Special

INVESTMENT FUNDS

Coming soon: an industry-wide regulatory change called CRM2.

Its goal: to provide investors with clear information that will help them have better conversations with their financial advisers about the progress they are making toward their financial goals.

Here is why you should pay attention

November is Financial Literacy Month, a fitting time to revisit a critically important question: What do investors need to know to achieve their financial goals?

With the phasing in of regulatory changes that include the implementation of the Client Relationship Model 2 (CRM2) over the next few years, Canadians can ultimately expect clearer investment information to help inform their decision-making and aid in their ongoing investment education.

"Once CRM2 is fully implemented, investors will have a much better understanding of everything from performance to compensation to cost," says Tom Hamza, president of the Ontario Securities Commission's Investor Education Fund. "It will provide welcome insight into the comparative benefit that people get from their investing relationships."

He urges investors to prepare for the coming changes by becoming familiar with core investing concepts such as how to compare investment returns to the returns of an appropriate benchmark and the comparative costs of different products. (Published by the Investor Education Fund, GetSmarterAboutMoney.ca is a user-friendly resource to use as a reference.)

"Context is everything: When you learn that something costs $1,000, you need to know if $1,000 is a lot or a little. You'll only know that when you have an idea of what other products cost and what benefits they provide," he explains. "The tendency is to see CRM2 as a solution, but it's important for investors to look at it as a starting point for much better conversations with their advisors."

Jane Rooney, Canada's first federal Financial Literacy Leader, has a mandate to collaborate with and co-ordinate efforts among all sectors – public, private and voluntary – in order to develop a national strategy on financial literacy. "We know from research that there are a lot of people who don't even have the basics on budgeting and managing their income and their expenses," she points out.

Date	Status	Requirements
July 15, 2013	DONE	• Rule goes into effect and transition timeline established.
July 15, 2014	DONE	• Include benchmark information in relationship disclosure document. • Disclose fees before a transaction (pre-trade disclosure).
July 15, 2015		• Include book cost or original cost on statements. • Record necessary information to generate performance report.
July 15, 2016		• Provide performance report showing percentage rate of return for various time periods using a money-weighted calculation. • Provide cost disclosure report showing in dollars and cents all fees and charges paid in the year and total trailer commissions received by the dealer in the year.
Dec. 31, 2016		• First performance and cost report to be delivered. (For firms using a year-end date for performance report.)

By July 2016, investors will begin to receive statements showing the costs associated with each of their mutual funds in dollar amounts as well as a separate statement of investment performance, in dollars as well as percentages, over several time periods.

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ONLINE?

For more information, visit InformedInvestor.ific.ca.

The Financial Consumer Agency of Canada's website provides many resources designed to help address that gap, but advisors also have an important role to play. "We know that educa-tion is often more effective when someone is given information when they're making a decision," says Ms. Rooney. "Advisors can use 'teachable moments' to provide clients with information at the right time."

The CRM2 changes will provide investors with "an enhanced line of sight into how their portfolio has performed, and also the costs, both direct and indirect, of their relationship with their advisor," says Gordon Forrester, executive vice-president of product and marketing at AGF Investments Inc.

AGF has created practice development tools to help advisors leverage the value of CRM2 for their clients, including resources that help advisors communicate the value they deliver. When clients review investment costs, it is important for them to consider the value of professional advice, says Mr. Forrester. "Cost is not value. To measure value, you have to consider the entirety of the holistic, professional services advisors offer: budgeting and behavioural coaching as well as tax, financial and retirement planning."

CRM2 is widely viewed within the financial sector as a significant step in an important evolution. As the industry has matured, its "vision has shifted from simply selling products to serving investors' needs," says Brian Peters, chair of The Investment Funds Institute of Canada, and president and CEO of MD Physician Services Inc. "Today, empowering investors is our number one priority."

Mutual funds are the product of choice for many Canadian investors. Canadians' savings in mutual funds reached one trillion dollars in January this year and have since increased more than 10 per cent – at $1.12-trillion by September 30 – about five times the total assets managed by the Canada Pension Plan Investment Board.

"According to Pollara's 2014 investor survey, 85 per cent of Canadian mutual fund investors say funds will help them meet their financial goals," Mr. Peters notes.

The survey also found that Canadian mutual fund investors are as confident in their investment in mutual funds as they are in their primary residence.

"Peace of mind is the real value that investors seek and that advisors can deliver," says Mr. Peters. "This comes from knowing you have a solid roadmap for your financial needs today and in the future."

TRUSTED RESOURCES

The Financial Consumer Agency of Canada offers a wealth of plain language information online, as well as a series of e-learning videos produced with Ryerson University, and has a call centre for people who need further assistance.

The agency also offers:

- An award-winning free resource designed for high school teachers and students called The City, with lesson plans, overheads, income, expense and budget handouts, and a variety of worksheets;
- Financial Basics, a five-hour workshop with e-learning videos for adults aged 19 to 29, produced in co-operation with the Investor Education Fund and Toronto Star journalist Ellen Roseman; and
- a program for adults called Your Financial Toolkit, also produced in partnership with the Investor Education Fund.

Visit www.fcac-acfc.gc.ca.

The **Get Smarter About Money** website produced by the Investor Education Fund provides user-friendly resources and information, including a Funny Money section designed to help equip children for financial success in adult life. The Investing section provides plain language, need-to-know information on everything from GICs and mutual funds to primers on complex investments such as flow-through shares.

INSIGHT

CRM2 heralds a new conversation about the value of advice

Research conclusively shows that for most people, working with a financial advisor is the key to accumulating wealth.

"Advisors help investors adopt good savings and investing habits that stay with them the rest of their lives," says Blake Goldring, chairman and chief executive officer of AGF Management Limited. "This provides them with greater opportunity for future investment growth and retirement readiness when compared to those who don't work with advisors."

The baby boomer generation are nearing retirement and people are living longer than ever before, so there is an obvious emphasis on saving and retirement income, he adds. "Advice from a financial advisor helps keep investors on a realistic path."

Advisors take a holistic approach to helping investors navigate key milestones and turning points in their lives, Mr. Goldring points out. Canadians tend to seek advice at certain stages such as marriage, the birth of a child or retirement. But financial advisors can also help their clients successfully navigate difficult and unexpected events, such as the loss of a job or the impact of economic downturns on their business or investment portfolio.

"Studies also show that clients who work with a trusted advisor are better able to plan their financial future – and most importantly, they feel more confident about that future," he notes.

A relationship with a financial advisor may also translate into better investment returns as advisors help their clients better understand market trends and avoid the perils of emotion-driven investment decisions. "Educated investors know market downturns are part of a cycle and take a long-term perspective about investing."

The majority of Canadians look to trusted sources before they commit to financial investments, despite the fact that the Internet makes more information available than ever before. "While it is important for investors to have access to this information, there is a difference between information and advice," says Mr. Goldring. "You can't replace the value of working with a trusted professional who has your best interests at heart."

Mr. Goldring stresses that CRM2 is a positive development for Canadians as it will bring greater transparency on both fees and performance. "Whether it be research, financial planning, risk assessment or simply explaining market moves, financial advisors provide a valuable service and should be compensated for the value they provide.

"CRM2 provides the opportunity for advisors to demonstrate the many ways they provide value to clients."

Paul Lorentz, president of Manulife Investments, agrees. "A lot of times, mutual funds fees are compared to the costs of other investment options – but mutual fund fees usually include the value of advice. It's something that is often overlooked and needs to be considered when comparing investment options."

The 2012 Value of Advice study by Ipsos Reid for The Investment Funds Institute of Canada showed that households that use a financial advisor save at twice the rate of households that are passive investors and not using an advisor, notes Mr. Lorentz.

"The true value of advice is the role that advisors play in financial planning and in helping their clients create the discipline to save more," he stresses. "If you look at the role that mutual funds have played in making independent financial planning available to consumers, in my mind, you cannot even put a price tag on that value."

INVESTMENT FUNDS

Change is coming...will you be ready?

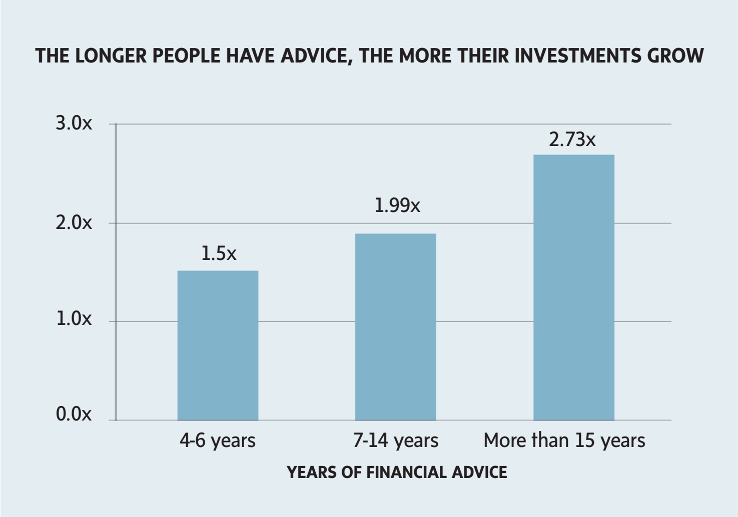
By Joanne De Laurentiis, President and CEO of The Investment Funds Institute of Canada.

Securities regulators and the industry have increasingly recognized the need to provide Canadians with clearer, more consistent information about their investments. As a result, new "CRM2" rules are being phased in that will help Canadians better understand their investments and get the most out of their relationships with their advisor.

After July 2016, when the new rules are fully in place, investors will receive a statement that shows how well their investments have performed since they started to invest and their percentage rate of return over several time periods. Many companies provide this information already, but under CRM2, all companies will do so.

In addition, investors will receive an annual statement showing the dollar amount that they pay for their investment products, including the costs of administration, technology, compliance and investment advice. These costs are not new; investors have been paying all along for the ongoing services they receive from their dealer and financial advisor. But in most cases, this is the first time these costs will be listed separately on investors' statements.

When investors receive these statements, they should discuss them with their financial advisors. But even now, it's not too soon to be asking advisors about the fees that they charge and the services that they provide.



An advisor's greatest value is in working in partnership with clients, creating a plan, helping them understand how the products they purchase fit into their plan, and ensuring that clients make informed rather than emotional decisions. The more individual investors understand their personal financial goals, risk appetite and investment options, the better equipped they will be to make decisions that are right for their individual circumstances. The more prepared investors are to talk with their advisors about these issues, the more helpful the advisors can be in helping their clients stay on track to meet their financial goals.

Recent research shows that 98 per cent of mutual fund customers trust their advisors to give them sound advice, and 92 per cent believe that they obtain better returns than they would if investing on their own.

This confidence is well placed. Households receiving financial advice for at least four years accumulate, on average, more than 1.5 times more assets than those who do not have an advisor, after all costs have been taken into account. After 15 years or more, households with advisors accumulate more than 2.7 times more assets, compared to those that do not have an advisor.

Investors should meet with their advisors at least once a year and following any major life event, such as marriage, having children, job loss or receipt of an inheritance to review their investments.

For more information, visit IFIC's online Investor Centre at www.ific.ca/en/pg/investor-centre/ and follow us on Twitter. We will post at least one investor-friendly tweet each day during Financial Literacy Month in November.

RISK MANAGEMENT

According to investor survey, it's all about that risk

A Franklin Templeton Investments survey conducted by The Wall Street Journal (WSJ) in December 2013 found that 83 per cent of investors believe risk management is the most important consideration in choosing investments.

More than half (57 per cent) also said that losing less than the market during a downturn is important to them.

"For many investors, events – such as the financial crisis of 2008 – have highlighted the importance of reducing downside exposure," says Philip Bensen, head of National Sales – Canada at Franklin Templeton Investments.

As the outsized baby boom generation moves into retirement, there is also increasing awareness that market volatility is more damaging to investors who rely on their portfolios for income. "Volatility can hurt – the return that's required to recoup a portfolio loss is obviously greater than the original loss," says Mr. Bensen. "But if you take retirement income of five per cent into consideration, an investor would need to achieve a 44 per cent cumulative return over five years in order to recoup a loss of 10 per cent."

In addition to limiting downside risk, professional management combined with professional advice can also help take the emotion out of investment decision-making – emotion that may otherwise lead to regret and underperformance. "Many studies, over a long period, have shown that investors tend to buy high and sell low when not working with a financial advisor," he points out.

The most recent DALBAR annual study of investor behaviour found that in the 20 years ending December 2013, the average annual return of U.S. investors was five per cent – lagging the S&P 500 by four per cent.

"Companies like ours take an effective, focused view of risk management. With experience developed over a long period – in our case, over 60 years – we can help investors get through those periods where emotions can be their worst enemy," says Mr. Bensen.

Seventy-six per cent of WSJ survey respondents also said they felt it is important to invest in products that outperform the overall stock market. "With active management, you get diversification, risk management and expertise in areas where it's simply impossible for investors to do it on their own. We have offices in over 35 countries with more than 600 investment professionals around the world – that is a level of expertise that is difficult if not impossible to duplicate."

Passively managed investments can complement actively managed investments in a portfolio, says Mr. Bensen. "We believe the question shouldn't be 'active versus passive,' but rather 'active and passive' depending on what's best for the investor."