

A first! –Fundco buys ETF firm

Anglo-American investment manager Amvescap ([AVZ](#): NYSE amvescap plc sponsored ADR) the parent of the AIM fund group including AIM Trimark Canada [www.aintrimark.com](#) has disclosed it will pay \$60 million USD in cash for Wheaton, Ill.-based PowerShares, which sponsors a lineup of 36 ETFs that apply an "active" approach to indexed investing. The deal is expected to close in the second or third quarter. The message: If you can't beat em, buy em.

“ Once you realize there's more to picking funds than sliding your index finger up to the name of the latest top performer, you've already vastly improved your chances of making a profitable, satisfying purchase.” –Rudy Luukko

Source: R. Luukko, Toronto Star, Dec. 17, 2005 pg D6

Nortel settlement may be good for unitholders

On Feb. 8, 2006 Nortel announced that, as a result of the previously announced mediation process entered into by the Company with the lead plaintiffs in 2 significant class action lawsuits pending in the Southern District of New York and based on the recommendation of a senior Federal Judge, the Company and the lead plaintiffs have reached an agreement in principle to settle these lawsuits. Under the terms of the proposed global settlement contemplated by the agreement in principle, the Company would make a payment of US\$575 million in cash, issue 628,667,750 of its common shares (representing 14.5% of its current equity), and contribute one-half of any recovery in the existing litigation by Nortel against Messrs. Frank Dunn et al who were terminated for cause in April 2004. NT expects expenses of \$2.473 billion, or 57 cents a share, for the deal. The proposed settlement doesn't cover ongoing investigations by U.S. and Canadian securities regulators. A number of conditions apply.

In any event, this is potentially good news for mutual fund investors who suffered losses as a result of Nortel's stock price decline. Although the amounts may not be huge, we assume the fundcos will diligently file restitution claims and ensure that all monies owing will be credited to the respective funds. No doubt, robust fundco disclosure practices will keep investors fully informed of developments. Because of the changing investor base, the gainers will likely be current unitholders, not necessarily those who suffered the pain. The shareholder rights leadership demonstrated by the OTPP Board and the OPSE Union as lead plaintiffs is noteworthy especially when contrasted with the inaction by fund managers. The action serves as a message to all corporate wrongdoers and should bring more discipline into corporate disclosure.

The bad news? No Nortel executives have yet been asked to account for their involvement in misleading accounting and disclosure. This is just another entry for the Guinness record books of abysmal Canadian accounting and auditing practices,

regulatory malpractice and deficient/slow law enforcement. At least in Ontario, the new Civil Liability law [Bill 198] will give investors a chance to sue corporations and directors for defective disclosure.

NOTE: Investors who were sold NT when it was overpriced and believe it was an unsuitable investment either due to risk or over –concentration should still be able to file an OBSI claim even if they participated in the accounting/disclosure fraud class-action. Check with OBSI before deciding what to do with the class-action claim(s).

Corporate pension plans migrating to Defined Contribution –a mutfund oppt’y

GM.'s move to dilute salaried workers' pensions and make them shoulder more medical bills in retirement is a milestone in the erosion of a deal big North American companies struck in the prosperous years following World War II: They promised to provide loyal employees with a comfortable retirement free of worry about running out of savings due to old age or ill health. Global competition is driving change. Defined Benefit Plans are now rapidly being replaced by Defined Contribution Plans [or no plan] and the pension planning and risk is being transferred to individuals. No doubt, mutual funds will prosper as the move to DCP’s accelerates. This shift has significant implications for governments, educators, pension/securities regulators, corporations and employees.

How’d the 5 rogue fundcos do?

Well, it’s more than a year since five fundcos were required by the OSC to return \$205.6 million to investors who were robbed of returns by market timing shenanigans. Here’s how these fundcos performed:

	% of assets in Q1 and Q2 for Y/E			Long-Term Assets \$B	
	Dec.31/05	Dec.31/04	Dec. 31/03	Dec.31/05	Dec. 31/04
AGF	62.2 %	49.6%	81.2%	\$20.6 B	\$21.8 B
CI	58.3	61.7	60.6	43.6	37.7
IG	55.8	41.5	29.9	53.5	45.7
Franklin T	35.9	84.1	55.8	20.2	22.9
AIC	35.2	9.6	6.5	8.2	8.1

Source : IE, C. Harris, *Banks top mutual fund 2005 performance parade*, Feb., 2006 pg 41

AIC paid the most (\$58.8 M) in restitution while IG paid the least (\$19.2 M). Franklin Templeton, AIC and AGF did not grow assets but the scandal had little adverse impact on CI and IG fund performance or asset growth. Of course, part of the asset growth was related to robust markets. Maybe the bank fundcos growth and market share increase is due at least in part to the lack of negative publicity. We can hope.

[BMO Investments Inc. lead the 2005 performance parade with 93.8% of mutual fund assets under management in Q1 or Q2.The firm experienced a whopping 39.6% increase in long- term assets to \$17.6 billion over 2004 making it a big winner for 2005]

PPN's-the debate continues

Last issue we ran a piece on the issues surrounding Principal Protected Notes. Here's a summary of the feedback we received:

1. "OK" for investors that do not have interest or ability to build every type of investment available
2. the ability to have some, albeit limited, growth potential
3. can diversify and have growth potential tied to world markets, commodities, whatever they seek for diversification
4. can be assured that they will receive NO LESS than the money they invested if they hold to maturity [however, not inflation adjusted and gains at maturity taxed as regular income]
5. can generally sell into secondary market if they need the money (not locked in)
6. can park their funds and not worry about them, not accept phone calls from a broker every week telling them they need to switch here and there. Set it and forget it (if you want).....or.....trade it like a maniac (if you want)
7. this is a packaged product suitable for investors who don't want to spend the time and effort to buy strip bonds/ETF's [of the 6 million Canadians with RRSPs, how many would really have the knowledge and wherewithal to do it? And how many Advisors would really choose to propose it?]
8. Securities Regulators have not yet protected the public from crap issues, so why is the topic of regulation important or even relevant wrt PPN's?
9. PPN's are not regulated in the same way securities are regulated but looked at by the regulators in terms of whether the issuers can meet the guarantee obligations.

One respondent said he'd be concerned about 10-year PPNs suggesting they are as useless as Seg funds as a means of protecting capital. Other commentators cautioned that PPN's may not be suitable for RRIF's where minimum annual withdrawals are required, there may be early redemption fees involved and it's not clear if the Notes are covered by CDIC if purchased through a CDIC member. Another warned about abusive sales practices, promoting undue/excessive borrowing to buy PPN's and the poor quality of disclosures and performance reporting. To protect themselves, several advisors have wisely decided to treat PPN's as if they were securities for KYC purposes. The key point to take away from all this –Understand what you're buying, the risks involved and how the Notes fit into your investment portfolio. This way, you cut the chances of a Portus fiasco. The OSC has looked at derivative products structured as deposits because of investor protection concerns - having "the same minimum standards of disclosure" and a "level playing field". This is still a work in glacially moving progress. Ref.

http://www.osc.gov.on.ca/About/Publications/op_19990105_deptlikederivatives.jsp

Record fine levied by IDA

Robert Ernest Leo Hart, a former Toronto-based employee for the investment-banking arm of Canadian Imperial Bank of Commerce-CIBC World Markets, was fined \$1.3 million by the IDA for "fraudulently misappropriating" [stealing?] clients' funds. Hart

misappropriated \$888,952 from two widows whose husbands had been his clients at CIBC World Markets Inc. According to the IDA, the fine is the biggest the Investment Dealers Association has ever levied on an individual. Hart is banned from working for firms linked to the IDA and is required to pay C\$40,797 in costs. Will he pay the amounts levied or will he end up selling insurance or mutual funds under another regulatory regime? Most investor advocates know the answer. CIBC World Markets Inc. has reimbursed both clients for their losses. The IDA was advised by Toronto Police Services, 52 Division Fraud Unit, that Mr. Hart was arrested on October 22, 2005 and is appearing before the Ontario Court of Justice on criminal charges of fraud over \$5,000 and uttering a forged document in relation to the same conduct. Will he really go to jail for a couple of months? Stay posted. Ref. IDA Bulletin 3513

Defined Contribution Pension Plans need some effort

A great little article by Jack Lunsden at fundlibrary.com is worth reading. An extract:

“ ..Common issues [with DCP's] I have encountered:

1. One person had invested all of their funds into money market funds over the past three years (no diversification).
2. Others have not maximized their contributions to obtain the matching maximum by their employer. Many plans offer a matching formula based on what the employee contributes. For example, if you contribute 6% of your income, your employer will contribute an additional 3%.
3. Some people have selected only one type of fund for their plan (no diversification)
4. Many have not taken advantage of any spousal plan options which allow for income splitting in the future.

What should you do then? As with all financial planning, you must gather all your documents. Obtain a copy of your most recent group benefits Guide, any statements you have, and the name of your Human Resource manager at work responsible for the benefits. Take all of this information to your financial advisor and let him/her examine everything. Give permission to your HR person to speak with your advisor to clarify any issues, if necessary. Once the above is done, your financial advisor will be able to help you make the best decisions for any options you have as well as make recommendations for the actual investment selection. The investment selection in your company pension plan should complement your other financial planning investment allocations...”

Source: <http://www.fundlibrary.com/features/columns/page.asp?id=12101>

Pensions for Thought, February 3, 2006

Update on Seg fund market timing restitution

By the end of December, 2005, all mutual fund companies had made their OSC negotiated market timing restitution payments to mutual fund unitholders and Seg fund policyholders. According to reliable sources, the payments were made directly by the fund companies based on the list of Seg fund policyholders (130,000

approximately) provided by insurers (99% of cases, small balances paid directly into the fund). It's not clear how IDA and MFDA restitution payment orders by brokerages/dealers were implemented as regards Segregated funds. Segregated fund restitution payments details have not been publicly disclosed by insurers or insurance regulators.

“I hear they changed the Fair Dealing Model to the Self Dealing Model. Any truth to this? ”–Anonymous

Mutual Fund Dealers Association begins second round of compliance reviews

On Jan. 27, the MFDA issued Bulletin #0183-C to advise its registrants that it will commence the second round of compliance examinations. These examinations will include review of deficiencies identified during the initial examination and resolution of these deficiencies. Firms must ensure that deficiencies identified during their first compliance examination are resolved. The Bulletin provides a list of common deficiencies identified during compliance examinations. And, it also lists the types of deficiencies that have been identified by MFDA staff during the first round of examinations and other routine compliance work that resulted in a referral to its enforcement arm. Fund investors should read the Bulletin-it's educational.

The list of enforcement referrals includes: churning or excessive trading in client accounts; failure to implement a two-tier supervisory structure; discretionary trading in client accounts or the existence of pre-signed trade order forms in client files; conflicts-of-interest in the sale of exempt securities; unresolved NAAF /KYC /suitability issues; reps engaging in outside business activities or personal financial dealings that raised significant conflict-of-interest concerns or caused client harm; and, trading in client accounts in jurisdictions where the rep or the dealer is not registered. All eyes will be on the MFDA and their enforcement actions. Source: www.mfda.ca

Avoiding the next Portus

Fabrice Taylor provides some tips:

1. Understand how your hedge fund manager might be conflicted
2. Insist on a high water mark [for bonuses]
3. For the most part, avoid “ Funds of funds” [high fees and more issues]
4. Make your financial planner tell you how he's being compensated
5. Ask what the manager is going to do to make money [if it's Greek to you, walk]
6. Who is the guarantor?

Source: F. Taylor, “Portus: the Sequel”, REPORT ON BUSINESS, Feb., 2006 pg 23
robmag@globeandmail.ca

Ominous e-mail at London Fundco
CUT FEES, CAPITALIST INFIDELS
Sam.bin-taken@fundbusters.org.uk

Taxes not generated when investors redeem ETF units

“An ETF trades like a stock, rather than a mutual fund. This means that sales of units that take place on the exchange have no direct tax consequences on the overall fund. A conventional mutual fund may generate a capital gain tax liability when unitholders sell their units, because the mutual fund may be forced to sell some of its security holdings to pay the redeeming unitholders. ETFs, on the other hand, are typically bought and sold by investors through the facilities of the stock exchange. When there is sustained net selling by individuals, or when an institution wishes to dispose of a very large position, an ETF will be forced to sell some of its holdings. When this happens, however, the underlying securities are transferred out 'in kind', thus the resulting capital gains or losses can be attributed to the redeemer directly and does not affect the broader number of unitholders.” Source: <http://www.qtrade.ca/en/qschool/Mutualfunds/etfs.jsp>

Educational seminar: A so-called “seminar”, usually with a high profile celebrity speaker, to induce the purchase of mutual funds. The amount of useful educational material, if any, is limited. Critics believe such seminars hijack the mind and lead to poor investment decisions. Seminars are well attended - exciting topics include:

DON'T WAIT UNTIL THE FALL!

Take advantage of the best equity market performance in the past 50 years.

Earn 15%-20% per annum tax-free.

How to double your net worth in the next 4-5 years

Earn 12%-20% on your RRSP.

How to receive a 93% tax credit.

Leveraging for GIANT gains

How to get rich via mutual funds

An example-----

“...Persons attending the seminars would be asked to give their names etc., so that follow-up calls could be made to them by DeLellis' staff, in order to arrange appointments for those persons with DeLellis, at which DeLellis could make his sales presentation to them. DeLellis had a standard sales patter, which emphasized his expertise, that the investor should rely on him as the expert advisor, that the investor should leverage to the full extent possible, so as to make use of "other peoples' money", and that the investor should make tax advantaged investments. In this regard, DeLellis did not seem to pay much attention to whether the investor's tax position enabled him or her to obtain the tax benefit. Nor did he seem to pay any particular attention to whether the investor's income and cash flow would enable the investor to service the indebtedness to be incurred as a result of the leveraging, which DeLellis suggested be obtained by mortgaging whatever equity the investor had in his or her home....” –excerpt OSC Decisions and Reasons in the case of Dino P. Delellis et al, 1997

http://www.osc.gov.on.ca/Enforcement/Proceedings/1998/rad_19980113_dellilis.jsp

MoneySense announces 2006 Fund selections

MoneySense magazine has announced its Fund choices for 2006. Analyst Suzanne Abboud's choice for the Canadian Equity Honor Roll is Chou RRSP Fund. Chou

Associates Fund won in the U.S. Equity category while Elliott & Page Monthly High Income swept the Balanced Fund Category. The PH&N Total Return Bond Fund came in as #1 in the Canadian Bond Fund Category while Mackenzie Cundhill Recovery Fund Class C topped in Global Equity. Ms. Abboud puts her nominees through a rigorous screening process. Historically her picks have delivered above-average results e.g. going back to 2001 her fund choices have returned 7.6% vs. 4.0 % for the Canadian Equity Fund Category average – an 81% of above- average performance selection statistic. For Bond funds she achieved an 88% success stat. However, even with the comprehensive analysis, her choices for Balanced funds yielded a 3.1 %, 5-year return vs. 3.4 % for the Category avg. [a 50 % percentage of above-average performers selected]. On average, about 67% of her 2001 choices have beaten their peer averages over the intervening 5 years.

These numbers show that even a seasoned professional has trouble picking sustainable fund winners .Of course, fee changes, manager changes, fund mergers, turbulent markets and a host of other variables make mutual funds dynamic entities exhibiting great variability in relative and absolute performance. Source: S. Abboud, “And the Winners are...”, MoneySense, Feb./March, 2006 pg 31-36

Mutual fund Wisdoms and Humour XVIII is now available. It’s jam-packed with useful, juicy, funny and zany material from all manner of folks in the financial services industry orbit. Contact kenkiv@sympatico.ca for a copy.

The “new ” IDA

The IDA will be splitting itself in two parts: 1.the SRO Regulator, to be known as the Capital Market Regulation Canada and 2. the lobbyist function. The effective date is April 1, a date that brought frowns to investor advocates faces.

Interesting paper on fund costs in Canada

While there may be many factors that influence this variability in MERs, this paper [by Neil Longley associate professor with the faculty of administration at the University of Regina in Saskatchewan] focuses on one particular factor -that of so-called agency problems. An agency relationship is said to exist when one party (called the principal) delegates decision-making responsibility to another (called the agent). Agency problems potentially arise in situations where the goals of the agent and the goals of the principals are incompatible with each other, hence creating the possibility that the agent may make decisions which serve its own interests, rather than the interests of the principals it represents. This paper applies this notion to the mutual fund industry, and argues that a fund’s MER is a variable that is subject to these agency conflicts. All else being equal, a fund’s manager—the agent-prefers higher MERs, while the fund’s unitholders—the principals- prefer lower MERs.

The paper provides some preliminary evidence that agency problems may be a factor in influencing MERs of Canadian mutual funds. Where investors incur higher transactions costs to change funds, or where investors are less sophisticated, fund companies may be

able to incur higher MERs without paying a market penalty. More empirical research is needed, however, before more definitive conclusions can be drawn. Source: Neil Longley, *The Variability of Management Expenses across Canadian mutual Funds*, Canadian Investment Review, Winter 2003 Volume 16, Number 4
<http://www.investmentreview.com/archives/2003/winter/editorial.pdf>

A multi-year escalating GIC is NOT the same as a multi-year ladder GIC portfolio. Don't be fooled by the final year marketed return of an escalating GIC – calculate the average yield over the period.

Want to receive a free online *portfolio* comparison? (a second opinion of your current investments)? <http://www.portfolio4less.com/>

Interested in the impact of fund mergers on retail investors?
<http://www.fundlibrary.com/features/columns/page.asp?id=12098>

An Interesting Fund -Resolute Performance

“...[Tom] Stanley bound by mutual fund regulations is like Michael Schumacher waiting for the pace car to leave the track. Resolute Performance, his eagerly awaited new fund, is on a track without the pace car. It was launched in June [2005] by Offering Memorandum rather than by prospectus [MER=3.99%]. Basically, this means the fund is not confined by the same regulations* as prospectus-based mutual funds. In most circumstances investors should proceed with caution when presented with funds issued by offering memorandum, but we think this is an instance where investors are better served this way. Unfortunately, the fund's \$150,000 minimum investment means the analyst team here will be watching its performance from the grandstands...” (Not Available in MA,PQ,NB,NS,NF,PEI,YK,NWT) Source: D. O’Leary, Morningstar Canada Dec. 15, 2005
<http://www.morningstar.ca/globalhome/industry/news.asp?articleid=ArticleID121420058571> * i.e. quarterly public disclosure of holdings, max. 10 % cap of any individual holding, etc.

New Book: Don F. Wilkinson, *Stop Wasting Your Wealth in Mutual Funds: Separately Managed Accounts--The Smart Alternative*, Dearborn Trade Publishing, 2005, ISBN: 1-4195-2018-0) For more info. visit <http://wastingwealth.com/>

"We know that if we want to get an adviser to pay attention to our material, we simply need to write 'Compensation Information Enclosed ' on the outside of the envelope, and send it out."

- marketing veteran of several fund companies

An investor viewpoint on OBSI

Back in early 2005, a banking customer had some significant difficulties with her bank. Naturally, after going through the grinder at the bank, she ended up at OBSI www.obsi.ca
Some of her observations at that time:

- OBSI had not updated their procedures to reflect Limitation Act requirements [at that point in time OBSI resources didn't match the volume of complaints]
- OBSI rules forbid double tracking and she quotes FAQ#15 “ ..since use of the courts, arbitration or any other alternative dispute mechanism ...means that OBSI ceases its investigation” [presumably this excludes class actions]
- The OBSI goal of 90 days (FAQ #10) for resolution is fine but no data or statistics are available to assess actual performance [investor advocates have been pressing for this disclosure]
- OBSI referred to her as a *complainant*; she thought of herself as a client of OBSI (which she considers a service organization)
- She never received a reply from the Chair of OBSI regarding her letter of constructive criticisms –a behaviour she finds discourteous at best and a very bad omen at worst
- She questions whether the standards utilized by OBSI –“..general principles, of good financial services and business practice , law and any relevant code of practice or conduct applicable..”-are high enough given its critical role in society. She suggests “Best practices” be the standard.
- The OBSI Terms of Reference state more about what the Board does *not* do than what it does. She’s especially concerned about how opaque the board’s deliberations are. [truth to tell the 2004 OBSI Annual Report could use a little more disclosure]
- She is concerned about the members of the board pointing out that 2 FSP’s represented on the board were among those ordered to provide restitution to mutual fund investors as a result of abusive market timing shenanigans [the largest investigation ever conducted by the OSC]

As OBSI matures, we’re hopeful we’ll see the necessary positive changes that will make it a benchmark for other dispute resolution services. They plan to adopt the discipline of ISO 10003 *Guidelines for dispute resolution external to organizations* when it is released- a positive indicator.

Want a belly laugh? Request a copy of Vol XVIII of Mutual Funds Wisdoms and Humour from kenkiv@sympatico.ca. This volume is sure to make you laugh out loud as we highlight some of the zany actions and quotations from industry czars, regulatory leaders and humble investors.

Canadian pension fund copy-cat portfolio

The consulting firm Watson Wyatt Worldwide says that if you averaged out the holdings of Canadian pension funds, this is the portfolio mix you would end up with:

“Fixed income”: 40 % -20 % iUnits Short Bond Index Fund (XSB:TSX). Offers exposure to short-term bonds, which are more stable than longer-term bonds; 20 % iUnits Canadian Bond Broad Market Index Fund (XBB:TSX). Strictly speaking these are not fixed income securities as they have no maturity date and no regular interest payment and are subject to ongoing fees. Note: 3 % cash is lumped in here.

Equities: 57 % -32 % iUnits Composite Canadian Equity Index Fund (XIC:TSX). 13 % iUnits International Equity C\$ Index Fund (XIN:TSX);12 % iUnits S&P 500 C\$ Index Fund (XSP-TSX).

Alternative Investments: 3 %-iUnits S&P/TSX Capped REIT Index Fund (XRE:TSX)

Weighted average Portfolio MER=0.247 %. Source: R. Carrick, *So many RRSP choices. What to do? ETFs may be an investor's best ticker*, Globe and Mail, Jan. 28, 2006

Portus victims to receive a few bucks back for now

Dozens of fund dealers have agreed to a plan that will see more than \$12 million in client-referral fees returned to investors of Portus Alternative Asset Management, according to the OSC. Portus is accused of violating securities laws in a case affecting 26,000 Canadians who invested about \$800 million with the company. In January, 2006, the Ontario Securities Commission revealed that it was asking investment funds and mutual fund dealers to repay investors the money they received for inappropriately referring clients to Portus. A total of 57 dealers registered in Ontario were contacted and have agreed to the plan [see Appendix A of News Release for names]. The MFDA and the IDA, had asked the dealers to voluntarily agree to the reimbursement. The fees will be returned to Portus investors by the end of May. The average \$500 payment from the dealers will be in addition to money investors stand to recover, if any, from insolvency proceedings involving the infamous Portus Group. Source:

http://www.osc.gov.on.ca/About/NewsReleases/2006/nr_20060131_dealers-return-portus-fees.jsp

Investor Education Fund launches new RRSP calculators -Visit

http://www.investored.ca/en/focus/saving4retirement/saving_for_your_retirement.htm

Former Alberta IG fund salesman dealt with

If you want to learn more about some of the dirty tricks of the fund trade, read the MFDA's case against investment "consultant" Robin Anderson. Between July 1998 and Nov. 2003, he misappropriated more than \$362,000 from clients by means of the following methods:

- (a) *he redeemed mutual fund investments without authorization from the clients* and directed that the redemption cheques be delivered to his branch office. Mr. Robinson forged the signature of the clients on the redemption cheques and deposited the redemption cheques into the bank account of his corporation, 765398 Alberta Ltd. (the "Corporate Account");
- (b) he persuaded a client to provide him with investment funds totaling \$125,000, purportedly for the purpose of purchasing investment products that were not approved for sale by IG ("Non-IG Investments") and upon receipt, he deposited the money into the Corporate Account and *did not use it to purchase of any investments for the client*; and
- (c) *he redeemed mutual fund investments without authorization from the clients* and then

informed the clients that the redemptions had been processed in error. He later directed the clients to send cheques to him to enable him to purchase mutual fund investments to replace the investments that had been redeemed in error. Robinson deposited the cheques sent by clients into the Corporate Account and did not use the funds to purchase mutual fund investments for the clients.

Mr. Andersen is permanently prohibited from engaging in any securities related business at any time in the future; and has been assessed a fine in the amount of \$200,000. Whether he'll actually pay it (or investors will get their money back) is another question altogether. Source: MFDA, [Decision and Reasons](#) Case #: 200508

Islamic Mutual Funds

There are mutual funds that advertise that they operate according to Islamic Sharia principles. For instance, the ZAD Growth Fund, based in McLean, Virginia, U.S.A, is run by Zad Asset Management LLC. “ They are a private offering, and not a publicly available Mutual Fund (according to SEC Regulation D and S) and serve *only* "accredited investors" of non-USA residence. Since the minimum requirement to participate in the fund is \$50,000, it is targeted at institutions and high net worth individuals. A public mutual fund is planned for individuals, in the near future. It is more akin to a hedge fund, than to a mutual fund. U.S. investors are allowed to participate in the fund, although the fund is not allowed to advertise this fact (apart from "word of mouth", due to SEC rules and regulation. They operate a Growth Fund that started in February 1998. Their asset appreciation was 62.27% for 1999. They achieve their growth by investing in Small Cap stocks: companies with Market Capitalization of less than 1\$ Billion. They are regulated by a Sharia Advisory board of three well known scholars ”. It appears that ZAD operates out of Kuwait and Jordan. Source: www.muslim-investor.com [The motivation behind this site is to give advice to Muslims that would help them earn money in a way which is **Islamically Correct**[®].] Read also [Why is interest/riba prohibited in Islam?](#)

LSIF's have some advantages—so they say

We've been critical of Labour Sponsored Investment Funds (LSIF's) because of the high fees, opaque valuation processes, liquidity constraints, dismal performance and questionable fund governance. In Aug. 2005, the Ontario government announced that it plans to gradually eliminate * its 15 % tax credit for investors in LSIFs based on the belief that this incentive is no longer the best fit for Ontario in today's economic and fiscal climate. And Manitoba's Crocus fund scandal has put a cloud over the entire asset class. That hasn't stopped VenGrowth Asset Management Inc. from putting out a useful little Guide “ Maximizing Your LSIF Tax Credits. ” .The Guide contains good general info. on LSIF's, some sample calculations and several innovative tax strategies. NOTE: The Guide says that while it's OK to own LSIF shares inside your RRIF IF they were already in your RRSP, LSIF shares cannot be issued to a RRIF. A RRIF is not a “qualifying trust” under our tax system and thus no tax credits are claimable if improperly acquired inside a RRIF. We aren't recommending LSIF's by any means, but if you want to learn more, this Guide, written by tax specialist and author Tim Cestnick,

is a readable educational tool. To order a free copy call 1-877-789-7070 or contact inquiries@vengrowth.com

* The 15% Ontario tax credit will be in effect for the 2006-2009 RRSP seasons, followed by a 10% tax credit for the 2010 season and a 5% tax credit for the 2011 RRSP season.

CSA Report implies all is well in Canada-incroyable

On Feb. 2, 2006 the Canadian Securities Administrators released a report detailing their enforcement activities between April 1 and September 30, 2005. While investor advocates and investors may be critical re the sorry state of regulatory enforcement in Canada, it's still worth a read. At least Jean St-Gelais, chair of the CSA believes that "the report demonstrates the vigorous enforcement of securities regulators to deter wrongdoing, protect investors and foster fair and efficient capital markets in which investors have confidence." Tell that to Portus, Norburgh, Hollinger and FMF investors.

CSA report a fairy tale in 2 parts

"I can resist everything except temptation"

-Small Cap Fund manager

Investors Group Financial Services Inc fined by NBSC

The New Brunswick Securities Commission [NBSC] has ordered Investors Group Financial Services Inc. [IGFS] to pay an administrative penalty of \$63,220 plus \$5,000 in costs for trading in New Brunswick without being registered and permitting its sales staff to trade without being registered. The NBSC order was issued January 19 after a hearing was held before a Commission panel. Investors Group appeared at the hearing and consented to a settlement agreement. The NB Securities Act requires the proceeds of this penalty be placed in a specific fund set aside by the commission to be used for education and other capital market initiatives. An investigation concluded that IGFS employed 17 non-resident salespersons who were not registered in New Brunswick, but who had traded on behalf of 54 New Brunswick residents for between one and **nine** years. Source: IE, Feb. 3, 2006 [N.B. Securities Commission approves settlement agreement with Investors Group \(06/02/02\)](#)

Quaid's observation: FEE is not a four-letter word

Relationships: a light hearted Valentine's Day quiz from the Australian Securities and Investments Commission

Here's FIDO's light-hearted Valentine's Day quiz to check your partner's – and your own – attitudes and behaviour towards money.

1 How does your partner feel about spending money?

- a. Moths fly out of their wallet or purse on the rare occasions they're forced to open it.
- b. They've already spent more than the GDP of a small nation.

The [FIDO budget planner](#) could help you find a balance between enjoying today and having enough for tomorrow.

2 Your partner unexpectedly needs extra cash for a big night out. What do they do?

- a. Cancels the whole thing because otherwise they'll exceed their free ATM withdrawal limit.
 - b. Borrows your card and PIN, because their account is empty.
- FIDO's [tips about finding a suitable bank account](#) and [safeguarding your PIN](#) could make your next date less hazardous.

3 How many credit cards do they have? How they use them?

- a. One, behind glass, for emergency use only.
 - b. Not enough! There's money due on all of them, and your partner uses each card in turn to pay the minimum due off the others.
- The [FIDO credit card calculator](#) shows how you can manage credit cards and other loans.

4 Does your partner take risks with their money?

- a. They keep banknotes in the freezer, some gold bullion in the underwear drawer, and regard bank deposits as high-risk.
 - b. When you're not together, they're up most of the night trading oil futures on a margin loan.
- [FIDO's investing tips](#) may offer some alternative that could you both better.

5 How does your partner imagine their retirement years?

- a. Living like a student again, with cereal for breakfast, lunch and dinner.
 - b. Cruising the Coral Sea in a four-storey yacht with staterooms, a lift and on-board casino.
- The [FIDO super calculator](#) can help you both see whether your super's on track to give you the retirement lifestyle you want.

[FIDO's financial tips on relationships](#)

Source:

<http://www.fido.gov.au/fido/fido.nsf/byheadline/Relationships+a+light+hearted+quiz?openDocument>

Want to invest in India?-the Excel India Fund

There's no doubt about it-India is on a roll. In Canada, investors have just one pure India mutual fund available to them: the Excel India Fund, which returned 24.1% pre-tax in 2005.

Excel India Fund -Performance as of January 31, 2006* - Compound Annual Returns

	1 Year	2 Years	3 years	5 Years	7 Years	Since Inception April 14, 1998
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Excel India Fund	32.54%	28.2%	49.53%	16.42%	17.2%	18.1%
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The MSCI Emerging Markets Free (\$ Cdn) Index returned 12.60 % for the 5-year period ending Jan. 31, 2006. The India fund has only \$127.89 Million in assets and carries a hefty MER of 3.51 %. Source: www.globefund.com

*As usual we note that past performance is absolutely no assurance or indicator of future returns. Some observers feel that the Indian market is currently fully valued. These rates of return are historical compound average annual total returns; they include changes in Net Asset Value and assume tax-free reinvestment of all distributions. They do not take into account any sales commissions, redemption fees, taxes or other charges payable by an investor, which would reduce returns, perhaps significantly. All the normal risks associated with foreign investing apply. READ the fund's simplified prospectus carefully and consult your advisor, if any, before investing. For more information, contact Excel Funds at 1-(888)-813-9813 or visit their website at www.excelfunds.com [“IFN ” and “IGF” are closed-end India funds available on NYSE; many individual Indian companies such as ICICI Bank “IBN” trade as ADR’s on NYSE]

“ Don’t put all your retirement eggs in the RRIF basket. You’ll need other sources of income if you live to a ripe old age”

–Gordon Pape in *The Retirement Timebomb* (Penguin Books) [a BIG issue is the annual minimum RRIF withdrawal rate required which could cause the account to expire before you do]

Investors Group (TSX:IGM) keeps moving forward-no fee issues

“The rhetoric that we hear in the media” has been abating and “we're not finding that fee pressure is particularly evident”

- Murray Taylor, president of Investors Group and co-CEO of IGM.

“What we believe is important in the marketplace today is the need for advice. We all acknowledge that the provision of advice costs money and I think people will come to that realization .We don't see any more or less pressure on fees around the industry.”

- Charles Sims, president of Mackenzie and IGM's other co-CEO
Source: G. Norris, *IGM profit jumps*, Globe and Mail, Feb. 17, 2006

And without the pressure on management fees, Net income for the year ended December 31, 2005 increased 10.9% to \$682.4 million, compared to adjusted net income of \$615.6 million in 2004. Earnings per share were \$2.56, an increase of 10.8% compared to adjusted earnings per share of \$2.31 in 2004. Total assets under management at December 31, 2005 totaled \$100.2 billion, compared to \$86.6 billion at December 31, 2004, an increase of 15.7%. IG declared an increase of 2.5 cents per share in the quarterly dividend from 34.5 cents to 37.0 cents per share on the Company's common shares -about a 3.2% yield at current prices. Maybe buy IGM instead of its funds as part of your portfolio?

Fund Factoid: IGM Financial Inc.'s share price has more than quintupled during the past decade, producing compound annual growth of 18 per cent, not counting dividends. Compare this with Investors Group's best-performing fund with a 10-year record, Investors Summa C, which has a 10.8 per cent annualized return [assuming 100% tax-free reinvestment of distributions] according to fund rater Morningstar Research. Of the 28 other Investors Group funds in operation for a decade or more, only one has an annualized return over 10 per cent, and 20 are below seven per cent including three under zero. Source: G. Norris, <http://money.canoe.ca/PersonalFinance/2006/02/23/1459328-cp.html>

Want to get the latest on RRSP's? Visit Fiscal Agents 2006 Jumbo RRSP Center http://www.fiscalagents.com/learncentre/rspcentre_2006.shtml

Income trusts finally coming under CSA/OSC microscope. Standard & Poor's analysts Kevin Hibbert and Ronald Charbon said in a study released in January that among 40 income trusts reviewed there were 19 measures used to express distributable cash. Four out of the 40 trusts overstated the cash available for payouts, the study said. Now the CSA/OSC plans to review accounting rules for income trusts to create more consistency in the way they disclose cash distributions. The OSC will also review exemptions from filing a prospectus given to PPN's which is one devious way hedge funds have found their way into the hands of small investors. Source: <http://www.bloomberg.com/apps/news?pid=10000082&sid=aduvlrvoxd.4&refer=canada>

New Ombudsman Guide standard to be published

Kenmar filed a submission to ISO via the Office of Consumer Affairs/Department of Industry on proposed standard ISO 10003 (a guideline documents for external ombudsman services such OBSI). The submission contained 21 recommendations based on our experiences with OBSI. The 2004 OBSI annual report declared an intent to follow ISO 10003 guidelines when they are officially released.

"A general rule of thumb is that there's almost always one resource sector outperforming the overall stock market. The trick is to identify it early, participate in the cyclical rebound, and then move along to the next boom."

- Mal Spooner, president and chief investment officer of Mavrix Fund Management Inc in his book *Resources Rock* (2004)

Want to check out your mutual fund adviser's regulatory history? Visit <http://www.mfda.ca/enforcement/hearingscomplete.html#Anchor-alphaM> You can search alphabetically –realize however that the MFDA is a relatively new organization; you might also want to contact the IDA www.ida.ca

Want to learn more about life cycle funds? Visit www.canadianfundwatch.com or <http://www.fundlibrary.com/features/columns/page.asp?id=12071>

Comments on Clarington Target Click LCF Funds

We've received a lot of questions on the relatively new life cycle mutual funds being offered by Clarington in conjunction with ABM Amro, a large 180- year old Dutch bank. One of the reassuring thing about this new security being brought over from Europe is the fact that it was field tested for 4 years on European investors before bringing it over the pond. The Target Click funds are essentially global balanced funds that have a guaranteed value at maturity in 5,10,15 or 20 years. Hence the name of Target Click 2010, Target Click 2015, Target Click 2025, etc. Like all retail balanced funds, the balancing is predefined and not tailored to individual investor needs. Unlike Seg funds, these innovative funds do not merely guarantee the principal -they guarantee the highest month- end NAV the fund ever achieved before maturity (assuming you own it at maturity). As the funds approach maturity they will to trade nearer and nearer its peak price because the strip bond strategy means less and less will be invested in equities.

We spent some time researching these relatively complex funds and have the following comments:

1. The “guarantee” element derives from adroit use of Bank of Canada T- bills, strip bonds, cash and mathematics. When they set up the fund (and receive money from investors) the manager of the funds buys enough strip bonds (which are sold at a discount to their maturity value) to equal the principal at maturity. That leaves a residual percentage-which naturally varies depending on the maturity date of the Click fund-to invest in a simple three way stock index product investing equally in the U.S., Europe and Japan [ABN AMRO Global Equity S&P 500, DJ Euro Stoxx 50 and Nikkei 225 futures contracts]. Investing \$1000 in the 2025 fund, for example, at current rates, means that \$380 would be invested in the strip bonds to mature at \$1000 in 20 years. The rest is invested in this index fund product. (Actually, it is further split 50/50 and then the equity portion is leveraged to triple the exposure to the equity markets.) As the fund grows and falls, the managers adjusts the bond investment each month end to create a new maturity value with a new time frame .Investors who bail out of funds at the first sign of a loss will be calmed by the peak value guarantee. See piece *Shocking stat* below

2.This type of fund can be ideal for folks who can't sleep every time their fund drops in value. You may be prevented from chasing returns and panic selling in bear markets, which are good things to prevent. What's not so ideal however is taxes-outside a tax-deferred account these funds are managed to meet the fund manager's goal of providing the guarantee with whatever trading is necessary, not tax-efficiency.* As a basic guideline, the funds earn interest from T-bills /strip bonds and any gains distributed from the underlying Global Equity Exposure Fund are also taxed as ordinary income. The fund may realize some capital gains/losses if strip bonds are sold prior to maturity or from the sale of units of the underlying Global Equity Exposure Fund.

3. The funds are load funds with embedded commissions/trailers but they are available in F class versions. The average time-weighted MER of the 2025 fund is expected to approximate 2.4 % -the average Global Balanced mutual fund carries an MER of 2.5%

(the average Global Balanced Seg fund carries an MER of 3.28 %). For some reason, trailer commissions are paid .The MER of the funds reduce as they move to essentially becoming a bond/money market fund at maturity. At this point any market rallies will be missed so you wouldn't buy this fund during its latter stages of life.

4. In a Nov. 7, 2005 article by Jonathan Chevreau in the Post, respected fund analyst Dan Hallett is quoted as stating in his 14-page research report "overall, this is not a product that we would recommend." The article lists among Hallett's chief concerns the difficulty he perceives in using the funds in an overall portfolio context. According to the article, Hallett expects Target Click to return 4% to 7% a year [pretax]. The large exposure to bond, cash and futures contracts makes them tax- inefficient, so he argues they should be held only in registered plans*. In this respect, they resemble bank index-linked GICs, which transmute low-taxed capital gains into high-taxed interest income. But this hefty bond exposure also exposes clients to interest rate risk [and possibly currency risk if the Loonie strengthens against these currencies]. A key point Hallett makes is that "holding to maturity is the only way to ensure the guarantee is realized.". Source. J. Chevreau, Life-cycle funds back on the circuit, National Post, Nov.7, 2005

* In the interests of completeness and balance we include some basic arithmetic provided by Clarington: *If an investor purchased the 2025 fund at inception [Feb. 2005] he would have made an after tax return in 2005 of approximately 16% (calculated as Year End NAV (\$12.11) minus tax paid on distribution (50% assuming the highest tax bracket multiplied by the \$1.05 year end distribution) minus the starting NAV of \$10, divided by starting NAV \$10.00), and that's not even annualized as it doesn't represent a full year. Given that the median Global Balanced Fund Returned 6.5% in 2005, the index returned 4.67% and that the 5th percentile returned 12.26%, we're pretty comfortable in putting forth the notion that these funds are not as tax- inefficient as some may think.*

5. From its Feb., 2005 inception to Jan. 31, 2006 the 2015 Fund, the largest of the Click funds, returned 9.5 % pre-tax per globefund .com and currently has assets of about \$50 million. Other key metrics such as Standard Deviation and portfolio turnover are not too meaningful for a young fund. It's the ABN fund that will have most of the turnover since that's where the index futures are held and where the dynamic put option overlay strategy takes place. Since the fund is heavy into bonds, the TER is not meaningful.

6. Under certain conditions Clarington may accelerate the maturity date of the fund .For instance, if the fund becomes uneconomical to run, it can be prematurely wound down.

As to fund governance, it appears no Independent Review Committee per proposed rule NI81-107 has yet been established. CSA NI81-102 does not in fact require fund governance boards per se and NI81-107 is still under CSA review. We note however that 4 Clarington funds (Global Communications, Global Equity, Global Small Cap and Int'l Equity) were flagged in a 2004 Globe and Mail article as having excessive redemption rates –a necessary but not sufficient condition as to market timing –Clarington however was not sanctioned by the OSC nor was it ordered to provide any restitution. As usual, read the prospectus and ensure you understand how this fund fits into your portfolio.

This is not a simple fund to understand or analyze.

NOTE: Clarington is now a unit of Industrial Alliance and Financial Services Inc. During the bidding war with CI Funds, CI accused , perhaps unjustifiably, Clarington of defective fund governance in that the Clarington board chose to endorse the bid with the higher stock price, while rejecting a lower bid from CI Financial that made specific pledges of fee cuts for Clarington mutual fund investors. Despite this, we view the acquisition by IA as a net positive for Clarington unitholders .By the way, CI's Global Balanced Portfolio Fund with \$500 million in assets carries a 2.46 % MER. AND, CI itself suffered a major governance lapse and was directed by the OSC in Dec. 2004 to return \$49.3 million to long-term investors because of its nasty involvement in market timing.

Chevreau on Fidelity's Clearpath Target Funds

“..Advisors get a 1 % annual trailer fee [commission], although Clearpath is so idiot-proof I wonder what they'll do to earn it. Nice pay for reiterating “stay put until 2045 ” constantly. Source: J. Chevreau, *Retirement target funds aimed at simplicity seekers*, National Post, Feb. 24, 2006 [similar comments apply to most target date life cycle funds]

“ If a salesperson shows you a gee-whiz but complicated financial product, you can be sure of 2 things. You don't need it and it's overpriced ” –Jane Bryant Quinn, author of *Smart and Simple Financial Strategies for Busy People*, Simon and Schuster, 2006

Shocking stat

According to a report in the September 16,2002 issue of Forbes, the Fidelity Aggressive growth fund had a –8.3 percent compound annual return over the past five years. This return is calculated on a time- weighted basis measuring results for a hypothetical investor who put in a sum at the beginning and stood pat. The dollar- weighted return which takes into account not only the percentage performance in each month but also the amount of dollars the manager has been given to work with leads to a different result: - 33.4 percent a year, meaning the average investor did a whopping **25 points worse** than the portfolio. An example of investors selling low and chasing returns.

Shingle Theory: A suitability doctrine first introduced by the SEC in the 30's. The idea is that a broker who hangs out a shingle will represent his/her customers fairly and responsibly when making suggestions regarding securities. Also referred to as fiduciary duty, these suitability doctrines were originally used to ensure the protection of investors from unscrupulous broker-dealers. A *shingle* is slang for a small sign, indicating a professional office. Source: <http://www.specialinvestor.com/terms/2159.html>

Consumer protection in inaction

Back in Dec. we reported that Ruth Grant, nominally Chairwoman of the Sick Kids Foundation, had to resign a few days after being elected in Dec., 2005 as a so-called "Public Director" of the MFDA after it was pointed out that her husband, Doug, was a Director of Sceptre Investment Counsel Ltd. Now we hear that the Canadian Association of Income Funds has quietly banded together a group of trust experts to try to come up with long overdue standards for reporting "distributable cash". One of the members of the committee is Kenneth Manget, the head of income funds at BMO Nesbitt Burns, the firm that brought us the infamous FMF income trust that disintegrated about 9 mos. after it IPO'd .To further impair credibility, neither forensic accountant Al Rosen, SIPA, S&P, investors nor any investor advocates are on the Committee.

Not to be outdone, Advocis , on Feb. 15, 2006 released a survey of 1,876 Canadians to prove to Jim Flaherty, Canada's new Finance Minister, that insurance buyers are not interested in the best market-driven prices and services. " ...The brokers' survey offers conclusions that are diametrically opposite to a 2005 survey done by the Canadian Bankers Association, which showed 85% of bank customers want to be able to obtain information about insurance from their bank's branches. Speaking to the Globe, a spokeswoman for Advocis explained the contradiction, saying: "**I think it probably does boil down to how questions are presented, how they are asked, who it is that you speak to.**" Phew, at least we know we don't need to take the Advocis survey seriously." Source: John Turley-Ewart, *Break the brokers' monopoly*, Financial Post, Feb. 15, 2005

On a more serious note, the survey did have some food for thought:

- The survey results indicate that one in 5 Canadians who have been approved for a bank loan, mortgage or line of credit report feeling pressured to give the bank more business.
- The lack of awareness of the existence of consumer protection against tied selling practices is an even more serious problem among elderly Canadians, as only 19 % of Canadians 65 or older and 15 % of women over the age of 55 know that legal restrictions even exist.
- Canadians are concerned about the prospect of banks having their banking and personal and health information at the same bank branch

- The survey statistics show that among the general population 35 % of Canadians and more importantly, more than half of all Canadians 65 or older, either don't know about their banks' complaint resolution process or believe one does not exist.

<http://www.advocis.ca/content/media/MR06/MR-feb15.html>

http://link.advocis.ca/email/021506/pdf/Consolidated_Statistical_Extracts-Pollara_Final.pdf

<http://link.advocis.ca/email/021506/pdf/POLLARA-REPORT.pdf>

<http://link.advocis.ca/email/021506/pdf/Canadians-Say-No-web.pdf>

Looking for a professional advisor?

It's not always easy to find the right financial advisor. Generally there are seven basic elements which we present below and how they might be implemented call it

<u>Element</u>	<u>Validation method(s)</u>
Credentials/designations	Check with professional association, ensure he/she is a current member, understand what the designation means
Experience	Ask advisor, contact his reference clients, double check with branch manager, Familiar with 6-step planning process?
Expertise	Question advisor on range of financial services offered (investing, tax, estate ...), request samples of work
Fit	Interview, average account size, number of clients, age of clients, does he/she employ Letter of engagement /Investment policy statements (a sign of professionalism) ?
Compensation	Decide if you want fee-only adviser, ask about embedded commissions and trailers
Regulatory issues	Check with MFDA (www.mfda.ca) or IDA (www.ida.ca) as applicable for any citations or fines
Active /passive debate	There should be written disclosure regarding the existence of conflicting evidence surrounding both active and passive strategies. Any advisor that advocates for only one approach without at least disclosing the existence of the other is like schools teaching creationism while excluding evolution from the curriculum. Informed consent is a major part of investor protection.

Mutual fund shortcomings catalogued

Investment analyst Larry MacDonald has assembled one of the most comprehensive list of reasons as to why mutual fund gems are so rare. His dirty dozen:

1. Majority of funds underperform the market over the long-term
2. Poor disclosure/governance
3. Affected by variables such as style drift, cash drag, manager turnover and non-persistence
4. Occasional scandals (market timing, front running)
5. Excessive, opaque fees
6. Transferring performance from low to high fee funds via favoritism in stock trading and allocation of IPOs
7. Conflicts of interest fund is managing corporate pension funds routinely vote proxy shares in favor of management
8. Abusive advertising and marketing practices (encourages chasing returns)
9. Controversial sales practices (churning, leveraging)
10. Advises steer investors into funds that pay the heftiest sales commissions and trailers
11. Excessive trading costs (and resulting adverse income tax impact)
12. Closet indexing

Mr. MacDonald does list some gems. He cites ABC funds, Chou Associates, Leith Wheeler, Mawer, McLean Budden, PH&N, Saxon and Sceptre as investor-centric fundcos. He also has a bias for low- cost Index fund portfolios including his own One Minute Portfolio. Source: L. MacDonald, “ Why only a few mutual funds rate as buys ”, Investors Digest, Feb. 17 2006

If it weren't for the last minute there wouldn't be any RRSP contributions
-bank branch manager

www.thenumberbook.com The often avoided, anxiety-riddled discussion about financial planning for a secure and fulfilling future has been given a new starting point in **THE NUMBER: A Completely Different Way to Think About the Rest of Your Life**, a book by Lee Eisenberg. The site provides some sample goodies and a blog.

Fund Factoid: The discount to NAV of Canadian closed-end funds varies between 1.81 % (Compass) and 13 % (Citadel Diversified). Source: B. Critchley, *Closed –end funds best bought used* , National Post, Feb. 6, 2006 [18 CEF's tracked by D. Berry of MacDougal, MacDougal & MacTier]

“ Investing in a mutual fund is like riding on a bus; your progress depends in large part on other people and what they are doing. An exchange-traded fund is closer to riding in your own car.”

- Jack Ablin, fund manager at Chicago's Harris Private Bank.

A national committee of regulators has decided consumers don't need to know what their agents or brokers make on sales of insurance policies.

That's the opening sentence of an article by the Toronto Star's James Daw on sales practices by Canadian insurance brokers. The disclosure of commissions and the use of sales contests were 2 controversial regulatory initiatives proposed by regulators. The article quotes the Canadian Life and Health Insurance Association specious argument that there was no proof such performance incentives harm consumers, and said it would be "imprudent" to ban the incentives. The association argued insurers' distribution systems could become less effective, resulting in lower levels of coverage for Canadians. Whenever an industry Association says it knows what's best for consumers , WATCH OUT. Sales contests, bonuses, prizes etc. have been shown to influence salespersons. In fact, securities regulators have banned the practice for mutual fund salespersons. Such activities are not the hallmark of professionals. The committee has asked for comment by **March 24** on its latest report, available at <http://www.ccir-ccrra.org>, to permit a report to a Canadian Council of Insurance Regulators meeting in Montreal April 6 and 7. We recommend you let them know your feelings. Source: J. Daw, *Insurance regulators propose new guides*, Toronto Star, Feb. 15, 2006

Every insurance company has a Mad Hatter Department. This Department is in fierce competition with its counterparts at other insurance companies to see who can write the most incomprehensible and loophole-filled gobbledygook in the industry. I'm convinced that insurance companies have secret awards dinners at which bonuses are given to those who have written the most obtuse, self-canceling phrases of the year. —Anonymous

Great U.S. website on insurance industry abuses www.badfaithinsurance.org

A SAMPLE: View an "*Eye On America Investigation*" report regarding an example of an insured who made a claim on his homeowners policy to his insurer, **State Farm**, and see the price that the policyholder paid as a result for making a claim. The video also exposes the little known and secretive "big-brother-like" insurance industry database system C.L.U.E. (Comprehensive Loss Underwriting Exchange). The system maintained by the industry is purported to contain "all" information on policyholders, as well as each and everyone of us ... find out about it and view it here. [Click here to view](http://www.badfaithinsurance.org/reference/video/CBS-StateFarm-Homeowners-Clue.wmv) Microsoft Internet Explorer (*CBS Evening News*)
<http://www.badfaithinsurance.org/reference/video/CBS-StateFarm-Homeowners-Clue.wmv>

The S&P/TSX Composite index exposed

While we have a bias towards indexing we should point out that Canada's primary index certainly doesn't represent a balanced portfolio. The table below compares the Canadian index to the MSCI World index [as at Nov. 30, 2005]:

Sector	Canada	World
Financials	33%	25%
Energy	25%	9%
Materials	15%	5%
Industrials	6%	11%
Telecommunications services	6%	4%
Consumer discretionary	5%	12%
Information technology	5%	12%

Consumer staples	3%	8%
Utilities	1%	4%
Health care	1%	10%

It should be quite clear that in Canada the financials, energy and materials dominate the index so a lot of growth industries are not very well represented. It's also evident the portfolio doesn't provide as much diversification as some believe. Additionally, some observers expect increased volatility due to the inclusion of 72 income trusts that are concentrated in the oil & gas, mining and real estate sectors. Source: RBC, Investment UPDATE, Winter Edition, Jan., 2006

Desjardins seeing the benefits of RRSP season

Desjardins Funds accrued \$120 million in net sales during the month of January 2006, thereby increasing Desjardins Funds' total assets to \$8.7 billion. This amount is higher than the amount announced by the Investment Funds Institute of Canada (IFIC), which reported total assets of \$7.1 billion. The discrepancy in the net asset evaluation stems from the fact that the IFIC's report on Desjardins Funds includes neither the assets of the Desjardins Select Funds, nor those of the funds that are co-branded with CI and Fidelity. Source:

http://www.moneysense.ca/news/news_releases/shownews.jsp?content=20060207_144507_2_cnw_cnw

Can you lose money after 10 years of buying and holding?

You sure can. Take a look at the 1-year record of the TD Science and Technology Fund. Although it charges a hefty 2.79 % MER, it's delivered a crappy average compound return of just **-0.41 %** vs 6.12 % for the benchmark [to Jan. 31, 2006]. The fund is a solid 3rd quartile performer over 10 years and ranks 4/4 for 10 years and 34/48 for 5 years. For whatever reason investors have \$156.06 Million in the fund. The Altamira Science and Technology fund had the best 10-year return in the sector category –just 5.13 % - about what you'd have received if you'd bought a laddered series of GIC's for your RRSP.

"It is not easy to get rich in Las Vegas, at Churchill Downs or at the local Merrill Lynch office."

- Paul Samuelson, Massachusetts Institute of Technology, Economist, Nobel Laureate in Economics

OBSI Policy on Portus requires rethink

The OBSI website argues that because the Portus situation is in a flux they cannot determine if investors have suffered a loss and quantify it. Accordingly OBSI will not investigate Portus complaints at this time. The problem is the oppressive provincial Limitation Acts. If the limitation clock is not stopped by filing a formal complaint with

OBSI, Portus investors will lose their right to civil action within 2 years of the scandal becoming public. Two relevant facts: 1. The OSC agreement with dealers to refund sales commissions does not preclude civil litigation. 2. OBSI could still take on claims after the 2 year period and make a restitution recommendation. However in the event the firm did not agree, investors would have no recourse to civil action

What do these numbers mean?: -12.55 , 4.10 and 68.93 ?

These are the pre-tax returns for 2005, 2004 and 2003 for the **Mavrix Explorer fund**, a natural resource fund. This 2.96 % MER load fund with less than \$10 million in assets was established in 2002. The fund's 1-year performance to Jan. 31, 2006 is 6.33 % vs. 54.83 % for peers and the Globe Natural Resources Peer Index. Over 3-years it achieved less than 2/3 the return of competitor peer funds. You might want to read Levi Folk's take on the fund at <http://www.fundlibrary.com/features/columns/page.asp?id=12105> *One who isn't missing the forest*. Should the manager apologize for his major error in the next Annual Report or Management Report of Fund Performance for missing the oil trees ?

Q: Why do income funds not provide return information without assuming reinvestment of distributions? After all, income funds are designed and marketed to provide monthly income to investors for their living expenses.

A: [**Space reserved for Industry response**]

Baffled by mutual fund returns? Read the article by Ken Kivenko in the Feb., 2006 Canadian MoneySaver, *Taking the mystery out of mutual fund returns*. The article explains why published returns and the figures in your account statement often don't track

Can a fund have a positive return and still be going down in value? Yes, because fundcos report returns by assuming all distributions are reinvested and that the reinvestment is tax-free. If the distributions are primarily Return of Capital, this strange effect can occur. For example, the Clarington Canadian Income fund shows a 7% p.a. return over the past 4 years (ending December 31, 2005) BUT its NAV has consistently fallen. At Dec. 31, 2001 the NAV was \$10.03; by Dec. 31, 2003 it had slid to \$8.11. At Dec. 31, 2005 it was \$7.45.

A hedge fund gone bad, really bad-investors burned for \$300 + million

Montreal-based Norshield, considered Canada's first hedge fund, was founded in the early 1980s by John Xanthoudakis and it once boasted more than \$1-billion in total assets. But it ran into trouble last spring and filed for receivership in June amid investigations by the OSC and the Autorité des Marchés Financiers - Quebec's regulatory watchdog.

The receiver, RSM Richter Inc., has said in court filings that most of the money invested in Norshield flowed offshore through a variety of entities in Barbados and the Bahamas,

and that little actually ended up in hedge funds. The ownership of many of those entities is still in doubt and several are now insolvent, according to court reports. At the time Norshield filed for receivership, about 1,900 investors had \$131.9-million invested in the company's funds while a group of institutional clients had \$210-million invested. Mr. Raymond Massi, a Richter partner, estimated **that if all goes well, investors will receive between 8 cents and 10 cents for every dollar they invested. If things do not go well, they will get as little as 3 cents on the dollar.** Regulators have turned the file over to criminal law enforcement. Source: K. Damsell, *Norshield funds may never be found*, Globe and Mail, Feb.22, 2006 Question: Where were the trustees, where were the auditors, where were the custodians, where were the regulators?

Fund Governance X-Rays

It's been nearly 2 years since Morningstar U.S launched their Stewardship Grades for U. S. mutual funds. Their analysts had long collected plenty of anecdotal evidence of fundcos doing right (or wrong) by fund investors, but they're now busy putting pen to paper and relaying this information to investors. Here's a few interesting tidbits of fundco information they picked up along the way:

You Don't Need a Huge Marketing Effort to Sell Funds; Sturdy Performance Works, Too

Dodge & Cox employs no salespeople and has only rolled out four funds in more than 70 years. Despite that lack of marketing muscle and petite product lineup, Dodge & Cox is now among one of the 10 largest [U.S.] fund shops around, by assets.

Boy, That's Some Workload

Fergus Reid is a trustee on both the Morgan Stanley and JP Morgan fund boards. Between the two, he oversees about 300 portfolios. In addition, he's chairman of plastics manufacturer Lumelite Corp.

Nice Work If You Can Get It

The media has widely reported the \$800,000 a year that Joseph DiMartino pulls down to head the Dreyfus Funds' board. But he's not the only director earning a big paycheck. At Alliance Bernstein, trustee William H. Foulk Jr. got an 87% raise between the end of 2003 and 2004 (from \$248,650 to \$465,250) after he agreed to serve as independent chairman. Source: K. Dolan, *Seven Surprising Insights About Funds You May Own* <http://news.morningstar.com/article/article.asp?id=156626&t1=1140151632>

Clarington Unitholders get new fund managers

No surprise here. Clarington Funds Inc, a unit of Industrial Alliance (IA), has announced that it has appointed 3 new investment managers to replace SEAMARK Asset Management Ltd. on the funds it manages on behalf of Clarington. Effective March 31, 2006, Howson Tattersall Investment Counsel Ltd., Industrial Alliance Investment Management Inc., and Oppenheimer Funds, Inc. will assume portfolio management responsibilities for the funds as follows:

Fund	New Portfolio Advisor
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Clarington Canadian Balanced Fund	Howson Tattersall Investment Counsel
Clarington Canadian Bond Fund	Industrial Alliance Investment Management
Clarington Canadian Equity Fund Clarington Canadian Equity Class	Industrial Alliance Investment Management
Clarington Canadian Income Fund Clarington Canadian Income Fund II	Industrial Alliance Investment Management
Clarington Canadian Dividend Fund	Industrial Alliance Investment Management
Clarington Global Income Fund	OppenheimerFunds, Inc.
Clarington Money Market Fund	Industrial Alliance Investment Management
Clarington Short-Term Income Class	Industrial Alliance Investment Management

We'd previously been critical of Seamark's complacent attitude towards performance and costs. Hopefully, sharp negotiators at Clarington have taken the opportunity to reduce fees and that IA will be fair and reasonable on its fees to a family member. We'll revisit in 6 months.

Tied Selling: The practice of a company providing a product or service on condition the customer purchases a product from the same or related company. It is mainly used in reference to banks and referred to as coercive tied selling. Tied selling is illegal under the Bank Act.

“ ...Last week, 2 banks were quite open with me when I reported that they provide RRSP lines of credit at prime when selling their own products, but charge higher than prime for other financial products. Technically, this is not tied selling since there is no element of coercion...” Source: J. Chevreau, Head-to head insurance polls, National Post, Feb. 16, 2006

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