie was convinced at the bank branch to switch her life-savings of $700k from GICs into a Bond fund just before the USA election. The Mutual fund sales person had never seen a period of rising interest rates; evidenced in November + December of 2016. Grannie now has $600k, pays about 100 Beeps per year in Fees,

and is worried about rising hydro rates. And property tax. And the cost of food. Grannie is counting her days, but not solely because the Bank is now wealthier. And I'm not sure if the Teller is still at the Bank.

Nothing moves in a straight line. The graph below is the last 10 years of the TSX. It is almost flat. And the market doesn't always go up. That's why Advice matters and why it is non-existent in the Mutual Fund Sales Channel. There's a Time to Sell. And a Time to Buy.

It's fair to say though, that if you have substantially more than $250,000, maybe $500,000, you do receive preferential treatment and service levels from your Mutual Fund Sales Person/Company. I don't disagree with that. But I'd love to debate how the Mutual Fund Services are defined; I know it isn't Advice.

Note: Adding to a position with an annual RRSP or TFSA contribution is not Advice. Most Mutual Fund Sales People just 'add' to the Pie-Chart; Balanced, Conservative, Growth, Income, etc … fund that you are already holding.

Addendum 3: Musings regarding Mutual Funds Commission-based Scheme

<u>Commission-based Scheme - Summarization</u>

1. Commission Laundering; Sales Channel Fee is non-deductible if paid directly to Sales Channel, and it's non-deductible if there is no Advice or Service beyond Financial Plan (non-deductible); see Point2 in the main section of the Beep Brief. No other consumer product is setup like this; none that I can think of, but that may change as well.
2. Mutual Fund companies pay themselves Daily, before calculating NAV. And it's an unknown amount and unknown communicated amount. "How much did I pay today?" "Or this year?" You don't know. You don't get a receipt. You don't know how much was taken. It's as close as you can get to an unauthorized withdrawal from your bank account And it is approximately 250 times per year. You get paid 2x/month, so 24 times a year, but you pay Mutual Fund fees 250 per year (with Embedded Commissions).
3. Embedded Fees, Canadian Investors don't see the Fees in total amount or percent amount until CRM ½ is shared on a statement at the end of the year. This denies the Liquidity by contrasting performance versus other instruments; ie. Bond Fund vs. 5-year GIC rate. All the Front-End Load, No-Load, DSC's, etc … bury the Fees such that the total Embedded Fee is roughly ½ Embedded Product Costs and ½ Embedded Commissions.
4. Trading Expense Ratios, TERs, are essentially a blank cheque (and they could be higher than some ETF Fees; 0.03% and 0.04% are ETF Equity fees that are in the public domain).
5. IIROC Advisor Fees decline when AUM increase (Fee-based account). I'm still perplexed; **there are no volume discounts on Mutual Funds?** Do they exist within the Sales Channel? Perhaps via rebates? If you had $1M or $2M in AUM, you probably would have a 1% (or 100 Beeps) Fee, or Less, via an IIROC advisor (OK, not via the 'Bad' IIROC advisor who 'gouges' their clients). But combine that with ETFs that charge 0.04 or 0.25, and you're better off with Advice and Liquidity from the full-service life-licensed IIROC advisor.

And yet we're still not talking about the Investments. And does anybody care about the Risk of the investments? And their Performance? Or if I made any money? Keep up with inflation? Beat a Benchmark? Retired early? Found Freedom at age 55?

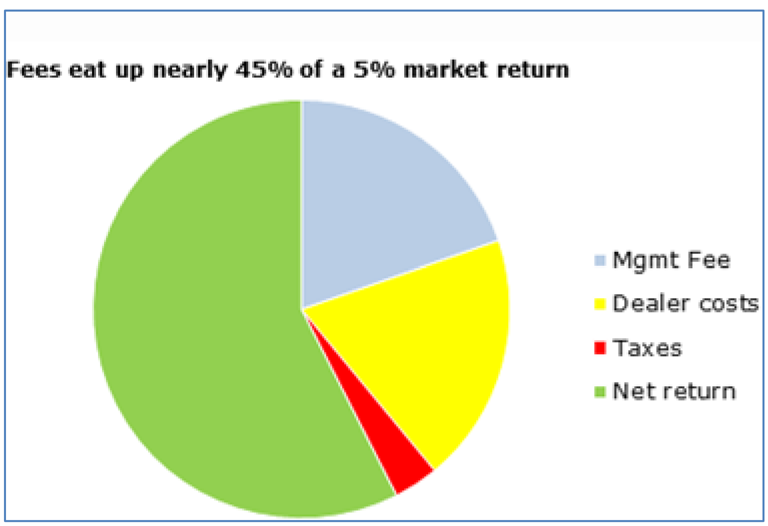
Nope.

Mutual Fund Sales Person got their Beeps. They DSC-ed you (potentially) and they have their Beep Loss Prevention Manual in case you try to Sell and go to Cash/E, or move your assets.

Back Matter

I’ve created a Beep Brief Back Matter over the past few months. It contains many pertinent articles; with the article title, the original article itself and source links, for my background reading when I was compiling Notes for myself.

It is available in softcopy and will accompany the Beep Brief Submission.





Thanks and Apologies

To my confidants, and my proof readers, many thanks.   Especially for the stories about Profiteering via Embedded Commissions. And you've already received my apologies for enduring the Out-Takes and the Extracts from this Brief. Evidenced by the fantastic Spell-O's that are created when you've got no RAM left for Auto-Correct to run on your laptop ☹

Also there still might be a correction or two required in the Beep Brief, and I apologize for that in advance.

Plus, thanks and apologies to any of the creators of the non-watermarked images+cartoons I've snipped from the web. I've left an audit trail, where possible, to show the original sourcing.

The Beep Brief

A response to the CSA CONSULTATION PAPER 81-408
regarding the discontinuing of Embedded Commissions.

Back Matter

Gerry Gabon
Founder and President
Trusted Wealth Professionals

Submitted
June 9th 2017

http://business.financialpost.com/news/fp-street/canadas-market-watchdogs-look-at-fundamentally-flawed-embedded-fees-on-investment-funds

Canada’s market watchdogs assessing impact of ban on ‘fundamentally flawed’ embedded fund fee model

BARBARA SHECTER | September 27, 2016 6:23 PM ET

Maureen Jensen, chair of the Ontario Securities Commission said the paper will look at banning the fees as a "possible solution" for a compensation model she said is fundamentally flawed. OSC

Ontario Securities Commission chair Maureen Jensen says Canada’s compensation model for mutual funds is fundamentally flawed and that regulators are looking at an outright ban on embedded fund fees as a “possible solution.”

“The current compensation model consists of fees set by the fund manager to incent sales,” Jensen said Tuesday in her first major address since taking the helm of the country’s largest market watchdog. “This does not put the investor’s interest first, and that’s a fundamental flaw that needs to be addressed.”

Following the luncheon speech at the Toronto Board of Trade, Jensen told media it is up to the investment industry to come up with a viable alternative to a ban.

She said some suggested alternatives, such as capping the embedded fees, do not go far enough because they don’t eliminate conflicts of interest at the heart of the current system.

“We know this would be a major change for investors and the industry,” she told the business crowd during her speech. “That’s why input from all of our stakeholders is necessary throughout this process.”

The Canadian Securities Administrators, an umbrella organization for provincial commissions, will publish a consultation paper by the end of the year that looks at the potential impacts of an outright ban on embedded fees for investment funds, including mutual funds. It is the culmination of an examination that has been under way for more than three years.

The investment industry has fought strongly against curtailing embedded mutual fund fees, which have been banned in other jurisdictions such as the United Kingdom. Industry groups argue that banning the embedded fees in favour of a set annual fee for advice would squeeze some investors out of the investment game because they either cannot afford, or would chose not to pay the upfront fee.

Industry representatives have also argued that new rules requiring greater disclosure of fund fees will improve outcomes for investors by giving them a better understanding of what and how they pay for advice.

Jensen called these “critically important” changes, but said “disclosure alone is not enough.”

In her speech, she cited research from the National Bureau of Economic Research that she said suggests a combination of embedded fees and unsuitable portfolio construction has caused the investment returns of advised clients to lag passive market benchmarks by two to three per cent a year.

“The impact of these fees on investor returns is significant,” she said. “Investors experiencing this kind of outcome on a consistent basis would never break even and would, in fact, be worse off.”

Jensen, who took the helm at the OSC in February, also used the speech to announce that the regulator will be the first in Canada to launch a hub to work directly with fintech companies. The official unveiling of LaunchPad is to take place in a few weeks, and the plan is to help the upstart financial technology firms navigate — and even potentially tailor — the regulatory framework.

The upstarts, which use technology and data to compete in traditional financial services business lines from lending to investment advice, don't fit "neatly" into current regulations, Jensen said, acknowledging that some requirements "might not make sense" for the new business models.

"Based on our experience so far, many Fintech companies 'don't know what they don't know' about operating in a regulated industry, and that can threaten their ability to do business," she said. The idea behind LaunchPad is to help "tailor regulation and oversight to their unique business models, as long as investor protections are in place."

Forty fintech firms have sought registration over the past couple of years, Jensen said, adding that these include online advisers, peer-to-peer lenders, and crowdfunding platforms.

She said another recent OSC initiative, a paid whistleblower program with rewards of up to $5 million for tips that lead to successful cases against those who breach securities laws, has already proven "fruitful." It has generated 30 tips since the launch in July, some of which involve alleged malfeasance on accounting statements and disclosure violations.

There are suggestions of "serious potential offenses" among the tips received, Jensen said, adding that tipsters are coming forward to reveal alleged activity and behaviour that would have been very difficult for the commission to unearth on its own.

"I am encouraged by these early results," she said. "New enforcement tools like this will help us resolve cases more quickly and effectively."

Financial Post

http://www.theglobeandmail.com/globe-investor/funds-and-etfs/etfs/mutual-funds-arent-looking-for-a-fee-fight/article18231785/

PORTFOLIO STRATEGY

Lower-cost mutual funds? Dream on

ROB CARRICK
The Globe and Mail
Published Friday, Apr. 25, 2014 6:09PM EDT

Exchange-traded fund companies have been slashing their fees lately in a display of macho one-upmanship that you never see in the mutual fund business.

Mutual fund fees are the black hole of Canadian investing. We know from work done by the independent analysis firm Morningstar that our fund fees are among the world's highest. But the fund industry's reluctance to talk about fees makes it hard to tell whether they're falling or not.

So let's dig into the numbers. As a proxy for the fund industry, we'll look at 12 popular mutual funds with combined assets of close to $100-billion. Three of the funds had lower fees in late 2013 than they did five years ago, while nine were charging more.

The past five years were a period when fund companies had to deal with the introduction of the harmonized sales tax in some provinces. A key competitive consideration for the fund industry: Eat the extra costs of the HST, or pass them along? Other business pressures over the past five years included the rise of the ETF sector, which is much smaller than the mutual fund industry but faster growing, and the lingering shock to investor confidence caused by the market crash of 2008-09.

As shown by the group of 12 widely held funds, the overwhelming preference in the fund business over the past five years was to let fees float higher. Where fees did rise, the total increase was typically 0.1 of a percentage point or less. While such increases would have had a modest effect on investor returns, they're still highly symbolic. They suggest that investors should give up on the idea that mutual fund fees in Canada will ever meaningfully decline on an industry-wide basis.

This sort of decline has long been anticipated, in part because our fees are high on a global basis. Fee competition from the ETF business, a direct competitor to mutual funds, would also suggest lower fund costs ahead. The final argument for lower fees is based on economies of scale – the idea that funds become more efficient to run when their fixed costs are applied against rising assets.

On our list of 12 popular funds, there is one that has become significantly cheaper in the past five years. It's Investors Dividend, which went from a management expense ratio (MER) of 2.68 per cent in 2009 for its Series A version to 2.39 per cent in 2013. Investors Group announced a year ago that it was cutting fees to make its comparatively expensive products more competitive, and here is one tangible result.

Fees also declined for Dynamic Strategic Yield and Beutel Goodman Canadian Equity over the past five years, though not so dramatically. The latter fund's decline was notable because the fee was already near the low end for Canadian equity mutual funds.

The nine funds with rising fees over the past five years show a pattern of multiple small increases. The $17.5-billion RBC Canadian Dividend Fund – it's the country's largest mutual fund, according to Globeinvestor.com – has had the MER for its Series A version rise from 1.7 per cent in 2009 to 1.79 per cent in 2013.

A spokesman for RBC Global Asset Management said the rising MER is due entirely to the HST. He also noted that the administration costs built into the MER were cut by 0.02 of a percentage point at the beginning of 2014, while the administration fee for RBC Balanced fell 0.04 of a percentage point. "Overall, over 90 per cent of RBC GAM mutual funds have MERs that are below the category average," he wrote in an e-mail.

It’s worth noting that every bank-run mutual fund on the list of 12 popular funds is more expensive to own than it was five years ago. This is admittedly a small sample, but the banks do seem intent on squeezing more fee revenue from their mutual funds.

Rising fees may seem inconsequential for a fund like RBC Canadian Dividend, which has regularly outperformed both the average return for its peers in the Canadian dividend and income equity category and the S&P/TSX composite total return index.

BMO Bond is a different story – returns have been consistently below average over the past five years. Scotia Canadian Dividend made 13 per cent annually for the five years to March 31, while its peers averaged 14 per cent and the index averaged 13.7 per cent.

How common is it for investors to pay fees – maybe even rising fees – for indifferent or worse returns? “Out of all the mutual funds I cover, I would say 25 per cent are pretty decent,” said analyst Dave Paterson of D.A. Paterson & Associates. “You’ve got another 50 per cent that are acceptable, but you might as well be in an ETF, and 25 per cent that probably shouldn’t be sold.”

ETFs have tiny MERs because they’re robotic index-trackers for the most part, whereas mutual funds must bear the cost of analysts and portfolio managers who select individual stocks and bonds. Fund fees also include commissions paid by fund companies to the advisers and dealers who sell their products, whereas ETFs typically do not.

A fair-and-square comparison of ETFs and mutual funds would add a percentage point to ETF fees to cover the cost of investment advice and financial planning that is baked into most fund fees. But thanks to the latest round of fee cuts, you can combine ETFs and fee-based advice and still pay much less than you would with mutual funds.

The iShares S&P/TSX Capped Composite Index ETF (XIC) has an estimated MER of 0.05 per cent today, down from 0.27 per cent a year ago. The iShares people cut the cost of this fund in response to a fee reduction made a while back in a competing product, the BMO S&P/TSX Capped Composite Index ETF (ZCN). BMO’s response came this week – a further fee cut in ZCN to match iShares.

The back story here is that ETFs had a disappointing 2013, sales-wise. While global stock markets soared, the flow of money into equity ETFs was offset to some extent by money pouring out of bond ETFs. Add a growing number of competing ETF providers to this picture and you end up with recent fee cuts announced by iShares and BMO.

The mutual fund industry had quite a decent year in 2013 and now sits on roughly $1-trillion in assets, compared to $66-billion for ETFs. Do not expect a mutual fund fee war any time soon.

Follow me on Twitter: @rcarrick

http://www.advisor.ca/my-practice/give-clients-a-real-choice-11665

GIVE CLIENTS A REAL CHOICE

John J. De Goey / January 4, 2011

Advisors generally do a good job in helping their clients make smart decisions with their money. Most try to help clients obtain a meaningful understanding of capital markets. Most try to make reasonably suitable recommendations. These advisors will diversify between equity and income, value and growth, small cap, large cap and a number of other ways, too.

What I see less of though is a diversification between active and passive products and strategies. This, of course, could be an all or nothing proposition or a mix and match (core and satellite) combination.

Most financial advisors recommend an all active approach all the time. These same advisors insist they have no bias at all and that they go out of their way to help their clients make informed decisions about the products and strategies being pursued.

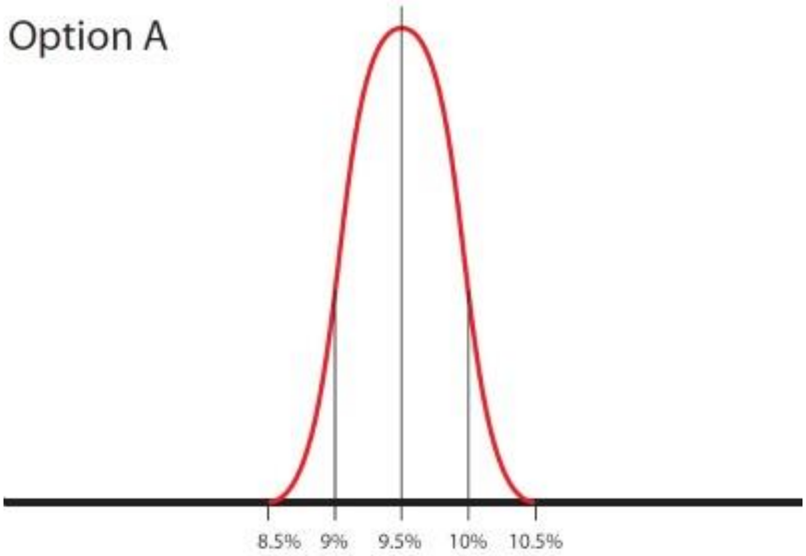
I beg to differ.

My sense is there are advisors who are deliberately silent on the matter of cost impacts when discussing options with their clients.

Here's a simple example. Why not show clients both options? Don't direct them one way or another to start. Simply explain that both options are on the table and that over the course of their lifetime, both would likely be reasonable depictions of their overall investment experience.

For anyone who wants a credible bit of background and rationale regarding what follows, please read William F. Sharpe's "The Arithmetic of Active Management". If you can't locate a copy, you can get it here.
Sharpe's paper provides a simple way of combining the notions of risk, return and cost. It shows that both historically and logically, an average investor's expected return is the return of the asset class minus the cost of the product used to get exposure to that asset class- plus or minus a degree of variance.

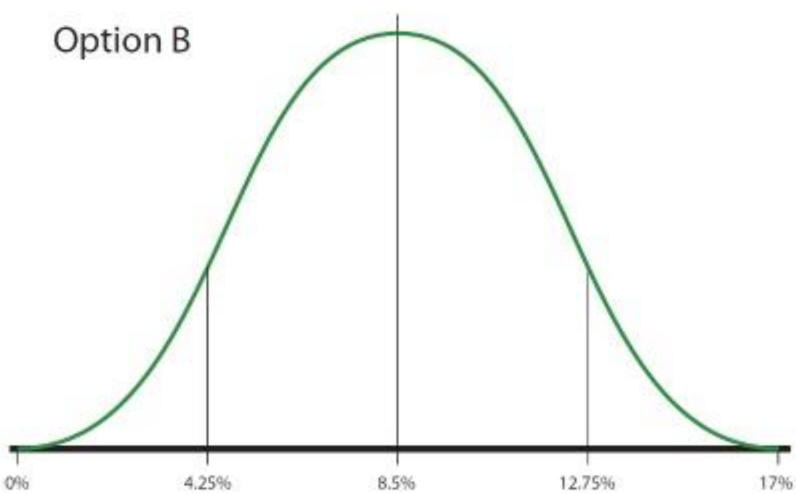
In my illustrations, Option A features a 9.5% average expected return with a relatively modest variance (tracking error), while Option B features an 8.5% average expected return, but with a fair bit of additional variance (positive or negative "alpha").



Since the differences are due to product cost and the likely dispersion of returns, we're left with Option A hugging a benchmark minus a lower cost, +/- a tracking error and Option B costing more and having a greater variance of possible return outcomes due to security selection.

One would reasonably expect modest tracking error for the passive option and a much higher variance for the active option. If markets return 10% and the passive option costs 0.5%, while the active one (featuring no advisor compensation) costs 1.5%, then the long-term difference is 1% per annum- forever.

Is it worth a certain 1% cost increase if that choice is most likely to involve a similar reduction in long term returns with a wider dispersion of outcomes? Remember that for every person on the right side of the centre line in either option, there's another on the left side. There are pros and cons to both approaches, but which option is a typical investor more likely to choose if asked? Both options have a constituency.



Considering the choices available according to Sharpe's paper, investors should clearly understand their two options. Here's a value proposition that you may wish to consider taking to them. Ask "If I could show you how to save tens or even hundreds of thousands of dollars over the course of your lifetime by simply replacing your current investment products with products that have a similar expected pre-cost risk and return profile, but which cost 1% less and have less expected volatility, is that something that would interest you"?

All I know is that every time I ask that question, I get a resounding…Yes.

In fact, the only people I've ever met who don't give such a response are the people who would never asked the question in the first place.

John J. De Goey, CFP, is the vice president of Burgeonvest Bick Securities Limited (BBSL) and author of The Professional Financial Advisor II. The views expressed are not necessarily shared by BBSL. You can learn more about John at his Web site: www.johndegoey.com.

http://cawidgets.morningstar.ca/ArticleTemplate/ArticleGL.aspx?id=760407&culture=en-CA

How much are your mutual funds really costing you?

New fund industry trade group infographic understates long-term effect of fund fees.

By Christopher Davis | 20/07/16

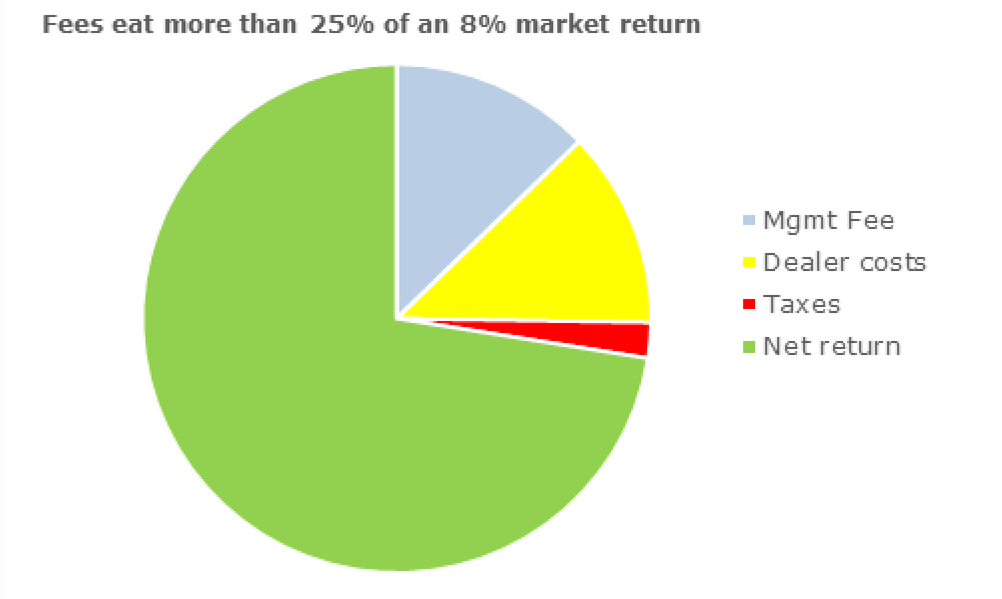
What Scottish poet Andrew Lang said of politicians--that they "use statistics in the same way that a drunk uses lampposts"--could also be said of the Investment Funds Institute of Canada's (IFIC) recent effort to illustrate the value investors receive from paying mutual fund fees.

Christopher Davis is Director of Morningstar Research at Morningstar Canada. In this role, he oversees Morningstar's Canada active fund research analyst team and sits on the Canadian Morningstar Analyst Ratings Committee. He is Morningstar Canada's lead analyst for the Fidelity and Sentry fund families. He also represents Morningstar on the Canadian Investment Funds Standards Committee. Prior to assuming his current role in 2012, he was a senior fund analyst in Morningstar's U.S. office. During his tenure, he led Morningstar's coverage of Fidelity Investments and was the editor of the Fidelity Funds Newsletter. He also served as the lead analyst on several other asset managers including the Baron, FPA, Columbia Acorn, Ariel, and T. Rowe Price fund familes, as well as for the health-care category. His specialties included behavioral finance, income oriented, and tax-managed fund. He also oversaw Morningstar's target-date fund coverage of the Fidelity and TIAA-CREF series. Davis joined Morningstar in 1999 as a data analyst and became a fund analyst in 2000. Davis holds a bachelor's degree in economics and political science from the University of Illinois Urbana-Champaign

The industry trade group says its recently released infographic on the topic, which coincides with new regulatory requirements under the Client-Relationship Model – phase 2 (CRM2) mandating dollar-value disclosure of advisory fees, is designed to illustrate the impact of fund management, distribution and tax costs on investor accounts.

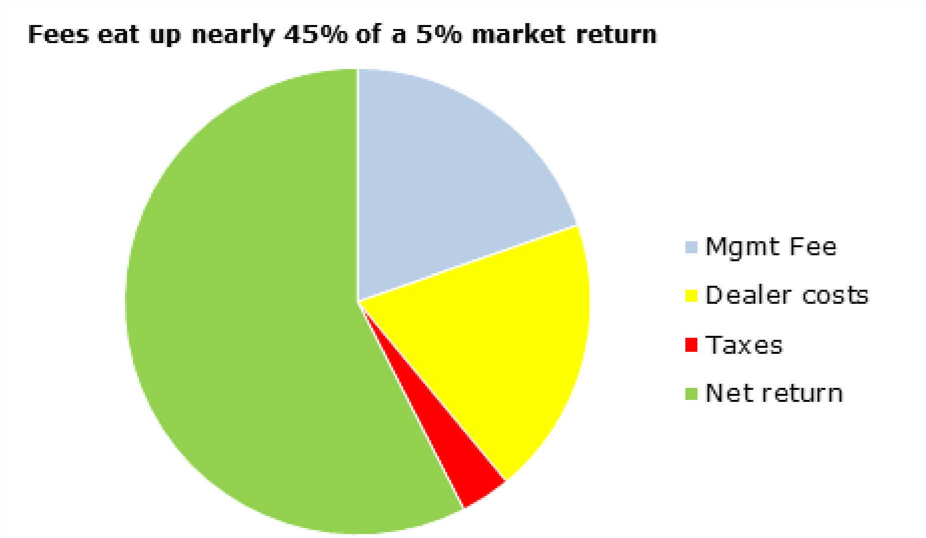
Given its source, the message to investors isn't too surprising: You're getting a great deal! If a fund's management-expense ratio (MER) is 2.2%--which an IFIC-funded study says is the average asset-weighted cost of funds sold through advice-based channels--just 2.2 cents of every dollar invested gets you professional money management and investment advice. All but a tiny slice of the pie grows along with your investment.

IFIC gets the basic arithmetic of fund expenses right, but it doesn't put them into the proper context. What sounds like a trifling sum in comparison to the size of your overall investment appears quite substantial as a proportion of your investment's returns. Let's say your 60% stock/40% bond portfolio closely matches the 8.4% pre-expense return[1] this asset mix has averaged over the past 30 years. An 8% return before fees turns into 5.8% after subtracting the 2.2% MER. What IFIC calls a great value will have eaten more than 25% of your investment returns for the year, as the chart below demonstrates.



Source: Morningstar. Chart assumes 8% gross annual return and 2.2% in annual expenses.

Market returns mean fund expenses chew up an even larger piece of the pie. This is a reality investors may confront in coming years. While it was plausible to expect 8% gains from a 60/40 portfolio over the prior three decades, investors should expect more subdued long-term returns going forward. With the FTSE TMX Canada Universe Bond Index--the bellwether for the investment-grade bond market--yielding a skimpy 1.8%, it's all but impossible to match the 9% annualized gain it notched over the 30-year period. It's not beyond the realm of possibility a 60/40 portfolio returns 5% instead of 8%. Instead of swallowing 25% of pre-expense returns, the MER would gobble nearly 45%.



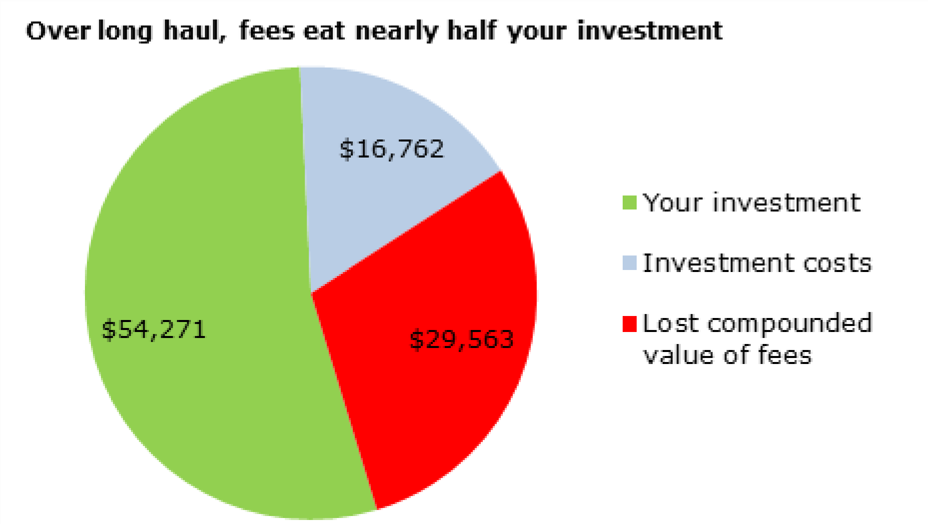
Source: Morningstar. Chart assumes 5% gross annual return and 2.2% in annual expenses.

Thanks to miniscule yields, bond investors will feel the expense pinch the most. The median MER for commission-based core domestic bond funds clocks in at 1.59%, consuming nearly all of the investment grade market's 1.8% yield. Yield typically makes up the better part of bond returns, but that's especially the case these days. The bond market has benefited mightily from the boost it's gotten from three decades of declining interest rates--bond prices and rates move in opposite directions--but with yields at already-low levels, there's not much room for them to fall further. (And if they rise, you're likely to earn negative returns, adding insult to the injury of a yield-swallowing MER.)

The ugly math of fund costs: Where compounding works against you

The harm done by fund fees worsens over time for the same reason your investments grow. If you've shelled out 2.2 cents on the dollar in fees, the 97.8 cents put to work grows exponentially thanks to the magic of compounding. But so does the value of the 2.2 cents paid in fees.

As an example, let's get back to the 60/40 portfolio averaging 8% annual returns before fees with a 2.2% MER. Over a 30-year period, a $10,000 investment will grow to about $54,300 after fees. Over that stretch, the investor will rack up almost $16,800 in investment expenses. However, the opportunity cost is a lot higher. Without fees, $10,000 would rise to about $100,600 over 30 years. The difference between the before- and after-fee balance--more than $46,000--is almost three times what the investor paid in fees. The cost to the investor isn't just $16,700 but also the more than $29,500 in foregone gains. While the MER will have consumed about a quarter of the investment returns on average in a single year, the combined explicit (investment fees) and implicit (compounded value of investment fees) costs will have devoured 45% over a three-decade span.



Source: Data generated using Savii Financial Concepts MER Calculator.

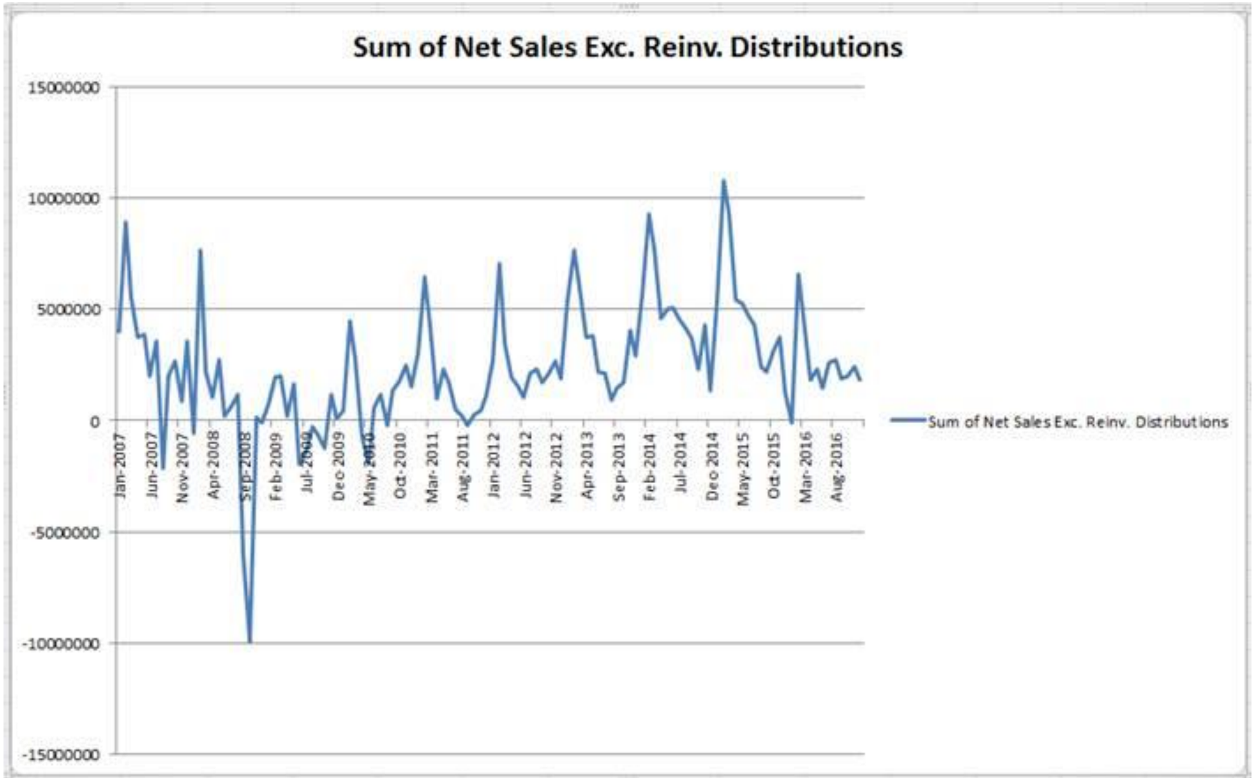
Beware of termites

Of course, there's no world where you can invest without fees. Investment managers don't work for free, though low-cost ETFs now offer something not far from it. Paying for financial advice, whether as part of or separate from the MER, chips away at returns on one end, but a capable advisor can more than make up for it on the other by minimizing investment and tax costs, managing asset allocation, and ensuring clients save enough and stick to their financial plan when the going gets rough.

The question, though, isn't whether investment providers should be paid but how much. Because the price you pay comes directly out of your investment returns, less is always better. Even seemingly small costs add up over time. As John Oliver, the host of HBO's *Last Week Tonight*, more colourfully noted, fees are like termites: They may be small and barely noticeable, but they'll eat your future.

Note
[1] *Our pre-expense return calculation uses 30-year annualized returns of the S&P/TSX Composite Index and the FTSE TMX Universe Index as of June 30, 2016.*

Graph from Spreadsheet of Mutual Fund Net Sales (source IFIC below)



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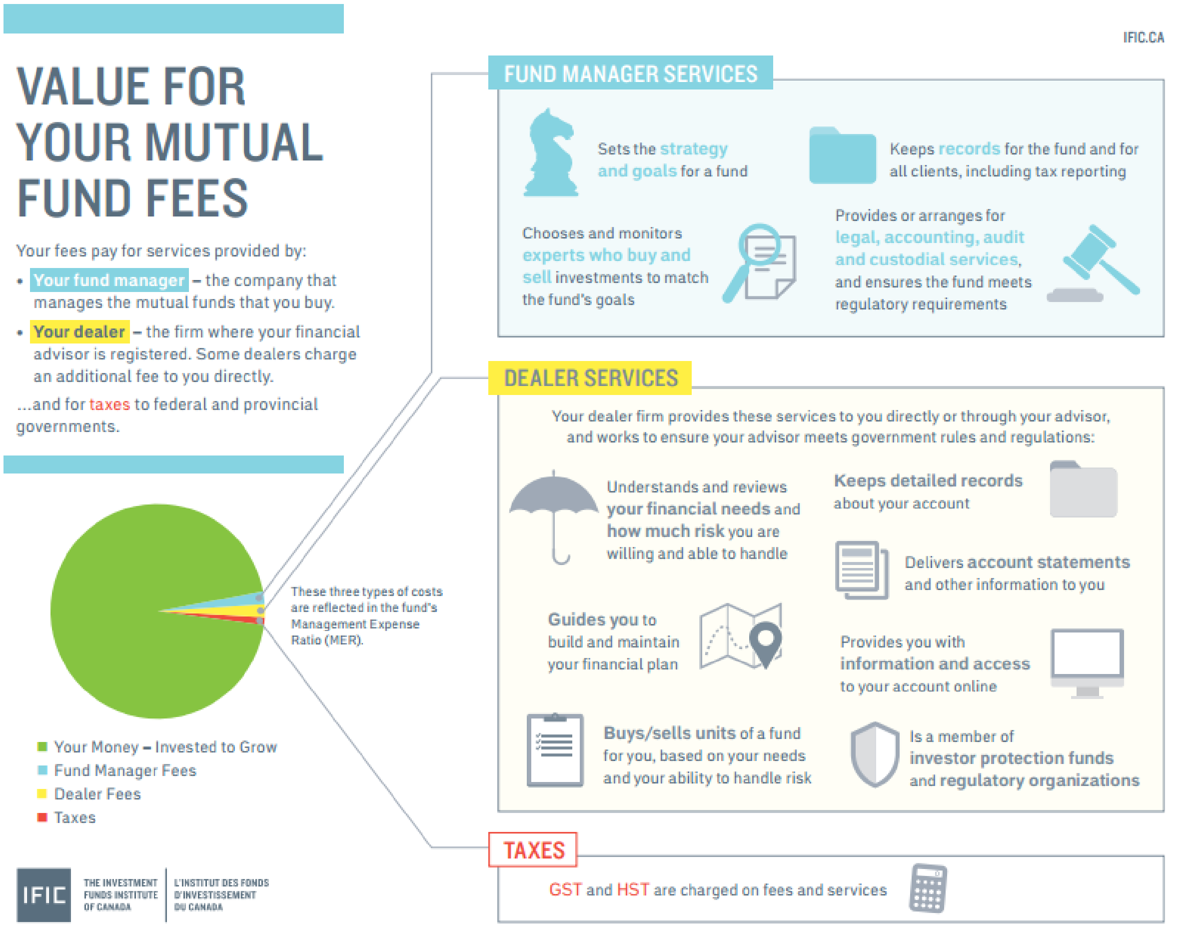
https://www.ific.ca/wp-content/uploads/2016/07/Infographic-Value-for-Your-Mutual-Fund-Fees.pdf/14577/



http://insurance-journal.ca/article/fee-based-compensation-could-take-a-huge-toll-on-mgas/

Fee-based compensation could take a huge toll on MGAs

by Alain Thériault Feb. 28, 2017 07:00 a.m.

The newly minted obligation to disclose mutual fund fees will probably spread to segregated funds. If the regulators also ban embedded commissions and MGAs are forced to implement fee-based compensation only, it may cost them $200 million, a recent study finds.

The consultation by the **Canadian Securities Administrators** (CSA) on the possibility of eliminating embedded commissions in mutual funds is troubling MGAs. They worry that this ban will spread to segregated funds, just as disclosure has.

Disclosure of segregated fund commissions would affect MGAs' economic model because of their structure. This finding was stated in an *Insurance Advisory Service* report on MGAs published in August 2016, produced by **Strategic Insight**.

An excerpt of this report obtained by *The Insurance and Investment Journal* states that the segregated fund compensation model will continue to be largely skewed towards deferred sales charges (DSC). This compensation structure accounted for 40% of gross seg fund sales in 2015, compared to 20% for mutual funds during the same period. The smaller proportion of DSC for mutual funds is due to the fact that CRM2 disclosure requirements already apply to them.

"Based on MGA gross sales and the estimated DSC share in 2015, DSC point-of-sale commissions alone had an annual economic impact on MGAs and their advisors of approximately $200 million," the report confirms. Strategic Insight thinks that DSC will have a greater on impact MGAs than on mutual fund dealers.

Hub Financial President **Terri Botosan** is optimistic despite these regulatory issues. "It's a very exciting time for the MGAs: we must participate in discussion with the regulators, and make sure that every party considering these decisions understands what that might mean for the customers," she says.

We know that disclosure is imminent for segregated funds, **James McMahon,** president of **Financial Horizons Group** – Quebec. "Regulatory changes are accelerating in the industry, and we have to spin on a dime, which is getting more and more expensive. We have a back-office system for mutual funds and segregated funds, with a staff of over 50 people. If the advisors all go to fee-based compensation tomorrow morning, it would take me four to five years to absorb the shock," he says.

The **Canadian Association of Independent Life Brokerage Agencies** (CAILBA) and the insurance industry overall have clearly expressed their support for embedded commissions in segregated funds to the **Canadian Council of Insurance Regulators** (CCIR), says **Michael Williams** a **BridgeForce Financial Group** (BFG) partner who is also president of CAILBA. "Agents are not afraid of disclosing and stating at the point of sale with the client that they have a choice as to how they pay for advice. I hope the regulators heard the message. Even if mutual funds embedded commissions are banned, we believe we can still support embedded commissions on seg funds with success," he adds.

Six of one…

James McMahon thinks that by banning commissions, regulators will create a bigger problem than the one they wanted to solve. "Take a couple who saves $25 or $50 per month and over the years manages to accumulate substantial assets. Who will take care of them, who will help them? The regulators haven't answered that question yet!"

Michel Kirouac, vice-president and general manager of **Groupe Cloutier**, does not understand why the CSA is leaning toward one model rather than another. He views them as equivalent. "I don't really see a difference between charging the customer fees and selling funds with embedded commissions. In the industry, 90% of funds foresee compensation for the advisor of about 1%," he explains.

Compensation still hovers around this mark, Kirouac adds. A fund with embedded commissions whose management expense ratio (MER) is 3% will pay the advisor a trailing commission of 1%. The rest will go to the manufacturer. If this fund exists in an F series, the MER will be 2% and the advisor can adjust his or her trailing commission. "For example, we see an average trailing commission of 0.6% to 1% in F series funds," Kirouac says.

In the fee-based model, customers pay the manufacturer fees of 2%, and the advisor negotiates the fees directly with the customer. "This is the model that the regulators are heading toward. If the fee-based model is imposed, this may affect the value of investment fund blocks of business," Kirouac points out.

Michel Kirouac is not a fervent believer in the single fee-based model. "100% transparency is a fine principle, but what will the banks put on their statements? This reform will confuse people for nothing, in addition to affecting advisors who manage large asset volumes. We are not against disclosure, and it's already required by law. But eliminating trailing commissions would be quite a shock, and we would have to learn to live with it," Kirouac adds.

Groupe Cloutier is poised to submit a brief as part of the CSA consultation on the possibility of banning embedded commissions in mutual funds.

http://www.wealthprofessional.ca/news/etfs/more-mutual-funds-jumping-on-the-etf-bandwagon-224363.aspx

More mutual funds jumping on the ETF bandwagon

by Leo Almazora20 Apr 2017

With ETFs gaining traction among investors worldwide, mutual fund managers would have every reason to dislike their low-cost competition. But there's evidence that, for some, it’s a love-hate relationship.

Citing data from independent investment research firm Morningstar, Marketwatch reports that more mutual fund managers are including ETFs in their portfolio.

In 2016, 1,222 mutual funds had an ETF among their holdings, accounting for a median value of 4.5% of the mutual fund’s total assets under management.

Compare that to 2006, when there were only 595 ETF-holding mutual funds, with a median of 1.2% of the fund’s assets placed in an ETF.

Such mutual funds are still the minority, however: a 2016 fact book released by the Investment Company Institute, an association of US funds, reported that there were more than 9,000 US mutual funds in 2015, holding US$15.7 in assets.

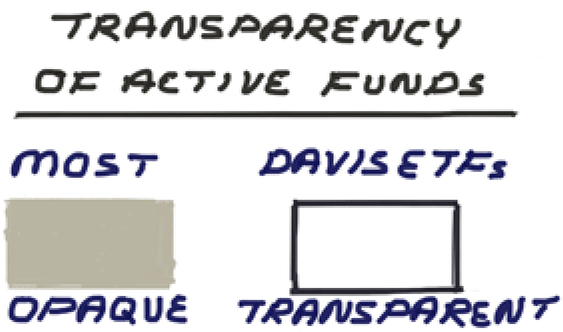
The top ETFs for mutual funds were equity-based, with the most popular being the SPDR S&P 500 ETF Trust — the largest ETF on the market with US$232 billion in assets. Six of the most widely held were bond ETFs, among which were two “junk bond” funds.

Morningstar didn’t list which mutual funds used which ETFs, but it’s possible that mutual fund managers use fixed-income ETFs to easily obtain broad exposure to the bond market, especially less liquid areas like emerging-market debt.

http://www.aaii.com/files/investorupdate/20170112.html?a=updatenm20170112

A Simple Solution to Offering an Active ETF

Thursday, January 12, 2017



Three new exchange-traded funds began trading today: Davis Select U.S. Equity (DUSA), Davis Select Financial (DFNL) and Davis Select Worldwide (DWLD). Normally such an event is not particularly noteworthy from our viewpoint. The launches of these funds are, however. They are actively managed equity ETFs based on strategies used for Davis Advisors' mutual funds, separately managed accounts and institutional funds. More importantly, they will follow the disclosure rules long used by index ETFs.

A bit of context is needed to understand why the launch of these funds is raising eyebrows. Actively managed ETFs remain relatively few in number. Most mutual fund companies have refrained from offering actively managed exchange-traded funds—particularly ETF versions of their equity-focused strategies. One particular hurdle has oft been attributed as the reason: transparency. Index (passive) ETFs disclose their holdings daily. Most mutual funds do not.

Attempts to provide a hybrid approach, meaning ETFs with reduced transparency, have generally not been successful. One platform that did pass the Securities and Exchange Commission's muster is Eaton Vance's NextShares. NextShares' exchange-traded managed funds provide limited transparency. Vanguard has its own platform and has filed to created ETF share classes for some of its actively managed funds. Last year, the SEC approved petitions from Bats Global Markets and the New York Stock Exchange for a streamlined process for listing actively managed ETFs. This was viewed as a positive for the industry, but it's not clear that the approval resolved the transparency hurdle.

Mutual fund provider Davis Advisors has settled on a simple solution for dealing with the issue of transparency. In registration statements filed earlier this month, the company wrote: "On each day that the Trust is open for business… the names and amounts of Deposit Securities to be included in the current Fund Deposit for each Fund will be published." Restating this in layman's terms, the ETFs' holdings will be disclosed daily. No lag. No complicated structure. Davis' actively managed ETFs will follow the same rules for disclosing their portfolios as index ETFs have done since the first exchange-traded fund (SPDR S&P 500 (SPY)) was launched in 1993.

Full, daily disclosure among actively managed ETFs is not a new concept. PIMCO provides it, as does Doubleline. The difference is that these companies offer bond ETFs. Since an issuer can have many bond issues outstanding and because the trading volume in each specific bond varies, there is less concern about active traders trying to jump ahead of a bond fund manager making portfolio changes then there is for a stock fund manager making portfolio changes. There are some actively managed equity ETFs offering daily disclosure [e.g., AdvisorShares Wilshire Buyback ETF (NYSE Arca: TTFS)], but they are relatively few in number and small in size. The four largest actively managed bond ETFs alone accounted for more than $2 out of every $5 invested in the 176 actively managed ETFs in existence as of December 31, 2016, based on data from Morningstar.

Davis Advisors is better positioned than other actively managed mutual fund providers to provide daily transparency because its mutual funds have below-average turnover ratios for their respective categories. The firm intends to follow a similar approach with its ETFs. Barron's quoted chairman Chris Davis as saying "it would be very strange if [the ETFs] ended up with a different kind of portfolio" than Davis Advisors' mutual funds. As such, it will be interesting to see if Davis Advisors turns out to be a trailblazer or more of an exception. The headlines and trends I've seen so far suggest that Davis will be an exception—unless these new ETFs turn out to be quite successful.

We've excluded the Davis funds from our mutual fund guide (which will be updated next month) because of the loads and expenses associated with the share classes most available to individual investors. Morningstar shows the Davis New York Venture (NYVTX), Davis International (DILAX) and Davis Financial (RPFGX) mutual funds as outperforming their category benchmarks. This potentially bodes well for the ETFs, but—as is the case with any brand new financial product—it would be prudent to monitor how they perform before making a decision on whether or not to invest in them.

https://www.theglobeandmail.com/report-on-business/rob-commentary/why-wed-celebrate-a-ban-on-embedded-commissions-for-advisers/article30987923/

DAVID O'LEARY

Why we'd celebrate a ban on embedded commissions for advisers

DAVID O'LEARY
Special to The Globe and Mail
Published Wednesday, Jul. 20, 2016 5:00AM EDT

David O'Leary, CFA, MBA is managing partner at Eden Valley Partners, a wealth management practice in Toronto
The Canadian Securities Administrators recently took another step closer to banning embedded sales commissions to financial advisers. My colleagues and I celebrated this news, since we believe a ban on commissions would be a huge win for both investors and our industry. Surprisingly, many industry stakeholders still argue against a ban.
Here's why they're wrong.

Embedded sales commissions (also known as trailer fees) have two contentious problems: They create a conflict between the interests of adviser and clients, and they obfuscate the fees investors pay.

Embedded commissions present a conflict of interest because the adviser is being paid by the very provider of the investments they are recommending to clients. It would be like your doctor getting paid by pharmaceutical companies for prescribing their drugs to you. Even worse is the fact that different investments pay different commission amounts to advisers. So as an investor, you don't know whether your investments are the very best ones out there, or just the ones that rewarded your adviser most handsomely.

The second problem with commissions is that they are embedded within a larger fee (known as the MER, or management expense ratio) that bundles together all sorts of fees to various parties. This makes the amount a client pays the adviser far less transparent. In my experience, most clients don't realize their adviser receives any part of the MER – if they're even aware they are paying an MER.

Those who object to a ban on commissions are almost exclusively people who stand to profit from them. And they offer a variety of disingenuous arguments to defend them.

One common argument is that banning commissions would hurt investors since it would reduce the amount of choice they have in how they pay for financial advice. Portfolio manager John De Goey has been quoted with an excellent response to this: "Today, most restaurants offer a choice between tap water and carbonated water. Would adding a third option – toilet water – make for better outcomes?"
Another common argument claims that Britain banned commissions to disastrous effect. Claims are made that banning commissions created an advice gap, where smaller investors can't find advisers willing to serve them. This is blatant disinformation. No one knows precisely what impact the banning of commissions has had there. There are two reasons for this. First, we don't have enough data yet. The British ban came into effect just more than three years ago. And second, banning commissions was just one part of a sweeping set of changes known as the Retail Distribution Review.

Britain's Financial Conduct Authority has attempted to measure the impact of these changes and published a number of reports. Everyone admits their conclusions are tenuous, though, given how little data we have . Moreover, these changes were made against the backdrop of an evolving technological and sociological landscape, so that it may never be possible to isolate the effect of banning commissions from all the confounding variables.

More important, we have good reasons not to fear a dramatic advice gap in Canada. We have a healthy and robust banking system that gives the vast majority of us access to advice at a reasonable cost. And we have been a beneficiary of the trend toward robo-advisers.

Instead of fighting a commissions ban, let's promote financial literacy. That starts with clear information about what investors are paying for advice, and a system of adviser compensation that allows investors to trust they are receiving objective advice.

If we're successful, the industry won't have to hide the true cost of financial advice, because Canadians will see its full value and willingly pay a reasonable fee for it.

Understanding financial statements: TERs

BY **Dean DiSpalatro** February 27, 2015

With all the talk in the media about mutual fund fees, you may have seen references to TERs. What are those?

Trading Expense Ratio (TER) is a metric that figures into the price of mutual fund investing. The TER's calculated by taking the sum of all the fund's transaction costs and dividing it by the average value of fund assets for the annual reporting period.

So, if a fund has a TER of 0.27%, it means 0.27% of the fund's average yearly assets went to trading expenses.

Those expenses include brokerage commissions the fund manager incurs when buying and selling securities, notes Terry Rountes, CFO of Funds at Mackenzie Investments in Toronto.

They also include custodian transaction fees, which are charged each time a portfolio manager buys or sell a security. It's similar to paying bank fees for certain transactions, such as ABM withdrawals.

Investing in global markets is much more expensive, notes Dennis Tew, head of sales compliance and business operations at Franklin Templeton Investments in Toronto, and that will be reflected in higher TERs.

Emerging and frontier market funds tend to have the highest expenses. These markets aren't as efficient and lack the liquidity of developed market exchanges, so it costs more for managers to get trades done.

Tew adds some companies have better access to volume pricing on trades, which trims trading costs — like buying food in bulk.

Comparing TERs of bond and equity funds doesn't work because of the different ways these securities are traded. Commissions are embedded in a bond's spread, so unlike equity trading commissions, they don't factor into the TER calculation.

Funds that hold both stocks and bonds should have similar allocations for it to make sense to compare TERs. For instance, a growth fund with 80% equity and 20% fixed income will have a considerably higher TER than a balanced fund with a 50% equity, 50% fixed income mix, simply by virtue of the asset allocation. (If there's cash in the fund, it's likely going to be used for buying. And, as far as fees are concerned, cash falls in the fixed-income bucket.)

"But let's say you compared two balanced funds that are more closely aligned in terms of asset mix," says Rountes. "Any differences would be dictated by the manager's investment style."

A manager with a buy-and-hold strategy “doesn’t go in and out of the market a great deal. So, the expectation is he or she can incur fewer transaction costs and fewer commissions, and therefore the TER will be lower,” adds Rountes

The TER, along with Portfolio Turnover Rate (PTR), can help you judge whether a manager’s marketing fits the facts.

Say you want buy-and-hold managers who hand-pick stocks through bottom-up analysis. Consistently high PTRs and TERs could be a red flag, notes Tew.

“If [he’s] getting into more rapid turnover every year or two years, and [is] being held out as a buy-and-hold, bottom-up stock picker, the question would be, ‘Why are you finding better opportunities so quickly after making these picks?’ ”

He notes it’s possible the manager’s making consistently exceptional choices that quickly hit her growth targets, triggering sales. When that’s the case, gains will be reflected in her fund’s performance. But if a high-turnover fund isn’t doing so well, there may be a disconnect between the manager’s buy-and-hold billing and how she actually runs the fund.

MERs & TERs

https://www.fidelity.ca/cs/Satellite/doc/FF_UAD_A_en.pdf
http://dox3erp.distributech.ca/ModulesERP/Uploads/48/PDF/pps_BT4_en.pdf
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http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/time-to-out-mutual-fund-industrys-closet-indexers-with-active-share/article27484440/

MUTUAL FUNDS

Revealing the closet indexers among Canada's mutual funds

IAN MCGUGAN
The Globe and Mail
Published Wednesday, Nov. 25, 2015 6:11PM EST
Last updated Thursday, Nov. 26, 2015 4:49PM EST

http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/osc-to-examine-actively-managed-funds/article29004948/

Regulators launch probe into the 'closet indexers' of the mutual fund industry

CLARE O'HARA - WEALTH MANAGEMENT REPORTER
The Globe and Mail
Published Wednesday, Mar. 02, 2016 5:49PM EST
Last updated Thursday, Mar. 03, 2016 7:10AM EST

http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/canadians-slow-to-shift-to-low-cost-index-investing/article34011085/

Canadians have been surprisingly slow to adopt low-cost index investing

TIM SHUFELT - INVESTMENT REPORTER
The Globe and Mail
Published Monday, Feb. 13, 2017 6:18PM EST
Last updated Tuesday, Feb. 14, 2017 9:53AM EST

"Even BMO, the country's second-largest ETF provider, wraps its moderately priced ETFs in high-priced mutual funds before selling them at bank branches," Mr. Davis said. ← Christopher Davis, director of research at Morningstar Canada https://www.pwlcapital.com/en/Advisor/Ottawa/Cameron-Passmore/Advisor-Blog/Cameron-Passmore/July-2014/The-shift-to-F-Class-does-not-mean-lower-fees

The shift to F Class does not mean lower fees

July 11, 2014 - 0 comments

Financial advisors throughout Canada are terrified. The Client Relationship Model (CRM2) is coming quickly, and it means that advisors will be obliged to disclose their fees and charges to clients. The non-disclosure of fees has been a quiet issue for years in the Canadian financial services industry. Most investors don't even realize that when they buy a mutual fund, the cost of ongoing financial advice is built into the management expense ratio (MER). It's bad enough that Canada has the highest average MER in the world at well over 2%, many Canadians are also paying for advice that they aren't receiving.

Disclosure is terrifying to advisors because when clients start to see the dollar amount that they are paying for advice each year, they will want justification. With the popularity of low cost ETFs, and the development of algorithm-based advice in the US, there is downward fee pressure coming from all angles.

Financial advisors are not fools. There has been a big industry push over the last few years for commission based advisors to prepare for the impending disclosure requirements. Part of this preparation has been a shift toward F class mutual funds. F class funds separate the advisory fee from the management expense ratio; when an advisor uses an F class fund, the client pays them directly. This eliminates the conflicts of interest present when advisors are paid commission by a product, and it also forces the advisor and client to agree on a fee that is fair relative to the level of service being provided.

I can't predict how commission based advisors will transition into the fee based world, but I would imagine that the standard 1% advisory fee will continue to be prevalent. With this in mind, I decided to look at Morningstar's database of F class mutual funds domiciled in Canada. I found that the average MER across all F class funds (excluding money market funds) is 1.29%. This means that even if an advisor decides to discount the advisory fee to .75%, the client is still paying, on average, over 2% in fees. There are some mutual fund families that do offer low costs; DFA funds come in with the lowest MERs, followed closely by TD's series of F class index funds.

Around 75% of financial advisors in Canada are only licensed to sell mutual funds, making it that much more difficult for investors to find unbiased advice at a reasonable price. IIROC's CRM2 disclosure requirements are moving advisors away from commissions to a fee based model, eliminating an inherent conflict of interest. It is a step in the right direction for financial advice, but unless investors demand a low-cost market-based approach from their advisors, it won't stop Canadians from pouring money into expensive mutual funds.

http://www.cnbc.com/2016/06/29/robo-advisor-ceo-on-friday-trading-haltshould-have-been-better-communicated.html

Robo-advisor CEO: Here’s why I told clients they couldn’t trade in sell-off

Alex Rosenberg | @AcesRose

Wednesday, 29 Jun 2016 | 5:59 PM ETCNBC.com

Betterment CEO on trading halt Wednesday, 29 Jun 2016 | 5:42 PM ET | 07:08

Automated investment advisor Betterment suspended client trading amid Friday's market turmoil, in what the company's founder and CEO now describes as a good decision that should have been better communicated to clients.

"The only thing I would do differently is I would put a notification in the app and say, 'By the way, we delayed trading right now,'" Betterment's Jon Stein said Wednesday on CNBC's "Fast Money."

Betterment is one of the most prominent robo-advisors, which are known for their low costs and high degree of automation; The company reports managing $4.8 billion for 170,000 customers.

On Friday, as stocks tanked in reaction to the U.K. vote to leave the European Union, Betterment suspended all trading from the market open until about noon EDT, apparently without informing clients. While this is within the scope of its client agreements, other well-known robo-advisors declined to halt trading, and Betterment's move has raised eyebrows on Wall Street.

Stein, however, said that Betterment's sole goal was to act in the best interest of clients.

"In a time of extreme uncertainty, we wanted to be very careful about how we handled customer orders," Stein said. "Even if you have the best technology, you don't want to go out sailing into a hurricane."

Stein made the case that Friday morning was not the best time to execute trades, and that since "Betterment's customers are long-term investors," making money off of the market's next move did not loom large on clients' minds.

Interestingly, Friday's market mayhem did not seem to steer individuals away from the robo-advisor's services.

Not only did customers not leave Betterment, but "more people signed up on Friday than on a typical Friday," Stein said Wednesday.

Search for this string “MFDA-licensed advisors have firm grip on Canada’s mass market” at http://www.investmentexecutive.com

MFDA-licensed advisors have firm grip on Canada’s mass market

New client research project from the SRO aims to explore what client segment would be most affected by the potential elimination of embedded commissions

By Beatrice Paez | April 25, 2017 17:00

Companies cited in this article

Financial advisors licensed with the Mutual Fund Dealers Association of Canada (MFDA) represent close to nine million households in Canada, or about 56% of all households, according to the results of a new research project from the self-regulatory organization (SRO).

Specifically, of the households that deal with MFDA representatives:

1. about 80% fall within the mass-market space, defined as those with less than $100,000 in assets,
2. while 15% are in the mid-market range ($100,000-$500,000), and
3. 8% are affluent investors (more than $500,000).

These were some of the key findings from the MFDA's client research project, which was announced early in 2016 and designed to produce a wide-ranging profile of mutual fund dealers' client base. The report's "timely" arrival comes at a moment when the mutual fund industry is bracing for a potential ban on embedded fees — the impact of which has yet to come fully into view, says Mark Gordon, president and CEO of the MFDA, who presented the preliminary findings of client research project at the Federation of Mutual Dealers in Canada's annual conference in Toronto.

The MFDA is aiming to explore the data collected in this project, which are based on the responses of all of its registrants, probing for trends that might offer guidance on which client segment, for example, stands to be most affected by the potential elimination of embedded commissions.

Read: **The end of embedded commissions? How we got here**

"We cannot predict the ultimate impact of the ban because there are too many variables. However, with these data, we can now, with some degree of confidence, identify those stakeholder groups that have the greatest chance of being impacted," Gordon says. "We can also, to some extent, identify the potential scope of that impact on stakeholders."

As part of the project, the MFDA mandated that registrants fill out clients' information, including age, address, account type, product code, the market value of their investments, for example.

The MFDA can also use these data, Gordon says, to map areas in which there may be a concentration of higher-risk products and to produce an aggregate picture of different demographics.

The SRO plans to publish its report on this project sometime in the spring.

Photo copyright: racorn/123/RF

http://www.wealthprofessional.ca/news/a-portfolio-managers-view-on-the-ban-on-embedded-fees-223144.aspx

A portfolio manager's view on the ban on embedded fees

by Joe Rosengarten22 Mar 2017

After the President and CEO of Advocis, Greg Pollock, gave his views on the CSA's plans to ban embedded commissions within mutual fund products last week, WP received a barrage of emails and calls from advisors and portfolio managers eager to speak out on this contentious, polarizing issue. In this special guest article, Portfolio Manager with Industrial Alliance Securities Inc., John De Goey, outlines his response to Advocis' view point.

"In essence, Advocis believes that the proposed discontinuation of trailing commissions would be detrimental to both advisors and their clients. The organization also claims to be in favour of choice and transparency. I'd like to respond to these positions with my own comments – and by asking Advocis to answer a few questions…

Making compensation transparent does not do anything to change pricing. Four quarters does not cost more than a dollar; not liking having to pay separately does nothing to change the quantum of payment. Why does Advociscontinue to suggest that transparent advice is somehow less accessible to investors of all account sizes?

The experience of the Retail Distribution Review (RDR) in the UK shows that once embedded compensation was no longer an option, advisors moved quickly to recommending lower cost products to clients. This is a real world experience that showed all investors paid less after the switch. This was clearly a win for consumers. Why doesn't Advocis mention it?

Investors pay for the sum of both products and advice. Why does Advocis only talk about the cost of advice and not the total?

Advocis says the number of advisors would drop if embedded compensation was no longer an option. I favour high standards/good advice and am opposed to low standards/questionable advice. The consensus is that it was overwhelmingly the less able advisors that left the business in the U.K. because they couldn't meet new (higher) proficiency requirements. Does Advocis want such advisors to continue in business? Is Advocis suggesting that every single advisor has unambiguous utility?

The Brondesbury and Cumming Reports showed that embedded compensation causes advisor bias. This bias, in turn, is extremely harmful to investor outcomes. Meanwhile, Advocis says almost nothing about evidence regarding advisor bias. Is Advocis unconcerned about the harm it may cause? If not, then what, exactly, is the Advocis position about the demonstrable harm caused by the bias that is part and parcel with embedded compensation?

Richard Thaler has done important work to show that people can be made better off by reducing their choices. By being "pro choice" Advocis implies that it merely favours maximizing retail client options. However, if the additional 'choice' on offer is shown to be sub-optimal, wouldn't they agree that removing the worst option can actually improve the universe of possible outcomes?

Many people have long thought financial advice was free. Similarly, many people fear that CRM II statements (which often go unread) still allow some clients to delude themselves into thinking advice is free. As strong proponents of transparency, wouldn't Advocis agree that a separate, itemized bill is more transparent and therefore more desirable than a yearend statement that can easily be misplaced, misinterpreted or missed altogether?

Finally, it should be acknowledged that Advocis does not speak for all advisors. For instance, I have long advocated for transparent, professional financial advice. Will Advocisbe clear in future articles and comments that there are a number of advisors out there who are opposed to their stated views?

I would prefer that Advocis's responses be rooted in demonstrable causal facts. For instance, Advocis has often suggested that the drop in the advisor population in the UK was due to the elimination of embedded compensation, while it is widely believed that the primary culprit is higher proficiency standards. Correlation is not causation… and a little truth and clarity in lobbying would be nice."

John De Goey is a Portfolio Manager with Industrial AllianceSecurities (IAS). The views expressed are not necessarily shared by IAS.

Advisor: Why I support the ban on embedded fees

by Joe Rosengarten19 May 2017

When the CSA launched a consultation paper outlining a possible ban on embedded commissions and trailer fees back in January, a fiery industry debate commenced and it shows no signs of fizzling out. In anticipation of receiving a deluge of responses, the CSA set a longer than usual consultation period of 150 days; a period that comes to an end in early June.

The proposed ban has been met with strong opposition from various industry insiders and bodies, many of whom are currently preparing submissions to send to the CSA. The Investment Funds Institute of Canada, for example, called on the CSA to "reconsider whether there is evidence of a market failure sufficient to justify prohibiting embedded commissions."

"If regulators have concerns about specific sales misconduct, existing rules give them the enforcement tools they need to address the concerns they have identified," Paul C. Bourque Q.C., IFIC president and CEO, said. "As a result, we are asking the CSA to reconsider whether a prohibition on embedded commissions is the only option."

Many in the industry sit on the other side of the debate, including Jennifer Black, a Private Wealth Manager and Portfolio Manager at DFS Private Wealth. Black currently runs a fee-based practice and likes the idea of banning embedded fees.

"I like the first step regulators took with starting to disclose fees a little more clearly to clients, but there is still an element that is not fully disclosed," says Black. "Hopefully the next step is banning embedded fees."

Black believes that, under the current rules, many investors are unaware of the true costs they incur and how they are calculated. "If there are embedded fees which are not paid as commission to the dealership, the actual embedded cost is not being disclosed," Black says. "That makes it difficult for investors to know what their true costs are."

Black sees a discrepancy in the industry between advisors who build holistic strategies and plans for the long-term and those who simply focus on selling products and accumulating assets. "Those advisors who are just sales people and don't add value from a servicing perspective might retain those assets for three or four years, but, going forward, they are going to find it very difficult to hold onto clients in this industry," she says. "In a world with no embedded fees their compensation will go down if they're not adding the value that will warrant their clients to go fee-based. You need to provide service for that."

Gordon Pape: I've crunched the numbers. It's true. ETFs are usually better

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GORDON PAPE
The Globe and Mail
Published Friday, May 19, 2017 9:56AM EDT

If you can't beat them, join them.

That's the approach being taken by a growing number of traditional mutual fund companies as they expand into the ETF (exchange-traded funds) business.

Mackenzie Financial, AGF, Dynamic, RBC, and TD have all launched new ETFs in the past couple of years. In April, Manulife and Desjardins entered the field. Fidelity has started an ETF line in the U.S. and it's probably only a matter of time until Fidelity Canada does the same. During March and April, 24 new ETFs were launched in this country.

Mutual funds still dominate in terms of assets under management (AUM) by a wide margin. As of the end of April, the ETF industry reported AUM of $126.3-billion. That was up $3.3-billion from the previous month. The traditional mutual funds business is more than 10 times as big, with assets of $1.3-trillion as of the end of March. You might think the mutual fund companies would just dismiss ETFs as a bothersome fly.

But ETFs are growing at a faster rate and no wealth management company can ignore that for long. At the end of 2006, Canadians had only invested $15.2-billion in ETFs. A decade later, that figure was $113.6-billion. That's an annualized growth rate of more than 22 per cent.

Investors are opting for ETFs for three reasons. First, they are relatively easy to understand. Second, they are cheap – some funds charge management fees of less than one-tenth of a per cent. Third, they are liquid. You can buy or sell at any time either on-line or by calling your broker.

But how do they fare in investment terms? We keep reading stories about how index funds continually outperform actively managed funds. Is that really the case? I did an analysis of three of the most popular ETFs and this is what I found.

Canadian equity funds: The most widely held ETF that tracks the full TSX Composite is the iShares S&P/TSX Capped Composite Index ETF (XIC) with assets of more than $3 billion. It has been around since 2001, so we have a decent track record with which to work. As of April 30, this ETF was showing a 10-year average annual compound rate of return of 4.34 per cent. That is much better than the 3.18-per-cent average for the Canadian Equity category, as reported by GlobeFund, which comprises both mutual funds and ETFs.
There are a few actively managed mutual funds available to the general public that have beaten XIC over that period. They include Mawer Canadian Equity (up 7.97 per cent over the decade), Beutel Goodman Canadian Equity Fund (6.15 per cent), BonaVista Canadian Equity (5.88 per cent), and Fidelity Disciplined Equity (4.71 per cent). However, most actively managed funds fell well short of matching XIC's returns.

(Note that I did not included F-series funds or those with unusually high minimum investment requirements in this analysis.)

U.S. equity funds: The iShares Core S&P 500 Index C$-Hedged ETF (XSP) is the leader here in terms of assets at $4.1-billion. However, the falling loonie has compromised its returns, which averaged only 9.81 per cent over the past three years. There is a smaller unhedged version of this fund that trades under the symbol XUS. It shows a three-year average annual gain of 18.37 per cent.

That's almost the same as the BMO S&P 500 Index ETF (ZSP), which is the largest unhedged U.S. equity ETF. It has a three-year average annual compound rate of return of 18.35 per cent.

To compare these to actively managed funds on an apples-to-apples basis, we need to take currency variations into account. The return on the both the unhedged ETFs is impressive and there are only a few U.S. dollar-denominated mutual funds with the same general mandate that beat them. They include the TD U.S. Blue Chip Equity Fund (up 19.33 per cent over three years), the Beutel Goodman American Equity Fund (up 18.9 per cent), the CIBC American Equity Fund (up 18.72 per cent), and the Mackenzie U.S. Dividend Fund (18.55 per cent).

Global equity funds: The BMO MSCI EAFE Index ETF (ZEA) is the leader here in assets under management. It tracks the performance of large and mid-cap stocks in countries around the globe except the U.S. and Canada. It recently passed its third anniversary and showed an average annual compound rate of return of 8.39 per cent over the three years to April 30. That is comfortably ahead of the group average for the International Equity category of 7.09 per cent but there were several actively managed mutual funds that bettered it by a wide margin.

One of the most impressive was the Trimark International Companies Fund, which posted a three-year average annual compound rate of return of 14.51 per cent. This was despite having a much higher management expense ratio of 2.98 per cent compared to only 0.22 per cent for ZEA. Sometimes you *do* get what you pay for.

The bottom line: Based on this small sample, ETFs are doing the job for investors. Unless you are very skilled (and lucky) at picking actively managed mutual funds, you will probably do as well or better by investing in a comparable ETF. If you want to know why this segment of the wealth management industry is growing so fast, there's your answer.

Gordon Pape is Editor and Publisher of the Internet Wealth Builder and Income Investor newsletters. For more information and details on how to subscribe, go to www.buildingwealth.ca. Follow Gordon Pape on Twitter at twitter.com/GPUpdates and on Facebook at www.facebook.com/GordonPapeMoney

A couple of snippets from Google searches regarding “Mutual Funds Canada Commissions”

How are MERs Calculated and Stated?

The MER is expressed as a percentage of the fund’s total assets. For example, if you invested $5,000 in a series A Canadian balanced fund with a 2.28% MER[1], you would pay $114 in fees for management, administration and taxes for a given year.

This chart illustrates how the cost of a mutual fund is calculated, and how it is put to work.

The fund returns you see listed in the newspaper or on your statements are what you get after the fund has paid the MER.

* The 2% management fee represents 81% of the total 2.28% MER. 50% of Mackenzie management fees are paid out to dealers in some form of compensation: trailers, commissions, co-op marketing.
[1] Represents the MER of a typical Canadian balanced fund.
[2] The applicable tax rates are calculated by taking a weighted average of the tax rates applicable to the province of residence of the investors of the Fund. An assumed tax rate of 10.6%, reflecting the current blend of Mackenzie Investments investors in HST and non-HST provinces, was used for the purposes of calculating the MER. The actual tax rate may differ.

Mutual funds

The breadth and depth of the Investors Group mutual fund line ensures that clients have the right mix of fixed income, balanced, and Canadian, U.S. and international equity mutual funds to help them achieve their financial goals.

Commissions, fees and expenses may be associated with mutual fund investments. Read the prospectus before investing. Mutual funds are not guaranteed, values change frequently and past performance may not be repeated.

- IG AGF Canadian Balanced Fund
- IG AGF Global Equity Fund
- IG AGF U.S. Growth Fund
- IG Beutel Goodman Canadian Balanced Fund
- IG Beutel Goodman Canadian Equity Fund
- IG Beutel Goodman Canadian Small Cap Fund
- IG FI Canadian Allocation Fund
- IG FI Canadian Equity Fund
- IG FI U.S. Large Cap Equity Fund
- IG Fiera Canadian Small Cap Fund
- IG Franklin Bissett Canadian Equity Fund
- IG Mackenzie Canadian Equity Growth Fund
- IG Mackenzie Cundill Global Value Fund
- IG Mackenzie Dividend Growth Fund
- IG Mackenzie Floating Rate Income Fund
- IG Mackenzie Income Fund
- IG Mackenzie Ivy European Fund
- IG Mackenzie Strategic Income Fund

http://business.financialpost.com/personal-finance/retirement/why-we-need-regulations-to-protect-seniors-from-unscrupulous-financial-advisers

Why we need regulations to protect seniors from unscrupulous financial advisers

JASON HEATH | July 8, 2016 1:32 PM ET

The Ontario Securities Commission has announced the formation of the Seniors Expert Advisory Committee, with the deadline for applications set for July 29. The committee could be instrumental in preventing the overt financial abuse of Ontario's elderly. But, even more importantly, it can alert children and grandchildren to the more covert abuse that the financial industry is quietly getting away with every day.

"The Seniors Expert Advisory Committee will give the OSC access to a multidisciplinary team of experts on issues related to older investors, providing us with valuable input," says Maureen Jensen, chairwoman and CEO of the Ontario Securities Commission.

The key issue for the committee, as I see it, relates to the lack of a fiduciary standard for Canadian financial advisers. This is a real risk at a time when our aging population is wealthier than ever and becoming increasingly vulnerable due to the natural changes in cognitive function as we age.

Consider this: your aging parents and grandparents' financial advisers have no obligation to provide them with advice that is in their best interest. So, unlike their doctor, pharmacist or accountant, there is nothing to require their banker, mutual fund salesperson or insurance agent to put them first. To me, this is like having a fox guard a hen house.

Here are some things that children and grandchildren should look out for:

1. Bankers who direct savings to proprietary, in-house products, despite the potential of better, non-bank alternatives.

2. Investment advisers who use mutual funds with embedded fees of two to three per cent, which nearly guarantee retirement savings will generate little to no return.

3. Insurance agents offering insurance solutions for all financial needs, when non-insurance solutions may be better or when no insurance may be needed in the first place.

The OSC initiative comes in the wake of last year's establishment of The Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives by the Ontario government. The province has also signed on to the proposed expansion of the Canada Pension Plan. It seems clear that retirement and seniors are important for the province, but unfortunately, there is push-back from the industry.

According to the Investment Funds Institute of Canada, "Financial advisers already are subject to specific rules and regulations that clearly address the main issues that arise in the relationship between a financial adviser and his or her client. The introduction of a statutory fiduciary duty would not help to clarify the scope of an adviser's duties from situation to situation."

Quite to the contrary, I think a fiduciary duty does clarify the adviser's duty in all situations — put your client first, no matter what. This is particularly important because most people have no idea what sort of financial practices to seek out or avoid in the first place.

It's one of the reasons that the U.S. Department of Labor introduced new rules in April forcing American financial advisers managing retirement and pension accounts to act in their clients' best interests — the so-called fiduciary standard that the Canadian industry is trying so hard to avoid. White House estimates peg the cost of adviser conflicts of interest at US$17 billion a year, primarily due to investors being placed in products with excessively high fees.

As near as I can tell, the only negative impact on seniors and retirement security from a fiduciary standard are on the retirement savings of the unscrupulous financial advisers (hopefully, a minority of advisers out there) who are raking in those bloated fees.

The OSC committee will include members from a variety of practice areas, ranging from lawyers and academics to doctors and the financial industry. It will be interesting to see which financial industry participants end up on the panel, given that everyone in the industry has varying degrees of conflicted interests. The pessimist in me can't help but think that some people in the financial industry benefit from passive, uninformed seniors and their busy, trusting children.

As an Ontarian with aging parents, I do hope the Seniors Expert Advisory Committee considers the benefit of a government-imposed fiduciary standard to ensure that all seniors — my parents included — are protected. It seems clear the financial advice industry won't self-regulate and do it themselves.

Financial Post
Jason Heath is a fee-only Certified Financial Planner (CFP) and income tax professional for Objective Financial Partners Inc. in Toronto.

Link → https://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/do-it-yourself-investing-fund-fees-draw-fire/article35067755/

No advice but still a price: Fund fees for DIY investors draw fire

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CLARE O'HARA - WEALTH MANAGEMENT REPORTER
The Globe and Mail
Published Friday, May 19, 2017 6:08PM EDT
Last updated Sunday, May 21, 2017 9:37AM EDT

The majority of mutual funds sold through online brokerages are charging clients millions of dollars in fees for advice they are not receiving, an issue regulators are being pressured to reform.

About 83 per cent of mutual funds sold through discount brokerages in Canada include trailing commissions that are typically charged by financial advisers for the advice they provide. Of the total $30-billion in assets held in mutual fund products in discount brokerages, more than $25-billion remain in fund series that bundle an advice fee within the product, according to a paper released in January by the Canadian Securities Administrators.

These funds are commonly known as Series A mutual funds and account for 68 per cent of the total amount of funds sold in Canada, according to the Investment Funds Institute of Canada (IFIC). These funds can charge a management expense ratio between 1.5 per cent to 2.5 per cent. By comparison, Series D funds – those tailored for do-it-yourself investors that strip out advice fees – it can be less than 1 per cent.

Do-it-yourself investors usually do not work with advisers to purchase investment products. As a result, these investors conduct independent research, make their own investment decisions and receive lower cost pricing when building an investment portfolio.

"Since discount brokers cannot and do not provide investment advice, clients are being robbed of returns," says Ken Kivenko, an investor advocate. "The investor abuse is staggering. Collecting money for advice while not providing it doesn't seem to bother [the regulators]."

Mr. Kivenko says there have been repeated efforts by industry groups to get the regulators to sanction discount brokers, but so far they have been ignored.

Earlier this month, IFIC proposed regulators adopt a rule that would ensure mutual funds that carry an embedded adviser fee are only sold in channels where advice is offered.

"Most companies already provide other series of funds with no or nominal trailer fees that investors can purchase if they are do-it-yourself investors or want to pay for advice separately," IFIC says in a statement. "The industry's proposal would advance the goal of ensuring that low-trailer or no-trailer funds are available to these types of investors in a more uniform and transparent way."

The regulators include all provincial securities commissions and the Investment Industry Regulatory Organization of Canada (IIROC) – which oversee investment firms including those in the discount brokerage channel.

"We think with IFIC joining in, IIROC may finally be forced to act," Mr. Kivenko says. "Seniors' nest eggs have been overcharged by these outrageous fees – fees for no service and fees that have been charged for many years."

IIROC recently issued findings on a review it completed on compensation-related conflicts of interest, and while it did not specifically look at the discount brokerage channel independently, the regulator said it will take IFIC's comments into consideration.

There are more than a dozen discount brokerages in Canada, including those run by all the major banks.

When contacted by The Globe and Mail, the majority of these discount platforms confirmed Series A mutual funds were available for purchase by DIY investors. Both HSBC InvestDirect and Desjardins online brokerage platform Disnat do not offer Series A funds for purchase. (Laurentian Bank Discount Brokerage and Credential Direct did not return calls for comment.)

Among those offering the funds, several platforms said they were aware of the discrepancies in fees being paid and either have measures in place, or are working on establishing measures, to make clients aware of additional options for purchase.

RBC Direct Investing will only sell a Series A mutual fund if a DIY version is not available. If a clients search for a Series A fund, they will only see an option to sell. About 50 per cent of all its mutual-fund assets under administration is held under their Series D offerings.

While TD offers DIY investors funds with embedded fees, it also offers its online clients low-cost index funds – known as the e-series – with MERs that can be as low as 0.33 per cent.

Questrade Financial has set up a reimbursement program to pay back all trailer fees directly to clients when they purchase a commission-based product (although there is an administration fee deducted to do so).

Qtrade's platform does not have a reimbursement program, but has pro-actively contacted clients to educate them more on the fund series. In February, Qtrade e-mailed all investors stating: "One way to avoid trailer fees is to hold D-series funds, which are a lower-cost option offered by some mutual-fund managers. Many Series D funds are already available on our website."

Virtual Brokers, a division of BBS Securities Inc., offers Series A funds, but they have minimal assets as the platform has seen a significant shift to exchange-traded funds, says Bardya Ziaian, CEO of BBS Securities Inc.

But many industry groups are asking regulators why the funds are allowed to be offered on these platforms in the first place.

FAIR Canada – an investor advocacy group – has long argued that discount brokerages should not be permitted to offer Series A mutual funds since they are not permitted to provide recommendations or advice, says Marian Passmore, director of policy and chief operating officer of FAIR Canada.

FAIR Canada has asked regulators to consider a requirement for discount brokers or fund companies to offer a class of funds that have no trailing commissions. In addition, the recommendation would also see all firms that offer a particular mutual fund be required to offer the "F" class version of the fund, which does not have a trailing commission.

https://www.youtube.com/watch?v=0U1Xe-hF8LE

Note: I tinkered with the title caption below, I snipped it from the beginning and inserted it over the caption at a later point in the video.

https://www.theglobeandmail.com/globe-investor/investment-ideas/strategy-lab/index-investing/dont-bet-against-time-with-actively-managed-mutual-funds/article35081122/

Don’t bet against time with actively managed mutual funds

ANDREW HALLAM
Special to The Globe and Mail
Published Monday, May 22, 2017 6:16PM EDT
Andrew Hallam is the index investor for Strategy Lab. Globe Unlimited subscribers can view his model portfolio here and read more in the seriesonline here.

Rocky Balboa probably said it best. In his 2015 movie, *Creed*, Sylvester Stallone’s character identified every boxer’s nemesis. Time.
“Time takes everybody out. Time’s undefeated.”

It’s much the same with actively managed mutual funds. You might think you’ve found a winner. It might beat the index over a three, five or 10 year period. But the index is much like time. Eventually, it wins.

The SPIVA Canada Scorecard says the S&P/TSX composite index beat 91.11 per cent of actively managed Canadian equity funds over the 10 years ended Dec. 31, 2016. The S&P 500 beat 98.28 per cent of U.S. equity funds sold in Canada. The Global stock market index beat 96.4 per cent of actively managed global stock market funds.
Sometimes we’re tempted to search for winning funds. But that’s a quest in vain. Take the Thomson Reuters Lipper Fund Awards. Each year, they award top-performing funds. Time, however, has the final laugh.

For example, in 2013 the RBC O’Shaughnessy All-Canadian Equity Fund was Lipper’s top Canadian equity fund. It had the industry’s best three-year track record. After it won the award, plenty of new investors piled into its corner. But the following year, TD’s Canadian stock market e-Series index beat it by almost seven percentage points. RBC O’Shaughnessy All-Canadian Equity Fund earned 3.56 per cent. TD’s Canadian Index e-Series index earned 10.23 per cent.
In 2014, the Lipper Fund Awards gave top honours to the new three-year Canadian equity champ. It was the Phillips Hager & North Vintage D fund. New investors jumped on board, putting their money on a winner. But the following year, that fund lost 9.6 per cent. TD’s Canadian e-Series Index dropped just 8.53 per cent.
In 2015, Mawer’s Canadian Equity Fund Series-A took Lipper’s top three-year honours. One year later, it gained 15.77 per cent. TD’s Canadian e-Series Index gained 20.63 per cent.
The Canadian Lipper Fund Awards began in 2007. That year, they awarded Dynamic Mutual Funds the top equity fund performer. Dynamic won the award based on their overall performance. But time has hit them hard since then.

Dynamic’s Canadian equity funds with 10-year track records averaged 1.23 per cent for the 10-year period ended April 30, 2017. Inflation in Canada averaged 1.61 per cent. That means your grocery bills rose higher than Dynamic’s Canadian equity funds.

In the United States, there’s at least one firm that boasts they can beat the index. It’s called American Funds. The company’s website shows that five of its actively managed funds trounced the S&P 500 between 1976 and 2016. It says, “So the next time you hear ‘You can’t beat the index,’ consider American Funds’ long-term track record.”

Unfortunately, they’re boasting from the canvas as they remember better days. After fees, Vanguard’s Total Stock Market Index (VTSAX) knocked them out over the past one-, three-, five-, 10- and 15-year periods.
Investing with index funds is like betting on time itself. Time is undefeated.

DYNAMIC CANADIAN EQUITY FUNDS	10-YEAR ANN. RETURN	TD CANADIAN INDEX E-SERIES	10-YEAR ANN. RETURN
Dynamic Power Canadian Growth Class	1.60%	TD Canadian Index-eSeries	4.26%
Dynamic Power Canadian Growth Fund	0.70%		
Dynamic Power Small Cap Fund	1.40%		
Dynamic Canadian Equity Category average	**1.23%**	**TD Canadian Index e-Series average**	**4.26%**

DYNAMIC U.S. EQUITY FUNDS		TD U.S. INDEX E-SERIES	
Dynamic Power American Growth Class	9.60%	TD e-Series U.S. Index	8.73%
Dynamic Power American Growth Fund	9.50%	TD Dow Jones Industrial Average Index-e	9.13%
Dynamic American Fund	7.00%	TD Nasdaq Index-e	11.12%
Dynamic U.S. Equity average	**8.70%**	**TD U.S. Index e-Series average**	**9.66%**

DYNAMIC EUROPEAN EQUITY FUNDS		TD EUROPEAN INDEX E-SERIES	
Dynamic European Value Fund	1.17%	TD European Index e-Series	2.42%
Dynamic European Equity average	**1.17%**	**TD European Index e-Series average**	**2.42%**

*Ten-year returns ending April 30, 2017

JOHN SOPINSKI/THE GLOBE AND MAIL, SOURCES: DYNAMIC.CA; TDCANADATRUST.COM

DSC ALTERNATIVE HAS LIMITED MERITS

Melissa Shin / May 12, 2017

"Worried about DSC fees? Find out how to make 5%+ at the grid and not have to lock the client in!"

Intrigued? So was a Toronto advisor, who received this message from his managing general agent.

The answer was a life insurance-style chargeback schedule for segregated funds. If the client exited the fund within a fixed period, the advisor would have to repay the commission earned at time of sale—instead of the client being dinged with deferred sales charges.

On the face of it, that's an improvement. The advisor gets compensated for the upfront work required to place the funds and, in theory, the threat of a chargeback keeps the advisor providing service for at least the next few years.

Win-win, right? Not so fast.

Advisors we talked to lauded the structure for freeing the client from undue exit restrictions. But some pointed out the advisor penalty could create another conflict.

"While the arrangement gets the investor off the hook for DSC charges, the benefit may be superficial, since this arrangement creates a powerful incentive for the advisor to keep the investor in the fund, even if it has ceased being optimal or suitable," says investor advocate Neil Gross, president of Component Strategies Consulting.

Great advisors don't intend to let compensation influence what they sell. Studies have shown, however, that loss aversion can be up to twice as powerful as the desire to gain. Lest you think yourself immune, researchers have found loss aversion to affect undergraduate students, pro golfers, foreign policymakers and capuchin monkeys. At the very least, the chargeback structure would be ill-suited to advisors who can't stand to lose money.

As CSA says in Consultation Paper 33-404 (which doesn't apply to seg funds or insurance licensees): "When deciding how to respond to a conflict of interest involving clients, only avoidance or controls (but not disclosure alone in most cases) are responses that [...] can be fully effective."

One company offering the product concedes it isn't for everyone. A rep told me an advisor "would need to choose" which clients would be suited. "The main objective was to allow the client [to not have] redemption fees if he left. The advisor is taking the risk."

"There is evidence that embedded commissions paid by investment fund managers to dealers/representatives on sales made under the DSC option can […] incent unsuitable recommendations."

–CSA Consultation Paper 81-408

That's fair. But most common retail structures allow clients to redeem funds without undue charges. They just tend to pay out less up front—and there's the rub.

Every structure is vulnerable to conflicts—advisors paid by the hour can drag out a meeting; flat-fee advisors can rush through planning. But it's embedded commissions that have drawn the ire of regulators, and for good reason. A chargeback schedule is an improvement to DSC, but a marginal one, as advisors may be loath to recommend an exit, even if it's the right thing to do. And, since seg funds don't fall under CRM2, clients may never know about that perverse incentive.

Advisors must be paid fairly for their work. But minimizing one conflict while creating another isn't a solution.

Melissa Shin is Editor of Advisor Group. Email her at melissa.shin@tc.tc.

http://www.advisor.ca/news/industry-news/client-costs-will-fall-under-commission-ban-letter-to-editor-234390

CLIENT COSTS WILL FALL UNDER COMMISSIONS BAN: LETTER TO EDITOR

Staff / May 24, 2017

Our current regulatory environment continues to generate reader commentary. Here, we publish a letter to the editor arguing that the cost of advice will not rise if embedded fees are banned.

Where is the evidence that unbundling will put advice out of reach? Where is the evidence that the cost (of advice or otherwise) will rise? Why haven't all advisors been frustrated by what IFIC is only now (in 2017!) noting as a problem ([advice trailers] paid to DIY service providers)?

[I acknowledge that under an embedded commission ban,] the cost of advice is unlikely to change materially. Similarly, product costs (especially re: mutual funds) will likely drop, but only modestly.

The big change regarding client cost is the substitution effect. [As we saw in the U.K.,] advisors will likely move from recommending high-cost products (often used previously due to embedded compensation) to recommending low-cost products (once embedded compensation is no longer available). The absolute savings will be passed on to investors. In short, the U.K. experience is a smoking gun [showing] that advisors are motivated more by compensation than by product merit when making recommendations to clients. When the compensation filter is removed, they actually do the right thing.

Here's an example. Let's say clients are currently paying 2.35% via a mutual fund MER (including a 1% trailing commission that goes the advisor). In an unbundled world, the cost advice might actually go up (say to 1.1%, on average). However, instead of using F-class funds that cost 1.35%, the advisor might recommend an ETF that costs 0.25%. That's a 0.1% increase in the cost of advice – and a 1.1% decrease in the cost of investment products. The absolute total cost to clients (since clients pay for both the investment product "parts" and the financial advice "labour") is about 1% cheaper. A client with a modest $100,000 portfolio would actually pay $1,000 less every year as a result.

It is simply disingenuous to talk exclusively about the cost of advice – as if the cost of investment products was not even a consideration.

Sincerely,

John J. De Goey, CIM, CFP, Fellow of FPSC
Portfolio manager, Industrial Alliance Securities Inc., Toronto

http://www.investmentexecutive.com/-/canadians-prefer-financial-advisors-to-robo-advisors

Canadians prefer financial advisors to robo-advisors

Only 7% of Canadians said they're likely to trust a robo-advisor's recommendations, new global HSBC study finds

By Beatrice Paez | May 24, 2017 16:15

As financial services institutions worldwide throw their weight behind emerging technologies, Canadians appear to be more lukewarm about embracing them than residents of other nations, according to a new report from London, U.K.-based HSBC Holdings PLC.

The survey, which polled more than 12,000 individuals from 11 countries, suggests a divide in attitudes between Asia and the Western nations toward technology, including the adoption of robo-advisors.

Among Canadians, there's still a strong preference for taking guidance from a human financial advisor over advice generated through an algorithm powered by artificial intelligence.

In particular, of the 1,001 Canadians represented in the survey, a mere 7% said they're likely to trust recommendations delivered by a robo-advisor. That's in contrast to 44% in China and 38% in India.

Moreover, the survey suggests that only 18% of Canadians surveyed feel that robo-advisors are able to offer more accurate advice than their human counterparts.

Canadians' ambivalence about the benefits of technological innovation reflects a lack of trust in new technology, the report notes.

In fact, the poll suggests that Canadians are among the most content with their bank's existing technology services — and they may not be so enthusiastic over the use of fingerprint technology to identify themselves or chatbots.

Appetite for chabots, which can dish out information traditionally delivered by a customer service representative, for example, may not be as widespread in Canada. The report suggests that only 16% turn to chatbots for customer service help.

In general, many Canadians express doubts about technology's ability to improve the world, with only 56% saying innovation can yield positive change compared with 89% in China and 85% in India.

"While those in Canada may be more resistant to change than their eastern counterparts, the research also points to the huge potential of educating people on upcoming and existing technologies as Canadians are among the most likely to respond positively to education around biometrics — such as touch and voice ID," says Larry Tomei, executive vice president and head of retail banking and wealth management with Vancouver-based HSBC Bank Canada, in a statement.

Slow uptake of new technology among Canadians could affect support for innovation, hindering financial services' efforts in Canada to develop solutions for the domestic market.

To make clients more receptive to the adoption of new technologies, the report suggests the need for greater education, perhaps even a touch of human intervention, with traditional advisors using the new tools to complement the work they do.

News from globeandmail.com

Looking for fee relief? Do the math before dumping mutual funds for ETFs

Wednesday, April 28, 2010

DAN HALLETT

A recent Globe and Mail article suggested that investors can improve their returns by replacing mutual funds with exchange-traded funds. This argument hinges on minimizing fees with ETFs, thereby adding fee savings (over more expensive mutual funds) to bottom line returns.

But if you think that dumping your mutual funds for ETFs is the path to riches and higher returns, think again.

The average mutual fund investor pays about 2 per cent annually in management fees, operating expenses and taxes. The average investor in TSX-traded ETFs pays closer to 0.4 per cent a year. The average potential cost savings, then, are about 1.6 per cent per annum. But this is only available to do-it-yourself (DIY) investors. Otherwise, investors who need professional advice have to pay for it either through higher product fees or fees paid to an adviser in addition to ETF expenses.

The 2 per cent average mutual fund fee generally includes compensation for advisers, whereas ETF fees do not include the cost of obtaining advice. So-called fee-based or fee-only advisers charge a fee equal to 1 per cent to 1.4 per cent of your portfolio value. Add that to ETF fees and taxes and you've got total annual fees of 1.5 per cent to 1.9 per cent annually. Wave goodbye to that fee advantage.

For those who need advice, there is great value in the design of a custom asset mix. In addition, selecting a handful of ETFs from among the 1000-plus trading in North America is challenging for most. But if you expect to fully benefit from low ETF fees, you'll have to jump into the driver's seat of your portfolio and become a DIY investor.

A problem for some DIY investors is that there is a significant barrier to realizing the full cost benefits of ETFs. In the hands of DIY investors, the ETF fee advantage usually vanishes thanks to poor portfolio construction and frequent trading.

Of all of the "indexed" or ETF portfolios that I have reviewed over the past 16 years, only two were focused on obtaining the broadest diversification possible at the lowest possible cost. This boring strategy is key to successful indexing. But investors can't seem to stop buying all of the market's slices and dices that ETF sponsors have packaged for investors. This not only violates the basic tenets of successful index investing, but it also sets the stage for more return-detracting behaviour.

I estimate that investors in stock mutual funds tracked by the Investment Funds Institute of Canada tend to hold their funds for an average of 6 to 7 years. (Note that this average is dollar-weighted, not based on an average of each investor's holding period.) ETF investors, on the other hand, only hold for a fraction of the time of their mutual fund investor peers. And there is strong evidence suggesting that the more frequently individuals trade, the less money they make.

Brad Barber, Yi-Tsung Lee, Yu-Jane Liu and Terrance Odean studied all the trades made on the Taiwan Stock Exchange from 1995 through 1999 for a 2008 paper entitled "Just How Much Do Individual Investors Lose by Trading?" They found that individuals lost a total of almost 4 per cent annually to trading fees and poor timing (while institutions profited). Similar research on U.S. investors pegs the "trading losses" at about 2 per cent per year. This is consistent with past Barber and Odean stock trading studies.

In a 2000 paper, they found that the higher an investor's trading frequency, the lower the investor's net returns.

My own research over the past decade strongly suggests that more volatile investments lure more investors into making ill-timed trades. But there is hope. Investors can benefit by paying attention to total fees, regardless of the type of investment. Investors that can develop an awareness of the real impact of brokerage costs and ill-timed trades can change their performance-detracting behaviour. Less aware investors, however, may want to think twice about jumping head first into the ETF world.

Dan Hallett is director of asset management for Oakville, Ont.-based HighView Asset Management Inc.

http://www.wealthprofessional.ca/news/mutual-funds/investors-demanding-lowercost-funds-225918.aspx

Investors demanding lower-cost funds

by Leo Almazora25 May 2017

Results from a recent study by a global research firm indicate continued investor demand for low-cost mutual funds and ETFs, which are typically passive funds and institutional share classes.

In a survey of open-end mutual funds and exchange-traded funds, Morningstar found they had an asset-weighted average expense ratio of 0.57% in 2016, down from 0.61% in 2015 and 0.65% the year before that. This was due to increased investor demand for lower-cost funds, mainly passive funds and institutional share classes that charge less in fees.

The asset-weighted average expense ratio was used in the study rather than a simple average. According to the firm, an asset-weighted average could better reflect average costs borne by investors, since a simple average could be skewed by a few high-cost funds with low asset levels. "In 2016, the simple average expense ratio for all funds was 1.14%, but funds with an expense ratio above that level held less than 10% of fund assets at the end of 2016," the study's authors said. "So it is very misleading when a fund company touts 'below-average fees.'"

The firm also found that on average, the largest 2,000 funds in 2013— which accounted for 85% of mutual-fund and ETF assets at the time — did not change their expense ratios over the three-year period. This means the decline in average fund fees that investors paid was due largely to switches to lower funds.

The figures indicate that passive funds hold wide appeal. In 2016, they cost investors an average of 0.17% — 58 basis points less than active funds. From the fund providers' perspective, passive funds are also cheaper: their asset-weighted costs decline more rapidly than those for active funds. This two-pronged advantage has led to passive funds' having larger inflows than their active counterparts for the past six calendar years.

Investors' general appetite for lower fees has affected preferences within the active segment. Past interest in pricier funds has waned in recent years; expensive active funds saw US$91 billion in outflows in 2014, and US$369 billion in outflows in 2016. The rush out of expensive funds accounted for all the outflows from active funds over the past two years.

On the passive side, the preference for low fees is also evident. The funds with fees in the cheapest 20% tended to gather almost all passive-fund inflows. The trend was found to hold across US equities, international equities, and fixed income — the three largest asset class groups. Vanguard and BlackRock/iShares, both firms with a broad offering of low-fee passive funds, were the only two firms to really benefit from the rapid growth in passive funds.

http://www.investmentexecutive.com/-/investors-group-moving-clients-to-experienced-advisors

Investors Group moving clients to experienced advisors

Regional managers are overseeing the reassignment of clients to veteran advisors following the dismissal of approximately 400 primarily younger advisors

By Geoff Kirbyson | May 26, 2017 07:30

Client accounts are moving around at Winnipeg-based Investors Group Inc. perhaps like never before after the dealer firm reduced its roster of financial advisors over the past few months.

The firm recently parted ways with approximately 400 primarily younger advisors as CEO Jeff Carney continues to put his stamp on the company, slightly more than a year into his tenure. At the end of the first quarter, the company had 4,754 advisors, down from 5,321 a year ago. Almost half of those who remain (2,262) are considered veterans with four or more years of experience.

In turn, regional managers at Investors Group are overseeing the reassignment of clients to veteran advisors who remain with the firm, says Ron Arnst, assistant vice president of brand management and media relations.

"Typically, the regional manager matches clients with appropriate [advisors] considering any clients requests, such as age range and gender," he says.

Investors Group clients are free to switch advisors within the company at any time, a process regional directors also facilitate.

However, clients who have opted to follow their departing advisor to another firm were subject to the typical redemption and withdrawal process, Arnst says, noting that the deferred sales charge (DSC) schedule also applies.

"DSC funds carried a slightly lower [management expense ratio], but also had an additional fee schedule that applied if or when the client redeemed the investment prior to the seven-year schedule period," he says.

Investors Group is far from alone in taking such steps, says Dan Richards, CEO of Clientinsights in Toronto. Specifically, larger financial services firms have been taking a harder look at their smaller producers during the past several, often making the payout gird more punitive.

"In some cases, I'm sure [larger firms] hoped the advisors would get the message and find somewhere else to work," Richards says. "If firms aren't seeing the prospects of running a significant book of business, increasingly they're saying [to those advisors], ‘It's not going to work out'."

Along with the increased focus on veteran advisors, Investors Group is also increasing its focus on high net-worth clients. However, the firm isn't looking to shed smaller accounts.

"Investors Group is committed to working in the best interests of all clients," Arnst says, "regardless of asset size."

http://www.investmentexecutive.com/-/igm-downsizing-focusing-on-hnw-clients

IGM downsizing, focusing on HNW clients
The financial giant has let 400 advisors and 80 administrative staff go in recent months

By Geoff Kirbyson | May 05, 2017 17:30

Jeff Carney, CEO of Winnipeg-based IGM Financial Inc. believes sometimes you have to get smaller before you can get bigger.

The firm's biggest operating company, Investors Group Inc., has let go more than 400 advisors and administrative staff positions.

Thanks to higher standards for advisors, 400 primarily younger consultants were let go in recent months.

"I've raised the standard," Carney says. "We didn't think they were going to make it under the new skills we're looking for in the future."

At the end of the first quarter, the number of veteran consultants — defined as those with four or more years of experience — was 2,262, slightly less than half of the cohort of 4,754. There were 5,321 consultants a year ago.

Carney, who took over as CEO of IGM a year ago, says he doesn't rule out further job losses in the future, but says no immediate layoffs are imminent.

The firm also laid off 80 administrative staff. "We combined some different [regional] districts together and created an opportunity to reduce costs and put that money back to work in other things that we're trying to do," Carney says. "It's a reallocation of resources."

Thirty of those affected people were in Winnipeg with the remaining 50 spread out across the country.

"I'm still in my early days. I'm looking at everything. I don't want to sit here and say we'll never have [more layoffs]," he says. "Right now, I'm focused on growing our company and accelerating the growth. In some areas we might be hiring, and in some areas we might be reducing, depending on what we're doing with our business model as we evolve.

"Where we can find efficiencies," he adds, "we [have to act] because it's a competitive landscape and we've got to reinvest in pricing, products and people who can bring new skills to us."

Carney addressed the media following IGM's annual general meeting in Winnipeg Friday morning. A couple of hours earlier, the company announced net earnings available to common shareholders for the three months ended March 31 of $177.1 million (74¢ per share) up from $167.0 million (69¢) in the corresponding period a year earlier.

Part of the increased focus on veteran consultants is a heightened focus on high net-worth clients.

"We're moving more up-market," Carney says. "We were probably working too hard for the smaller clients and now we're working for the right ones. We don't want to walk away from our smaller clients but they don't need that level of sophistication at that stage of their lives vs somebody who has accumulated significant wealth and needs to know that their retirement is going to fund the rest of their lives."

http://www.advisor.ca/news/industry-news/td-lowers-trailers-but-doesnt-seem-to-pass-savings-to-clients-conseiller-exclusive-234482

TD LOWERS TRAILERS, BUT DOESN'T SEEM TO PASS SAVINGS TO CLIENTS: CONSEILLER EXCLUSIVE

Conseiller Staff / May 25, 2017

A Conseiller.ca exclusive report finds that TD has lowered trailers on certain funds, but did not subsequently lower the fees charged to clients.

Several advisors provided Conseiller.ca with documents showing that on April 1, TD Asset Management cut trailing commissions on the following funds:

- TD Ultra Short Term Bond Fund;
- TD Balanced Income Fund;
- TD Balanced Growth Fund;
- TD Diversified Monthly Income Fund.

With the TD Balanced Income Fund, for instance, the trailers fell 25 basis points, but the management fee, so far, remains the same.

When asked for comment regarding the trailer reduction, TD declined.

Advisors told Conseiller.ca they felt the move was, while compliant, unethical. One spoke of boycotting TD funds.

http://www.wealthprofessional.ca/market-talk/csa-osc-grilled-on-embedded-commissions-226088.aspx

CSA, OSC grilled on embedded commissions

by Leo Almazora30 May 2017

In a recent submission to the CSA's consultation paper on discontinuing embedded commissions, a senior investor expressed frustration over regulators' failure to answer questions he asked about the model.

"I contacted the CSA with five questions related to the disposition of embedded commissions under certain changing 'advisor' to investor relations," said an 83-year-old investor Peter Whitehouse in a seven-page letter emailed to the association. "I received a response that I should click on a provided link to the OSC and rummage through 74 Rules, Instruments & Policies papers that should be related to my quest."

Prior to contacting the CSA, Whitehouse reached out to the OSC to ask the same questions. The OSC did not answer them, but did say that embedded commissions are sent from the mutual fund company to the investment dealer, who then distributes the commissions among its advisors based on a pre-arranged agreement.

The questions Whitehouse asked the regulators were:

- What happens to the continuation of the embedded commission payouts when an investor terminates their relationship with their financial advisor? Who gets the future embedded commission payouts?
- What happens to the continuation of the embedded commission payouts when a financial advisor employed by Investment Dealer "A" resigns from an investor's account?
- What happens to the continuation of the embedded commissions payouts when the investor's financial advisor employed by investment dealer "A" sells the investor's account (selling the book) to another financial advisor employed with the same investment dealer "A"?
- What happens to the continuation of the embedded commissions payouts when the investment dealer resigns from the investor's account?
- What happens to the continuation of the embedded commission payouts when an investor terminates their relationship with a financial advisor employed by investment dealer "A" and the investor transfers their account to investment dealer "B"?

In his letter, he asserted advisors – dealing representatives – should not be given sales commissions by the fund companies they recommend, calling it a "pure conflict of interest" that exposes investors, particularly seniors, to various abuses.

He also spoke out against advisors who sell investors mutual funds on a deferred sales charge (DSC) basis without disclosing that they'd immediately receive a 5.5%-6% sales commission. According to Whitehouse, there's no requirement for advisors to inform investors of the high sales commission rate prior to the transaction, or of the detrimental impact related to DSC-based fund purchases.

He further urged the CSA to disallow bank-owned dealers' practice of sending complainants to an "internal ombudsman." Since there is no regulatory disciplinary oversight of such bodies, he contended, it exposes wronged investors to low-ball restitution recommendations and rejection of valid claims based on false and misleading reasons.

"If a dealer rejects a claim, they should be directed to OBSI and never to the unregulated entity of the bank 'internal Ombudsman,' as so many bank brochures do," said Whitehouse http://www.inman.com/2017/06/01/real-estate-referral-fees-the-good-the-bad-and-the-ugly/

Real estate referral fees: The good, the bad and the ugly

The common business arrangement could be improved with transparency

BYTERESA BOARDMAN

TODAY 3:00 A.M.

Key Takeaways

- Helping a homeseller find the perfect agent adds value to the transaction.
- Consumers have a right to know if their agent is paying a referral fee and whether a referral constitutes a recommendation.

I just love it when a check comes in the mail a few weeks or months after I referred a friend, family member or client to a Realtor in another market. I try my very best to find the perfect match. Sometimes I even turn leads away (insert gasp here) with instructions on how to find an agent and what to look for.

There are times when I accept clients from other agents and pay them a referral fee. Usually it works well, and I don't mind paying the fee for a client who is ready to buy or sell now.

That's the good. However, referral fees are also territory for abuse, and the practice can leave consumers in the dark about who's paying who.

More leads than home sales

Agents and other industry players "capture" leads so that they can sell them. The internet has made it easier than ever to do so. (Indeed, there are far more leads than there are home sales.)

We get emails and phone calls about leads who are looking for an agent in our market. Apparently, these leads wait patiently for their captor to sell them to an agent. Maybe that's what happened to all the homesellers this year.

Referring agents can become the middlemen that come between middlemen without adding value. The captor adds no value to the transaction; the client remains in the dark, unaware of the exchange.

One improvement: Transparency

Consumers often confuse referrals with recommendations. They may not vet the agent but assume that the referral is a vote of confidence.

The weakest kind of referral, of course, is the lead capture. The person who captured the lead knows nothing about potential clients and whether they're qualified to buy or ready to sell. If the agent who accepts the lead is able to convert him or her into a client, and that clients buys or sells real estate and the transaction closes, the referrer expects a fee.

Some of the agents who refer business to me found me on the internet. They don't know me or anything about me. They don't know if I will do a good job. Most of the time they do not know the lead either. They acquired contact information, and they want to get paid for it.

Consumers who click on the wrong link or call the wrong agent may end up paying that agent indirectly as their contact information is given to another agent. I wonder about the people who get captured and sold because they cannot find a Realtor — not finding a real estate agent would take some effort.

The system could be improved by requiring the person making the referral to disclose the fee (and who knows who and how they know each other) to all parties.

In Minnesota, we must disclose who is paying us a commission and how much, but we do not have to disclose how much (or who) we are paying for the business.

The law says that I can only pay licensed brokers for a referral. The first thing I do when a referral comes in is check to see if the person making the referral is licensed and if they are active.

Calls about a ‘business opportunity’

People I don’t know will occasionally call with a “business opportunity.” They want share the name of a person looking to buy or sell a house, and for me to pay for it.

Most agents have heard relocation horror stories from clients. Let’s say Big Box Brokerage (BBB) has a relocation department. BBB refers persons who are relocating to BBB agents. Often, the agents with the least amount of experience will agree because they do not yet have enough business and they need the experience and the money.

BBB takes 40 percent of the new agent’s commission and charges a 35 percent referral fee. The buyers or sellers end up with an inexperienced agent who is working for almost nothing. The consumer ends up with an inexperienced agent tasked with navigating a cross-country relocation.

What consumers have a right to know

We need to do more to educate consumers. They need to understand that if they get referred to an agent, they should interview that agent like they would any other and ask the same questions. They need to understand that in their real estate search, they may get captured and sold, or end up being referred by one agent to another for a fee without ever knowing.

I don’t think leaving contact information on a real estate agent website is wise. I have a hard time understanding why people do it and why they enjoy drip email campaigns and having agents keep in touch with them.

I won’t leave my contact information on any website, and I block advertising campaigns or opt out of them. I am just not lead material.

Helping a homeseller find the perfect agent adds value to the transaction. It is wonderful when a friend or a past client thanks us for introducing them to that amazing agent.

Referring business to others (even if we don’t know them) just because we can add value to our bank accounts could be part of the reason why people don’t trust real estate agents.

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http://www.advisor.ca/news/industry-news/rbc-insurance-reduces-mers-on-seg-funds-235011

RBC INSURANCE REDUCES MERS ON SEG FUNDS

Staff / June 5, 2017

RBC Insurance has reduced management fees by 20 basis points on seven of its balanced segregated funds. The changes are effective June 5, 2017, and are available to all new and existing clients with no restrictions.

	RBC GIF Invest series		RBC GIF series 1		RBC GIF series 2	
	MER before fee reduction (%)	MER after fee reduction (%)	MER before fee reduction (%)	MER after fee reduction (%)	MER before fee reduction (%)	MER after fee reduction (%)
RBC Balanced GIF	2.48	**2.25**	2.79	**2.57**	2.97	**2.74**
RBC Conservative Growth & Income GIF	2.20	**1.99**	2.46	**2.24**	2.61	**2.38**
RBC Balanced Growth & Income GIF	2.41	**2.20**	2.60	**2.39**	2.80	**2.59**
RBC PH&N Monthly Income GIF	2.37	**2.15**	2.76	**2.54**	2.88	**2.66**
RBC Global Balanced GIF	2.48	**2.25**	2.72	**2.51**	2.84	**2.62**
RBC Select Conservative GIP	2.26	**2.04**	2.64	**2.42**	2.83	**2.61**
RBC Select Balanced GIP	2.41	**2.19**	2.70	**2.48**	2.89	**2.67**

Note: The 2016 MERs before fee reduction are the actual MERs for the year ended December 31, 2016. The 2016 MERs after fee reduction recalculate the 2016 MERs as if the new management fee percentages had been in effect throughout 2016. The MERs for 2017 are expected to be between the 2016 MERs before fee reduction and 2016 MERs after fee reduction, since the reduced management fee percentages will take effect partway into 2017.