SIPA Sentinel

February 2016

Small Investor Protection Association - A voice for small investors

The SIPA Sentinel is issued bi-monthly. From time to time articles and re-prints are included that offer opinions on subjects related to investment and regulation. These are meant to help increase investor awareness, and SIPA may not share these opinions.

SPECIAL ISSUE ON INVESTING

Canadians are experiencing a volatile stock market and there is no doubt that many Canadian investors will lose a large portion of their savings. Therefore SIPA is issuing this special edition to focus on investing.

We believe it is most important for investors to understand that the investment industry creates products to sell to investors so the industry will make money. Indeed there are some representatives that do provide sound advice and help investors, but there are many who are driven by commission and sell products that maximize their earnings with little regard for the welfare of their clients. A brief review of the regulators' discipline cases will indicate clearly how people are losing their savings at the hands of a "Financial Advisor".

The most important fact for people to understand is that there are three main categories for "Registered Representatives" and that is "Portfolio Manager", "Advising Representative", and "Dealing Representative – A sales person". It is also important to know that although your registered representative may be well qualified it is essential that you know if he is dealing with you as a "sales person" or as an "Adviser". The simple way to check is look at your last statement. If it lists your registered representative as a "Financial Advisor" he is dealing with you as a "Sales Person" with no legal requirement to look after your best interests.

In this issue there are articles written by members as well as published articles from the media including the internet. Debra is dedicated to helping investors and has prepared information to enable all members participate and help with SIPA's approach to Government. They must be persuaded to act because the regulators are failing to protect investors. Also included are some links to you tube videos which it is hoped you will find entertaining and instructional.

CONCERNED ABOUT YOUR INVESTMENTS? YOU SHOULD BE

By Stan Buell

In these turbulent financial markets many small investors are worried about their investments. Members are encouraged to share their opinions with other members.

In recent times I have spoken with several members and although I am not a "Financial Advisor" I willingly share my opinion. I continue to see the same issues I have seen since SIPA was founded in 1998.

SIPA continues to ask people to check their "Financial Advisor" qualifications. So the first thing I do when someone asks for help is to ask for their "Financial Advisor's" name and the company they work for. That is because without the exact spelling of the name the CSA registration will indicate no result, so it may be necessary to check the company and that will provide an alphabetical list of all their representatives. Without exception all of those that I have checked were registered as "Dealing Representative". Of course a "Dealing Representative" is strictly a sales person according to the Canadian Securities Administrators and a "Dealing Representative" is a sales person relying upon sales commissions for their income. This results in an inherent conflict of interest.

Coincidently, in at least two recent cases where the investors held bank shares in their accounts, their "Financial Advisor" had recommended they sell at least some of the bank shares to diversify by investing in a mutual fund.

Now why would they advise this?

Banking shares provide a good dividend income stream (currently 4% to over 5% for major banks) and provide for capital growth as the shares increase in value.

Investors holding bank shares does not produce income for a sales person on commission. Selling shares would produce a trading commission but more importantly selling mutual funds provides an income stream which includes the selling commission plus an annual trailer fee as long as the fund is held.

When Financial Advisors (actually sales persons working for commission) deal with conservative investors who do not want to trade shares often, mutual funds provide the most commission for sales people to maximize their income with transaction commissions when funds are bought or sold, and trailer fees of 1% or more of the value of your fund investments. The sales commission along with management fees cost mutual fund investors generally a total of 3% to 5% of their assets each year.

Discount Brokerage Accounts are a good option for small investors. Commissions are quite small, about $10 for a trade of any size, up to date market information and research is available on the websites. All of the major banks provide discount brokerage services and there seems to be a trend towards this type of service.

ETFs are a good alternative to mutual funds and will accurately track the markets. The management fees can be less than a half per cent and there are no sales commission or trailer fees if you do not deal with a Financial Advisor.

With regard to bank and utility shares, the following are the dividends paid in dollar amount per share and in percentage along with the share price at February 12 as provided by TD Webbroker.

SHARE	Div $	Div %
Bank of Montreal (BMO)	$3.36	4.68%
Bank of Nova Scotia (BNS)	$5.38	5.19%
CIBC (CM)	$4.60	5.30%
Royal Bank (RY)	$3.16	4.65%
TD Bank (TD)	$2.04	4.01%
National Bank (NA)	$2.16	5.87%
Bell (BCE)	$2.60	4.51%
Enbridge (ENB)	$2.12	4.81%

One should be careful about seeking high dividends because companies can decrease dividends in times of financial trouble, but banks have a history of not doing so.

It is suggested that all investors ask their Financial Advisor for the annualized rate of return on the total account and also for each holding in their account. This could save a lot of grief if you know which investments are preforming well and which are not. They should also ask that he sign the Fiduciary Oath.

SMART INVESTING ADVICE FROM A PRO

Tom Bradley is the President and co-founder of Steadyhand, as well as a Director and Shareholder of the firm. He selects and monitors Steadyhand's fund managers and has a central role in formulating and delivering the firm's key messages to clients. Tom holds a Bachelor of Commerce degree from the University of Manitoba (1979) and an MBA from the Richard Ivey School of Business (1983). He has over 30 years of experience in the investment industry. Tom started his career in 1983 as an Equity Analyst at Richardson Greenshields. In 1991, he joined Phillips, Hager & North as a Research Analyst and Institutional Portfolio Manager. Tom was appointed COO in 1998, and President and CEO in 1999, a role he held until he resigned in 2005. He currently serves as Chairperson of the Investment Committee of the Vancouver Foundation and is a guest columnist for the Globe and Mail.

Tom has written many articles that offer investment advice. SIPA is pleased to include in this issue of the Sentinel the following article that offers a cautionary comment on index-linked notes.
https://www.steadyhand.com/industry/2016/02/17/no_dividends_no_compounding_no_deal/

February 17, 2016

No dividends, no compounding ... no deal

By Tom Bradley

"The return on the Reference Portfolio, if any, is determined without reference to any dividends or distributions paid on the securities and is a simple average of the percentage changes in the value of each underlying security in the Reference Portfolio over the term of the BMO Growth GIC. The rate of return for the term: (i) is not compounded ..."

The above excerpt is the fine print at the bottom of an advertisement for an indexed-linked note in the Globe and Mail on February 16, 2016 (bolding is mine).

As we go through this rocky period in the stock market, the advertisements for 'safe' products are popping up again. One such product is index-linked notes, which offer *"no downside and participation on the upside."*

As I've pointed out before, these products are an embarrassment to the wealth management industry. They're very good for the issuer and not so good for the purchaser. We have written many times on *this subject*, as have other analysts I have a high regard for including *Dan Hallett* and *Michael James*.

You might ask why I'm writing about index-linked notes again when Steadyhand doesn't offer them and for the most part, our clients don't own them. Well, the reasons are simple.

- They make my blood boil. Because there is lots of complexity to the products and no transparency, the banks take advantage of their customers' trust. Fees are high and the risk/reward is stacked heavily in the banks' favour. Most of the risk falls to the client (the potential of no return), while most of the reward goes to the bank (the return formula doesn't include dividends and the upside potential is capped).

- These products prey on the least knowledgeable investors.
- And given that the banks control more than 80% of the wealth management industry (and a good portion of the other 20% are beholden to them in some way), there's no one else to carry the torch. Someone has got to say something.

As I said, I'm not worried about our clients when it comes to index-linked notes, but I encourage you to pass this post on when you hear of family, friends or colleagues heading to the branch to buy one. It's a *good time to increase exposure to stocks*, but not in a product that strips out the dividends, limits the upside to 3.8% per year (in the case of the BMO product mentioned above) and doesn't allow holders to benefit from the 8th wonder of the world, the *Power of Compounding*.

Spread the word – DON'T BUY THESE PRODUCTS!

MARCH IS FRAUD PREVENTION MONTH

Recognizing Fraud

The Competition Bureau, along with the Fraud Prevention Forum, plays an important role in helping Canadians get the information they need to be informed and confident consumers. Consumers also have a role to play in stopping fraud by arming themselves with the facts and reporting fraud when they encounter it.

Thousands of Canadians of all ages and from all walks of life are defrauded each year. There is no typical fraud victim in Canada. Fraud targets Canadians of all ages and from all walks of life. Recognizing fraud is the first step to better protecting yourself.

Fraudsters are professional criminals that know what they are doing. Fraudsters rely on some basic techniques to be successful. These include:

- developing professional-looking marketing materials;
- providing believable answers for your tough questions;
- impersonating government agencies, legitimate businesses, websites, charities, and causes;
- pretending to be your ordinary supplier;
- hiding the true details in the fine print;
- preying on areas of vulnerability, including those needing help with loans or finding employment;

- asking for fees in advance of promised services;
- threatening legal action to collect on alleged contracts;
- falsely claiming affiliation with reliable sources, such as legitimate news sites to support their products or services;
- and exchanging victim lists with other fraudsters.

INVESTORS SHOULD ALSO BE AWARE OF INVESTMENT INDUSTRY DECEPTION

March is Fraud Prevention Month in Canada. But deception is not limited to unregulated fraudsters. Did you know financial advisors are not required to act in your best interests? Unregulated Fraudsters use the title "Financial Advisor" to gain trust. So too do registered representatives who are commission driven sales persons use the title "Financial Advisor" to deceive and gain your trust. The regulators condone this deception by saying "Financial Advisor" is an unregulated business title commonly used by the industry.

But do you know that?

The financial service industry has many existing "motherhood" statements, ethics codes, and best practice guidelines enshrined in corporate documents but there is too little trickledown effect. There are many systemic industry practices that continue to cause grief for small investors, such as misleading titles, high fund fees that eat into returns, encouragement to use leveraging thus exposing many to undue risk, unsuitable products and poor advice, the list goes on and on. The Small Investor Protection Association has been listening to those aggrieved investors voices since 1998.

There is a false perception given to the public by the regulators that investors are protected. Until the time comes that any person or firm selling financial products is legally held to a fiduciary standard, obligating them to put their clients' interests above their own, it will remain caveat emptor or **Buyer Beware**.

SIPA encourages investors to visit www.sipa.ca and download a copy of the Fiduciary Oath http://www.sipa.ca/Fiduciary%20Oath%202015.pdf and find an "advisor" who is willing to make that pledge to them while handling their hard earned savings. SIPA has seen too many initiatives over the last two decades that seemed good at the outset but were modified over time so no positive results were achieved for the investing public.

Protect yourself and sign SIPA's petition calling upon our elected officials to change the rules to protect Canadians https://www.change.org/p/elected-officials-canadians-deceived-by-investment-industry-calling-sales-persons-financial-advisors - **Be Aware. Caveat Emptor. Buyer Beware.**

THREE QUESTIONS TO ASK YOUR ADVISOR – YOU NEED TO KNOW

This short video provides the three important questions you need to ask and explains why you need to know. Investor education in five minutes: https://www.youtube.com/watch?v=OdEWho6GHu4

Bay Street vs. Main Street

By Debra McFadden

You've worked hard, and you deserve the peace of mind of knowing that what you've saved will be there for you when you need it.

Traditional defined benefit pension plans are gradually losing their dominance in the occupational pension systems. Over the last few decades there has been a gradual shift towards defined contribution pensions. The transition from defined benefits to defined contribution plans in private sector pensions is shifting investment risk from the corporate sector onto Canadian households. Canadian households are therefore becoming increasingly exposed to financial markets, and retirement income may be subject to greater variability than ever before.

If you're like most Canadians, you have turned to, what you believe, is a financial professional to help you with all the complicated decisions you have to make, about how much to save, what to invest in and for answers about tax implications, retirement, estate planning and a host of other financial questions and issues that arise over the course of one's life.

But right now, as a result of the spin on one letter, many so-called “financial advisors” are not required to put your financial interests ahead of their own. They can recommend investments with hidden fees, riskier features, and lower returns -- investments that earn them more money, even if they aren’t good for your bottom line. They are, to put it simply... salespersons disguised as professionals! Millions of Canadians are affected by this simple spelling loophole without knowing it, even though it is draining away thousands of dollars every year from their savings.

Ontario is launching a review of regulations relating to financial advisors and planners to help investors and consumers make informed investment and financial choices, as well as enhance oversight in this sector. Unlike many financial service sectors in Ontario, financial advisors and planners are not subject to general regulatory oversight, which leaves consumers and investors vulnerable. This review will focus on addressing this gap by examining more tailored regulations.

The Canadian Securities Administrators (CSA) have also been reviewing the standard of conduct for advisers and dealers and exploring the appropriateness of introducing a statutory best interest duty when advice is provided to retail clients. But many in the financial industry are determined to block any reforms. They use scare tactics and word games to turn things around and make it sound like reform will limit choice or leave many without advice. They spend a great deal of time and money lobbying against change. They are banking on the fact that most Canadians don’t know they are at risk and won’t raise their voices to support reforms needed.

Canadians don't deserve to be victimized by conflict-ridden sales practices and the perverse incentives that drive the sale of high-cost, inappropriate investment products. Everyone who provides financial advice and service need to be fiduciaries which means they have to act in their clients best interests. That is just common decency and common sense. Sign our petition here.
https://www.change.org/p/elected-officials-canadians-deceived-by-investment-industry-calling-sales-persons-financial-advisors

On the heels of our recent fall election it's time to contact your local MP and the CSA and tell them you want change **now**.

Use the letter below or craft one of your own.

Your voice could make the difference, please make sure it is heard.

Dear ____,

Millions of Canadians like me are working hard to build and grow our savings.

Planning for a secure financial future often involves complex financial decisions, so many of us have to use investment professionals for guidance. We should be able to trust this person to put our interests first. But loopholes in the current suitability rules make it too easy for those in the financial advice giving industry to take advantage of hard-working Canadians and line their own pockets with our savings.

Last year alone, hidden fees, unnecessary risk and bad investment advice robbed Canadians of billions of dollars. This is just not right!

People who give financial advice should be legally required to work in our best interest. It's time to close this loophole and ensure a high standard that holds anyone who gives financial advice accountable. They want to be recognized as professionals and should have the requisite skill and knowledge but most importantly the professional accountability that goes with it. They should be helping everyday Canadians choose the best investments for us, our families, and our future -- not just the ones that make them richer!

A clear fiduciary responsibility will ensure that all financial professionals who offer investment advice make recommendations designed to serve the best interests of consumers by keeping costs low, recommending sound investments, and most importantly protecting retirement nest eggs from unnecessary risks.

I urge you to take action now to make financial advice givers fiduciaries. Canadians, who've worked hard to save, deserve peace of mind about their future financial security.

Sincerely,

____
(Sign your name and provide contact information)

Where to send your letter:

Minister of Finance

The Honourable William Francis Morneau
Department of Finance Canada
90 Elgin Street
Ottawa, Ontario K1A 0G5
House of Commons, Parliament Buildings
Ottawa, Ontario K1A 0A6
Send an email message to the Minister: bill.morneau@canada.ca

Send to the Honourable Charles Sousa
The Honourable Charles Sousa, M.P.P.
Minister of Finance
Government of Ontario
Frost Building South, 7th Floor
7 Queen's Park Crescent
Toronto, ON M7A 1Y7

Email: csousa.mpp@liberal.ola.org

Mail may be sent postage-free to any Member of Parliament.
Find your member of parliament - http://www.parl.gc.ca/Parliamentarians/en/members

Expert Panel Ontario
Fin.Adv.Pln@ontario.ca.
Expert Committee to Consider Financial Advisory and Financial Planning Policy Alternatives
c/o Frost Building North, Room 458
4th Floor, 95 Grosvenor Street
Toronto, Ontario, M7A 1Z1

Email any of the CSA staff listed below:

1. Jason Alcorn Legal Counsel Financial and Consumer Services Commission of New Brunswick Tel: 506-643-7857 jason.alcorn@fcnb.ca
2. Chris Besko Legal Counsel and Deputy Director Applications and Exemptions The Manitoba Securities Commission Tel: 204-945-2561 Toll Free (Manitoba only): 1-800-655-5244 chris.besko@gov.mb.ca
3. Isabelle Boivin Analyste en réglementation – pratiques de distribution Direction des pratiques de distribution et des OAR Autorité des marchés financiers Tel: 418-525-0337, ext. 4817 1-877-525-0337, ext. 4817 Isabelle.Boivin@lautorite.qc.ca
4. Lindy Bremner Senior Legal Counsel Capital Markets Regulation British Columbia Securities Commission Tel: 604-899-6678 1-800-373-6393 lbremner@bcsc.bc.ca
5. Bonnie Kuhn Manager, Legal Market Regulation Alberta Securities Commission Tel: 403-355-3890 bonnie.kuhn@asc.ca
6. Jeff Scanlon Senior Legal Counsel Compliance and Registrant Regulation Ontario Securities Commission Tel: 416-204-4953 jscanlon@osc.gov.on.ca
7. Sonne Udemgba Deputy Director Legal Department Securities Division, Financial and Consumer Affairs Authority of Saskatchewan Tel: 306-787-5879 sonne.udemgba@gov.sk.ca

MOST CANADIANS HAVE INVESTMENTS IN MUTUAL FUNDS

Most Canadians have bought mutual funds. The concept of mutual funds is good in that they provide a means of diversification for small investors and there are many varieties which enable investors to select particular market sectors.

However the downside of investing in mutual funds is the fees in Canada are high. Studies have shown that the compounding effect of high fees over a lifetime can result in investors losing half their savings when they invest solely in mutual funds for their lifetime.

For those who invest in mutual funds it is suggested you visit canadianfundwatch.com for information regarding mutual funds. It is operated by Ken Kivenko who has been a longtime observer of mutual funds. Ken is also Chair of the SIPA Advisory Committee and provides support to SIPA with particular regard to mutual funds and OBSI.

CANADIANFUNDWATCH.COM

This web site is dedicated to investment fund investor education and protection. The multi-billion fund industry plays a key role in the savings and retirement plans of millions of Canadians. Many industry practices provide bear traps for the unsuspecting investor and securities regulations have not kept up with the pace of change in the industry.

VIDEOS FOR MEMBERS – BECOME AWARE AND AVOID LOSING YOUR SAVINGS

Please visit the SIPA website and explore the videos posted at http://www.sipa.ca/library/videoLinks.htm

These videos include victim Ethel Sprouse, President Obama speaking to AARP regarding fiduciary duty, a victim of Bernie Madoff, the CBC hidden camera investigation of Investment Advisers, Earl Jones victims protest and Earl Jones' confession.

The videos on this page will provide you with a better understanding of the risks you face when dealing with the investment industry. You need to become aware so that you can manage the risks you face. The following videos are suggested viewing … after you watch the short video linked on page 5 above! BE AWARE!

- This is an entertaining video that may be closer to the truth than you think:
  ### Straight Talk About Today's Markets
  http://www.boreme.com/posting.php?id=13793#.Vsi7oPkrIgu

- This video provides information that all small investors need to know. Keep in mind that in Canada a "Financial Advisor" is in fact a sales person (Dealing Representative) motivated by commission.
  ### The Five Dirty Secrets Your Financial Advisor Doesn't Want You to Know
  https://www.youtube.com/watch?v=si-GtQzbeEQ

- Mutual funds and financial advisors easily siphon off half of your nest egg in fees and commissions over 10 years. Bay Street and the media have a vested interest in keeping these facts from you. But wealthy families and elite institutions invest don't pay the fees you do. They use a simple strategy called asset allocation with index funds and ETFs. On www.marketriders.com, use free software tools and invest like they do. It's simple to learn how to invest without brokers and advisors with less risk and better returns in just a few hours a year. Anyone can do it.
  ### Why Mutual Funds are Dangerous Investments
  https://www.youtube.com/watch?v=irZi9YZVEyo

- ### Warren Buffet Talks Index Funds
  https://www.youtube.com/watch?v=rEX81lGhMwM

SEND YOUR INVESTMENT QUESTIONS TO SIPA BY E-MAIL FOR A RESPONSE

SIPA will respond to all queries. Please include your name, e-mail and telephone number.

The SIPA Advisory Committee

SIPA was founded as an informal community association in 1998 in Markham Ontario. There were no officers and each member became an associate. The first meeting was held in the basement of Box Grove Church with six associates and a guest speaker who had been taken advantage of by a bank when they recalled all of his bonds which had a high coupon rate and rates had fallen.

As it turned out the bond issuer had recalled about 10% of the bonds but the banks elected to recall all of the seniors bonds so that its preferred customers could retain more of their holdings. Of course this helped to motivate SIPA Associates and public meetings were held. Membership grew rapidly and it became apparent that small investor problems of losing their savings was national in scope as inquires came in from across Canada. As a result SIPA incorporated early in 1999 as a national non-profit organization and membership continued to grow rapidly.

SIPA's organization was based upon the Markham Board of Trade where Stan Buell served as a volunteer and was able to use the MBT incorporation documents as a model. The MBT had an Advisory Committee so SIPA had a By-Law 6 – Advisory Committee to allow establishing an Advisory Committee. It stated:
"The President may annually or oftener appoint an Advisory Committee consisting of five or more persons, who need not be directors of the Corporation, as may be desirable." It also states *"The President of the Corporation shall ex officio be a member of the Advisory Committee."* It further states that *"The President may appoint a Chair for the Advisory Committee until such time as the Advisory Committee is established. The Chair will assist in the selection of members for the Advisory Committee."*

The By-Law also states *"The Advisory Committee may be consulted in all matters related to the technical aspects of the investment industry, and matters related to members' disputes and public inquiries. The Advisory Committee may be consulted to assist in the preparation of Position Papers to define and elaborate upon the Corporation's position on pertinent issues relative to investor protection."*

SIPA had the benefit of support by many who are concerned about the unfair treatment of small investors and the fact that so many are losing their savings when they place their trust and their savings with regulated "Financial Advisors". Most people are not aware that "Financial Advisor" is considered an unregulated business title by the regulators and is commonly used by sales people selling investment products on a commission basis.

A number of years passed before SIPA had a formal Advisory Committee and Ken Kivenko was appointed Chair. Additional members became involved to help and the Advisory Committee now has five members:

- Ken Kivenko, Chair from Toronto
- Larry Elford, member from Lethbridge
- Andrew Teasdale, member from Toronto
- Debra McFadden from Ontario
- Stan Buell, ex officio member from Stratford

The SIPA Advisory Committee (SAC) communicates regularly by e-mail and telephone to provide guidance and execution of various tasks including the preparation of submissions. Ken chairs the committee and also monitors OBSI and provides expertise on mutual funds and other issues. Larry operates SIPA's Facebook Page and provides expertise on the industry. Andrew has significant experience in the U.K. as well as Canada and provides in-depth knowledge and preparation of submissions. Debra McFadden provides excellent knowledge on small investor issues, assists with editing and document preparation, and organized and coordinated the recent Video Contest in 2015.