

Seasons greetings and best wishes for 2010

It's tax time again; Wanna learn more about how mutfunds are taxed? [Taxes and investing in mutual funds](#) PDF - [View as HTML](#) This excellent easy to read 20-page **guide** discusses the impact of **taxation** on mutual funds in non-registered accounts. www.rbcam.com/taxes-investing-in-mf.pdf

MFDA Member firm makes BCSC an offer it couldn't refuse : One MFDA member, Partners in Planning Financial Services, had requested a review of some of the key decisions reached at a special meeting of MFDA members that was held on Oct. 2. At that meeting, members approved an increase in the number of directors and an increase in the term for each director. At the meeting there was a 75% increase in the number of proxies that were voted. PIPFS argued the MFDA improperly pressured members to provide proxies for the October special meeting through the participation of compliance staff in the proxy-solicitation process. PIPFS also had concerns that the MFDA board was unlawfully constituted because two directors, one of whom is Robert Wright, the MFDA's chairman and a former chairman of the Ontario Securities Commission, had exceeded their term limits. The Commission will hold a review of the MFDA's decision to amend some of its by-laws. Investor advocates are suggesting that while they're examining the MFDA they should look at the new flimsy definition of Public Director and the lack of retail investor representation on the Board.

<http://www.nationalpost.com/opinion/columnists/story.html?id=f0cdc80f-1868-4676-a8ad-2a7350103f5b>

"I'd compare stock pickers to astrologers. But I don't want to bad-mouth the astrologers."
Eugene Farma, University of Chicago

Definition of IMPOSSIBLE : An advertisement for a mutual fund that reports a failing return.

Wanna learn more about Segregated funds? <http://www.segfundscanada.ca/>

BNN Investor Survey Kick off <http://watch.bnn.ca/bnn-investors-survey/#clip230408>

Ken's Lemma: If avarice were grounds for incarceration , much of Bay Street would be doing time

New research paper: Retirement plans around the world poured the collective savings of millions of employees into the common stock of banks, corporations, and Wall Street ventures that recklessly over-compensated Chief Executive Officers, engineered artificial short-term gains, and gambled fatally with risk. Why did this happen? The financial system needs the oversight of vigilant market participants, but in this case many pension funds, mutual funds, hedge funds, insurance funds, and other major investors were silent. Conventional investment theory about diversification also played a part; while intending to control specific risks, it had the unintended side effect of increasing risk overall. What are the root causes of these failures to exercise vigilance? Studies increasingly point to at least one important factor: flaws in investors'

own accountability. The essence of an effective financial system is that the entities in it, including pension funds and mutual funds, are responsible for their actions. Responsibility implies a willingness to be accountable, and that in turn requires an integrated, active approach to exercising shareowner stewardship. This article proposes a series of practical steps to that end. <http://utpjournals.metapress.com/content/8477108p51u08694/?p=d0ffc0bab7d348058c54016040a1c465&pi=3> *Active Shareowner Stewardship: A New Paradigm for Capitalism*

Is it true you're on your own when using a discount broker?

We'll you won't receive the services of an embedded- commission "advisor" but you will get some easy- to- use investment tools. These include but are not limited to :

Mutual fund screener - Generate fund reports tailored to your specific requirements, with an advanced filter option for further refining your mutual fund search criteria.

Third party fund research- Produced by an experienced team of mutual fund analysts

Special Reports- Access to special reports and timely articles focused on the mutual fund industry.

Mutual fund FAQ's - You can get answers to some of the most common questions regarding mutual funds

Some firms provide on-line access to purchase your choice of over 2,500 mutual funds in addition to stocks, preferred shares, ETF's bonds and GIC's. Most on-line brokers also allow you to set up automatic investment and withdrawal plans. RBC Direct Investing is a leader , selling RBC funds that strip out most of the distribution costs resulting in MER's ranging between 0.68 % and 1.45 %.No doubt other banks will do the same thing. If you want to gain confidence in your investing skills without using real money you can explore RBC Direct Investing's innovative Practice Account .Practice Accounts are a powerful new feature fully integrated into the RBC Direct Investing online site. Account holders can practice investing, create and track a mock portfolio, try out various investing strategies, and more without risking real money. Practice Accounts also give accountholders access to numerous investing tools and in-depth educational resources. You also get access to RBC low cost D series funds.

What makes holding-buying- selling securities **unsuitable in a down market?**

- Failure to advise on appropriate methods to avoid further loss
- Client unaware of loss or downward trend and broker provides no advice or information about loss minimization options
- short position in down market appreciates significantly and broker provides no information or advice to sell and diversify
- a change in research view to "sell" not conveyed to client or ignored by broker
- purchase recommendations not supported by research

- selling at loss without consideration of hedging strategies (for large positions) as a way to stop loss
- sell recommendation inconsistent with client objectives permitting short-term loss in pursuit of long-term gain

Source: J. Fabello, *Managing Civil Liability Risk*, Conference Proceedings, Legal Risk Management in Retail Investment , Nov. 12, 2009

Fund stat: The flagship \$1.8-billion [Mackenzie Ivy Canadian](#) Fund posted an compounded **annual loss** of 0.92% for the five years ended Oct. 31,2009. The \$1.4-billion [Mackenzie Cundill Security](#) (C version) posted an average annual return of just 1.49 %, while the \$820.7-million [Mackenzie Universal Canadian Growth](#) Fund gained annualized 4.65 % over that time (MER 2.38 %). All three underperformed the 6.94 % average annual gain for the S&P/TSX Total Return Index.

Should Seniors be licensed to invest? Read *The Age of Reason: Financial Decisions over the Life-Cycle with Implications for Regulation* Sumit Agarwal, John C. Driscoll, Xavier Gabaix, and David Laibson ,August 31, 2009 Older adults tend to experience declines in cognitive function. The authors report evidence that economic behaviour and economic mistakes show strong age-based patterns. The study examines the regulatory implications of cognitive limitations, with an emphasis on seniors. In particular, the research paper discusses disclosure, “nudges”, advanced directives, fiduciaries, asset safe harbors, ex-post and ex-ante regulatory oversight,. **financial driving licenses** .

On this latter point ,Agarwal and his co-authors suggest the imposition of a government-administered financial literacy test before, say, getting a mortgage or committing to a major investment. In the same way that some jurisdictions retest older drivers, people could be required to pass the test again after a certain age. The researchers got the controversial idea from economics professors Annamaria Lusardi of Dartmouth College and Alberto Alesina of Harvard. The pair first proposed financial licensing for everyone, not just the elderly, in a 2008 paper , *Financial Literacy: An Essential Tool for Informed Consumer Choice?*. They argue the concept is a logical extension of other government policies. We need a license to drive, for example. New immigrants are required to pass a test before they’re granted citizenship. So why not a test to ensure we’re equipped to deal with our finances? Big Brother is there to help.

http://www.brookings.edu/economics/bpea/bpea_conferencepapers_fall2009.aspx Brookings Papers on Economic Activity, Sept. 2009 edition .

New paper :*Against financial literacy* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1105384 Author Lauren Willis states “..*The vision is of educated consumers handling their own credit, insurance, and retirement planning matters by confidently navigating the bountiful unrestricted marketplace. Although the vision is seductive, promising both a free market and increased consumer welfare, the predicate belief in the effectiveness of financial literacy education lacks empirical support. Moreover, the belief is implausible, given the velocity of change in the financial marketplace, the gulf between current consumer skills and those needed to understand today's complex non-standardized financial products, the persistence of biases in financial decision making, and the disparity between educators and financial services firms in resources with which to reach consumers...*”

The CSA wants to limit the benefits of electronic market making

Just whose side is the OSC/CSA on?

“...The Ontario Securities Commission and its counterparts in other provinces last week announced their intention to revamp trading rules. The effect of these new rules amounts to an unnecessary additional cost or tax on every share that retail (and other) investors trade. They are also going to allow dealers to give marketplaces partial control over their clients' order flow. This potential fee bonanza for marketplaces will likely mean the introduction into Canada of trading practices similar to the infamous "flash" orders that the U.S. Securities and Exchange Commission has just recently woken up to....” - Ian Bandeen , Vice-Chair & CEO of CNSX Markets Inc., operator of both the Canadian National Stock Exchange and Pure Trading.
<http://www.financialpost.com/opinion/story.html?id=2230555> NOTE: Not everyone agrees with this obviously “interested party”.

Another fund impairs liquidity : VenGrowth Asset Management Inc. has halted weekly redemptions in its \$197-million Life Sciences fund because it has been unable to sell its investments to a strategic buyer or exit through an IPO. It means that investors who stashed money in this fund to get tax credits - when it was launched 8 years ago before the registered retirement savings plan (RRSP) season - have to wait until investments can be sold. (Eight years is the holding period to get the LSIF tax credits.) Investors will now gradually get money back in the form of an annual distribution. The Life Sciences Fund has posted an average annual loss of 3.5 % in the five years ended Oct. 31, and an average annual loss of 3.3 % since inception. Source: <http://www.theglobeandmail.com/report-on-business/vengrowth-investors-take-a-hit/article1379617/>

Canada ranks 4th worst in PWC Global Economic Crime Survey

<http://www.pwc.com/gx/en/economic-crime-survey/download-economic-crime-people-culture-controls.jhtml> Only Russia, Kenya and South Africa had higher fraud levels .At least we finally beat out Nigeria. “ *“..We're not as bad as many [developing] countries, but if you look around the OECD, the really developed economies with strong democratic governments, I think we are pretty high on the list for having a high incidence of commercial fraud. We don't put anyone in jail.”* - James Grout, partner at the Toronto-based Thornton Grout Finnigan Source: <http://www.financialpost.com/story.html?id=2261893>

Read all about KYC, the NAAF, Risk tolerance and Loss capacity –visit

<http://www.fundlibrary.com/features/columns/page.asp?id=12808>

A guide to buying your own mutual funds , Gail BeBee

<http://www.theglobeandmail.com/globe-investor/investment-ideas/a-guide-to-buying-your-own-mutual-funds/article1298916/>

Great article on reinvesting ETF Dividends

National Posts Chevreau reminds us that one of the secrets of building wealth with individual stocks or ETF's is to reinvest dividends through dividend reinvestment plans, or "DRIPs." Apart from being commission-free, DRIPing provides investment discipline, like dollar cost averaging with mutual funds. When markets are down, you automatically acquire cheaper units. Read <http://www.nationalpost.com/opinion/columnists/story.html?id=23d9304c-313f-47c4-8c2c-2a481f507cb0&p=2>

DRIPS VS. DPPS -There are subtle differences between issuer DRIPS and brokerage-offered Dividend Purchase Plans :

-DRIPs can take between five and ten business days to process but since DPPs go to market to reinvest, the purchased securities are posted faster to client accounts.

-Some issuers offer discounts when doing a DRIP of their own stock (such as RBC), meaning they'll get better prices than through a DPP.

-Pricing can differ too. Many issuers use an average price over a certain time period to set the reinvestment price for DRIPs. That price may be higher or lower than the market price received by a DPP.

[Since Feb. 2009, Claymore Investments auto-DRIPs distributions of all its TSX-listed ETFs back into more units: investors must choose to opt out. Claymore also offers pre-authorized chequing arrangements and systematic withdrawal plans. All BMO ETFs listed on the TSX will soon be DRIP eligible but clients will have to explicitly choose to DRIP distributions. many of Canada's brokerage firms let investors DRIP those ETF distributions -- as well as dividends from individual stocks -- through in-house programs typically called Dividend Purchase Plans.]

Read [Financial literacy programs: more savings, not better investing?](http://independentinvestor.info/content/view/804/1/)

<http://independentinvestor.info/content/view/804/1/> This is a great site hosted by Marc J. Ryan

The Investor Education Fund launched their new website to help financial consumers make better financial and investing

decisions. <http://www.getsmarteraboutmoney.ca/Pages/default.aspx> This site replaces www.InvestorEd.ca and has a revised mutual fund fee calculator There are videos and quizzes to help you test your financial knowledge, but the most useful tools are the calculators. There are calculators to help you figure out how long it will take your investments to recover, whether to pay off debt or invest, and the cost of going to university.

RBC Dexia poll shows Canadian pension plan sponsors rate the future as poor to average

A RBC Dexia Investor Services poll has revealed that 89 % of defined benefit plan sponsors believe that Canada's pension system is either poorly positioned or average when it comes to Canada's future pension prospects. This is according to a survey conducted by RBC Dexia to gauge the opinions of Canada's defined benefit pension plan sponsors on key issues in the pension industry. In Oct.2009, RBC Dexia Investor Services surveyed 370 Canadian pension plan sponsors from coast to coast, with pension plan assets ranging from less than CAD 100 million to over CAD 1 billion. *"Whether due to recent market volatility or a lack of a unity from Federal and Provincial regulators, it is evident that defined benefit plan sponsors are finding it*

difficult to be optimistic about their ability to meet future pension obligations,” said Scott MacDonald, Head, Pensions, Financial Institutions and Client Service for RBC Dexia. “The respondents to our survey frequently suggested the need for all stakeholders to work more closely together to help alleviate the current strain on the pension system”. www.dexia.com

Mutfund companies face class action lawsuit

Five plaintiffs have filed a class action lawsuit in Ontario Superior Court against 5 fund companies. The mutual fund companies plan to defend themselves and declined to comment. They allege the fundcos breached their fiduciary duties between Sept., 1998, and Sept. 2003, by allowing sophisticated investors to do quick trades (market timing) contrary to their fund prospectuses, and that the negotiated restitution was not enough. The certification hearing to determine if this class action can proceed to trial began Dec. 1 in Toronto.

"The case potentially represents the largest breach of trust in Canadian history from a financial perspective," said lawyer Joel Rochon with Toronto-based Rochon Genova LLP. "We are seeking to recover the actual harm suffered by unitholders in these funds." "In addition to monies paid back to investors under a settlement with the Ontario Securities Commission, "we believe ... that as much as several hundred millions of dollars remains unpaid to unitholders," said Mr. Rochon, whose case represents investors outside Quebec.
<http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/market-timing-at-heart-of-class-action/article1383594/> and <http://www.markettimingclassaction.ca/info.html>

Optional DRIPs allow BMO ETF investors to utilize dollar-cost averaging

On Dec. 3 , 2009 BMO Financial Group announced that all 13 BMO ETFs listed on the TSX will offer an optional Distribution Reinvestment Plan (DRIP) effective immediately. Under the DRIP, rather than receiving cash distributions, all distributions paid on BMO ETFs can be reinvested into additional units of a fund. DRIPs may be a beneficial option for investors looking to increase their units of a fund over time in a cost -effective manner .

Morningstar less than thrilled with Trimark approach to ETF-hybrid fund

".. A truly bold move by Invesco Trimark would have been to create its own family of TSX-listed ETFs, competing directly with the iShares, Claymore, BMO, Horizons AlphaPro and Horizons BetaPro brands. Instead, Invesco Trimark designed its version of PowerShares with the needs of advisers in mind, particularly fund dealers who aren't registered to sell ETFs but who have clients hearing about ETFs and asking for them. With ETFs, investors can choose whether to pay for advice and how much to pay. With the new PowerShares mutual funds that hold ETFs, paying for full-service advice is part of the package. PowerShares funds may sound a lot like ETFs in Invesco Trimark's marketing pitches, and they might look a lot like them under their mutual fund wrappers. But they're not priced like real ETFs and that's a big difference in what is the most cost-sensitive segment of the investment fund marketplace...."-- Rudy Luukko , Morningstar Canada commenting on new ETF-hybrid funds announced by Invesco Trimark [the PowerShares emerging markets fund fees add up to 1.90 % compared to the median fee of 2.25 % in this category for an actively -managed fund. Moreover, because of the embedded

trailer commission, the PowerShares fund's management fee is **roughly triple** that charged by two TSX-listed ETFs: Claymore Broad Markets ETF common shares, and BMO Emerging Markets Equity Index ETF.] <http://www.thestar.com/business/investing/article/731941--new-etf-based-funds-keep-fees-down> [These nasty little hybrids give IIROC-licensed reps who could already sell ETFs a way to get paid more. Normally, brokers gets paid on ETFs only when clients buy or sell them, generating transaction-based commissions, as individual stocks do. ETFs sold by majors such as Barclays or Vanguard don't pay trailer commissions. The exception is Toronto-based Claymore Investments Inc., which pays 0.75% trailers on its Advisor class ETFs. Naturally, the resulting MERs are 0.75% higher than Investor class Claymore ETFs that carry no trailers.]

Stromberg comment on mutfund industry: *“Instead of sitting on the sidelines doubting, why don't we roll up our sleeves and make sure it happens? Don't be afraid of change. Change before you have to.”* – former OSC Commissioner Glorianne Stromberg
<http://www.investmentexecutive.com/client/en/News/DetailNews.asp?Id=51610&cat=147&IdSection=147&PageMem=&nbNews=&IdPub>

“..The trouble with Invesco Trimark Ltd.'s new Power shares Funds is it's hard to suck and blow at the same time. Forgive my use of the vernacular, but it's an apt way to summarize the conflicting currents swirling around these new hybrid ETFs-in-a-mutual-fund-wrapper....” – J. Chevreau , *Spoiled advisors want their 1 %*, Financial Post, Dec. 3 , 2009 pg FP 7 (This embedded sales commission trailers is a major reason Canada's mutual fund MERs remain so stubbornly high. Apparently, the industry has decided advice is "worth" 1% of assets a year, no matter how much or how little a client needs, wants or uses. It tells you who they regard their real customer to be- 3 guesses please)

MFDA Investor Protection Corporation customer protection coverage changed

The MFDA Investor Protection Corporation (the "MFDA IPC") and the Mutual Fund Dealers Association of Canada ("MFDA") have announced that effective January 1, 2010 the customer protection coverage by MFDA IPC has been enhanced and clarified. Details of these improvements are set out in MFDA IPC's Coverage Policy which will be posted on the IPC section of MFDA's website at www.mfda.ca on the effective date. Members and customers are encouraged to review the revised document.

In summary, the primary changes to the Coverage Policy relate to:

1. the circumstances in which a customer is considered to have an account with a Member;
2. clarification as to the eligibility for coverage for customers who deal with Members in Quebec (where MFDA IPC does not provide coverage); and
3. the extension of coverage to losses caused by the insolvency of a Member in respect of property in the control of the Member including the conversion of such property.

Many other clarifying changes have been made and Members and customers should refer to the Coverage Policy. No changes have been made to the coverage limits of \$1,000,000 for eligible losses as determined under the Policy and the products covered are the same as in the previous policy. The IPC Claims Procedures is now available on the IPC section of MFDA's website.

MFDA deals with another "advisor"

By Notice of Settlement Hearing, the Mutual Fund Dealers Association of Canada, announced that it proposed to hold a hearing to consider whether, pursuant to section 24.4 of MFDA By-law No. 1, a Hearing Panel of the Prairie Regional Council should accept the Settlement Agreement entered into by MFDA Staff and Douglas Malech. This hearing was held in Edmonton, Alberta on Sept. 18, 2009, at the conclusion of which the Panel accepted the Agreement subject to the submissions made at the hearing. Here are the facts as agreed:

- a. The Respondent has admitted that, in or about November 2007, he failed to deal fairly, honestly and in good faith with a client (a recent widow) by *misappropriating* from her approximately \$10,000, contrary to MFDA Rule 2.1.1. *
- b. Mr. Malech when challenged admitted his guilt and promptly paid the claim.
- c. The money had been paid to the salesman by the victim with instructions to purchase a non-existing GIC, but instead deposited it to his personal account.
- d. At hearing, Mr. Malech admitted receipt of the Notice of Hearing and related documents, and accepted an abridgment of the notice period.
- e. Mr. Malech also acknowledged that he had signed the Settlement Agreement, and that he had consulted a lawyer before doing so.

The real issue in this case was the appropriateness of the token \$2500 fine. The Panel could not find any precedent for a fine this low, and this caused the Panel some concern. On the other hand, there are many mitigating circumstances here at least according to MFDA Enforcement Counsel. The Respondent has no prior record of any of this sort of behaviour. The Respondent has no other licences to sell commercial financial products. There was a single victim and a single incident. And there was a prompt and full confession to the employer and to the MFDA. Finally, the Respondent was ready and willing to settle the affair and co-operated with the MFDA to permit avoidance of unnecessary expense, and, most significantly, has made full restitution of the amount originally stolen. Mr. Malech was also permanently prohibited from conducting securities related business in any capacity while in the employ of or associated with any MFDA Member firm. File No. 200904 <http://www.mfda.ca/news/releases09/Release-SH200904.pdf>

[* On or about Nov. 29, 2007, the widow withdrew \$10,000 from her bank account in the form of a money order payable to herself. A.M. endorsed the money order over to the Respondent and gave it to the Respondent so that he could invest the \$10,000 on her behalf. At the time she provided the endorsed money order to the Respondent, it was agreed that the Respondent would invest the funds in an AIM Trimark "GIC" bearing an annual interest rate of 6.25 % and maturing on June 18, 2008. This investment product did not exist.

On or about November 30, 2007, the Respondent cashed the money order and deposited the \$10,000 directly into his personal account at the Lakeland Credit Union.]

Great article: *Fine tuning your asset allocation* available at <http://www.fundadvice.com/articles/buy-hold/fine-tuning-your-asset-allocation.html> Merriman (FundAdvice.com) provides a rather neat table that summarizes the trade-off in a very readable format: http://www.fundadvice.com/images/stories/fundadvice_images/fine_tuning_2008.pdf If you want to better understand risk vs. return read this article.

January effect (From Wikipedia, the free encyclopedia)

The **January Effect** is a calendar-related anomaly in the [financial market](#) where [financial security](#) prices increase in the month of January. This creates an opportunity for investors to buy stock for lower prices before January and sell them after their value increases. Therefore, the main characteristics of the January Effect are an increase in buying securities before the end of the year for a lower price, and selling them in January to generate profit from the price differences.

This type of pattern in price behavior on the financial market supports the fact that financial markets are not fully [efficient](#). The January Effect was first observed in the early [1980s](#) by Donald Keim who, at the time, was a graduate student at the [University of Chicago](#). It is the observed phenomenon that since [1925](#), small [stocks](#) have outperformed the broader market in the month of [January](#), with most of the disparity occurring before the middle of the month.^[1] The most common theory explaining this phenomenon is that individual investors, who are [income tax](#)-sensitive and who disproportionately hold small [stocks](#), sell [stocks](#) for [tax](#) reasons at year end (such as to claim a [capital loss](#)) and reinvest after the first of the year. The [January](#) effect does not always materialize; for example, small stocks underperformed large stocks in [January 1982](#), [1987](#), [1989](#), [1990](#), and [2008](#).^[2]

1. [^](#) Keim, Donald B.: Size-Related Anomalies and Stock Return Seasonality: Further Empirical Evidence, Journal of Financial Economics 12 (1983)
2. [^](#) Siegel, Jeremy J.: Stocks for the Long Run (Irwin, 1994)pp. 267-274

Willis's advice to governments/regulators on protecting investors

- Forget mass education and pay for individual advice from neutral experts; it would be cheaper in the long run.
- Require levels of retirement savings, mortgage loan provisions and terms for other financial products that will enhance consumer welfare in the long run.
- Require simplification of financial products to give consumers a realistic chance of comparing prices.

- Require financial advisers be paid a salary, with any incentive pay dependant on clients' investments doing well.
- Make providers of financial products legally liable for injury to consumers, as with manufactured products.
- Prohibit the sale of financial products "with particularly risky or outright harmful components."

Source: <http://www.thestar.com/business/article/732812--daw-a-little-financial-knowledge-a-dangerous-thing> [Lauren Willis paper, *Against Financial Literacy Education*, draft available at <http://papers.ssrn.com/abstract=1105384>,]

Canadian Investment Award winners

<http://www.newswire.ca/en/releases/archive/December2009/02/c7440.html> Advisor John de Goeij and other critics have shown how few of the funds chosen by the "manager pickers" in Fund guides worked out in the long run. Managers changed, funds were killed or merged, and track records of losers were buried. Switching funds to follow award-winners is a strategy doomed to fail. Chasing last year's winners usually results in investors being "whipsawed" -- buying funds at high levels after performance has already been generated, and selling at lower levels when disappointed by the inevitable reversion to the mean.

Career Achievement Award Winner :Glorianne Stromberg .Ms. Stromberg, a former commissioner of the Ontario Securities Commission and now Chair of the Public Accountants Council for the Province of Ontario, was honoured for her long-term contributions to the financial services and investment funds industry through her ground-breaking reports, as well as her important contributions to regulatory change and policy development. She was particularly critical of fund governance, industry sales practices and the issues surrounding commissioned "advisor" selling mutual funds to retail investors.

http://www.investmentawards.com/Awards/p_AwardInfo.aspx?awardID=41

Stochastic (from the [Greek](#) "στόχος" for "aim" or "guess") means [random](#). A [stochastic process](#) is one whose behavior is non-[deterministic](#), in that a system's subsequent state is determined both by the process's predictable actions and by a random element. Any kind of time development (be it deterministic or essentially probabilistic) which is analyzable in terms of probability deserves the name of [stochastic process](#). An example of a [stochastic process](#) in the natural world is [pressure](#) in a [gas](#) as modeled by the [Wiener process](#). Even though (classically speaking) each molecule is moving in a deterministic path, the motion of a collection of them is computationally and practically unpredictable. A large enough set of molecules will exhibit stochastic characteristics, such as filling the container, exerting equal pressure, diffusing along concentration gradients, etc. These are [emergent properties](#) of the systems. The financial markets use stochastic models to represent the seemingly random behaviour of assets such as [stocks](#), [commodities](#) and [interest rates](#). These models are then used by [quantitative analysts](#) to value options on stock prices, bond prices, and on interest rates, see [Markov models](#). Moreover, it is at

the heart of the [insurance industry](#). Source: <http://en.wikipedia.org/wiki/Stochastic> Read also http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1153969

Click here to learn about actively-managed ETF's <http://www.hapetfs.com/>

Nortel retiree prefers ETF's <http://www.theglobeandmail.com/globe-investor/investment-ideas/features/me-and-my-money/nortel-retiree-prefers-etfs/article1387723/> In 2002, Peter Benedek retired from Nortel Networks Corp. after rising to the position of vice-president of research and development. These days, he is as busy as ever, as the author of www.RetirementAction.com (a website on retirement) and building a consulting firm catering to investment management firms. He says *"With very few exceptions, I only invest in low-cost, passive index vehicles like ETFs"*.

Irish Ombudsman blast banks for giving poor investment advice : It is obvious that too often it is a case of 'get a customer at all costs so I can earn commission', whether the product was suitable or not".- Irish Ombudsman for Financial Services Joe Meade. Mr Meade said it was clear from the 27 case studies published on his website yesterday that there was a need for a complete culture change in the banking and investment world. <http://www.independent.ie/business/irish/ombudsman-blasts-banks-for-giving-poor-investment-advice-1960597.html> Website: Case studies at <http://www.financialombudsman.ie/case-studies/default.asp>

New Paper : Luck vs. Skill , Eugene Farma The aggregate portfolio of U.S. equity mutual funds is close to the market portfolio, but the high costs of active management show up intact as lower returns to investors. Bootstrap simulations suggest that few funds produce benchmark adjusted expected returns sufficient to cover their costs. If we add back the costs in expense ratios, there is evidence of inferior and superior performance (non-zero true alpha) in the extreme tails of the cross section of mutual fund alpha estimates. This was based on data for 3,156 stock funds from January 1984 to September 2006. They found that outside the top 3% of funds, active management lags behind results that would be delivered due simply to chance http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1356021 and http://online.wsj.com/article/SB10001424052748703735004574572293978523358.html?mod=googlenews_wsj

[With Finra in red, officials saw green](#) (click left) :Thirteen current and former executives of the U.S. Financial Industry Regulatory Authority Inc. made more than \$1 million apiece in 2008, a year in which the regulatory organization had an operating loss of \$696 million, according to tax forms that FINRA filed last month and the company's annual report.

- *Michael D. Jones, former FINRA chief administrative officer*: \$4.43 million
- *Mary Schapiro, now Former FINRA chief executive officer and now SEC Chairman*: \$3.3 million and \$7.2 million for accumulated retirement benefits
- *Susan Merrill, FINRA enforcement chief*: Over \$1 million

Thinking of Opening a Tax-Free Savings Account (TFSA)? <http://www.fcac-acfc.gc.ca/eng/publications/tipsheets/tstaxfree-eng.asp> For adults 18 or older-A gift certificate

and deposit for a new Tax Free Savings Account (TFSA). Use this handy [TFSA gift certificate template](#) and include a cheque.

U.S. site Worth a visit <http://www.stockbrokerfraudblog.com/>

What's the secret of investment success? Be a wise investor and take time to understand the basic principles of investing. Click [Investing between the flags](#)

FCAC Clear Language and Presentation Research Paper 2009 <http://www.fcac-acfc.gc.ca/eng/publications/SurveyStudy/Misc/2009ClearLanguage/CLPRP-toc-eng.asp>

Unsuitable Investment

In making an investment recommendation to a client, a broker must make recommendations that are consistent with the customer's risk tolerance, needs and investment objectives. A broker has a duty to know his client and only recommend investments and trading strategies that are suitable for that client. An investment may be unsuitable if a customer does not have the financial ability to incur the risk associated with a particular investment, if the investment was not in line with the investor's financial needs or if the customer did not know or understand risks associated with certain investments.

A broker has a duty to gather essential information in order to understand the risk tolerance of an investor, the tax considerations for the client, the client's prior experiences and appetite for risk, and the level of return desired. It is the duty of a broker to make recommendations that are appropriate and suitable given his client's circumstances. If a broker breaches those duties and makes unsuitable recommendations for a client, the broker may be liable to that client. The issue is not whether a broker picked the right stock, anyone can make a mistake, but whether the broker pick the right type of investment. Example: bonds and lower risk stocks for a retirement account rather than high risk stocks only. A broker must also have a "reasonable basis for the recommendation". The broker's basis for the recommendation can be the firm's research, in which case the firm must have a reasonable basis for its own recommendation. <http://www.stockbroker-fraud.com/index.html>

What do think of the governance changes esp. those concerning MFDA Public Directors?

The changes to the Public Director definition, which make the definition more “flexible”, are set out in blackline at http://www.mfda.ca/regulation/propAmend/CSA_Notice_Pub_Dir.pdf <http://www.mfda.ca/regulation/propAmend/CSA_Notice_Pub_Dir.pdf> starting at page 15. Let us know.

A historic new tax that has raised the ire of people across Ontario - and beyond - passed the provincial legislature Dec. 9, meaning consumers in the province will be in for a major change July 1, 2010. Opposition politicians, who have waged highly publicized protests over the new Harmonized Sales Tax (HST), heckled Ontario's Liberal government as the legislation passed by a vote of 56-29. The 13% HST will add 8% to the cost of about one in every five purchases — including gasoline, home heating fuel, gym memberships and **mutual fund fees** - when the tax comes into effect next July 1. We wonder how fundcos will respond.

The Scorpion and the Frog

A Consumer View of Canadian Financial Services and Ways to Transform Them A Report prepared for Consumers Council of Canada for presentation to the Office of Consumer Affairs, Industry Canada http://investorvoice.ca/Research/CCC_ScorpionandFrog_Mar01.pdf

Tiger Woods car crash reenactment. Funny animation from Chinese TV station
<http://www.youtube.com/watch?v=jV85rD0gfqo>

IIROC invites public comment on arbitration program: Regulator proposes to raise the program award limit from \$100,000 to \$350,000 which equals the OBSI limit.
<http://docs.iiroc.ca/DisplayDocument.aspx?DocumentID=53EFECBB717E4C40A0E24433AB5F6707&Language=en> Comments will be accepted until March 16, 2010. All comments will be posted on the IIROC website.

Shirley Won reports on Mackenzie hedge fund

“Investors in Mackenzie Financial Corp.’s only hedge fund saw their investment frozen a year ago, and redemptions halted as they discovered they too were [victims](#) of Bernard Madoff’s giant Ponzi scheme. While unitholders received some monies back this year as securities were liquidated, they recently received a letter from Mackenzie’s executive vice-president David Feather saying that further payments were being stopped. This Mackenzie fund of hedge funds, which is run by U.S. based [Tremont Partners Inc.](#), had about 20 per cent of its assets invested with Mr. Madoff’s New York investment firm. “Tremont has now informed us that the [Securities Investor Protection Act Trustee](#) in the United States has requested a halt of payments from Tremont fund-of-funds with Madoff exposure pending completion of their review and analysis,” Mr. Feather said. Given there is “significant uncertainty” as to whether the Mackenzie fund can realize any further proceeds or value from its investment in the Tremont fund, “the significantly reduced Nov. 30 monthly valuation for Mackenzie Alternative Strategies is intended to reflect that uncertainty,” he wrote...”. S. Won, *Mackenzie’s Madoff-tainted hedge fund faces more woes*, G&M, Dec. 18, 2009 [Mackenzie Alternatives Strategies Fund was a runner-up for the best multi-strategy hedge fund [award](#) sponsored by [Canadian Hedge Watch](#) at the 2008 Canadian Investment Awards gala. Since inception in Jan. 2001, this 3.43 % MER fund has lost 17.51 % annually to the end of November]

Funding for FAIR

In September, 2008 IIROC agreed to provide \$3.75 million funding from their restricted or discretionary funds for the initiation of the Foundation for the Advancement of Investor Rights www.faircanada.ca. This funding is expected to be sufficient for the establishment of the Foundation and its operation for a three year period. The IIROC funding to establish the Foundation is a one-time event. There is no commitment on the part of IIROC to any future funding. After its launch the Foundation will look for other sources of funding for its ongoing work. The Foundation is said to be independent of IIROC and IIROC has no role in the governance of the Foundation or determining the positions of the Foundation on any issues.

Investor advocates point out that the Chairman, Stanly Beck, serves as a Director of a number of Canadian corporations and as Chairman of the Board of GMP Capital Corp., an investment dealer. In the view of SIPA www.sipa.ca and others, IROC did not take reasonable measures to ensure retail investors were well represented in the entity and that the governance structure was beyond reproach.

“Of all the losers, you were the best” - comment attributed to comedian Jerry Seinfeld to his financial adviser

SRO's in the spotlight

Queen's University sociology Professor Laureen Snider's comments from her July, 2008 Expert Panel submission are relevant when thinking about 21st century investor protection:

"..It has become increasingly obvious that incorporating non- governmental third parties, parties that do not represent the interests of either business/industry or government, is an essential component of effective, efficient regulation. Third parties have already been incorporated into many other regulatory sectors: environmental groups are represented as stakeholders in the Canadian Environmental Protection Act, patient groups are intermediaries between hospitals and medical associations, unions between employers and government in occupational health and safety regulation Comparable regulatory systems elsewhere (see Pamela Reeve's Submission on the Financial Services Consumer Panel in the United Kingdom) have successfully incorporated the most logical third party, the retail investor, into financial regulation. Canada is one of the few Anglo-American, common-law systems of financial regulation still reliant on an outdated bipartite model of regulation.." <http://www.expertpanel.ca/documents/submissions/Snider,%20Loreen%20edited%20EXPERT%20PANEL%20FINAL%20SUBMISSION%20JUNE%202008.pdf>

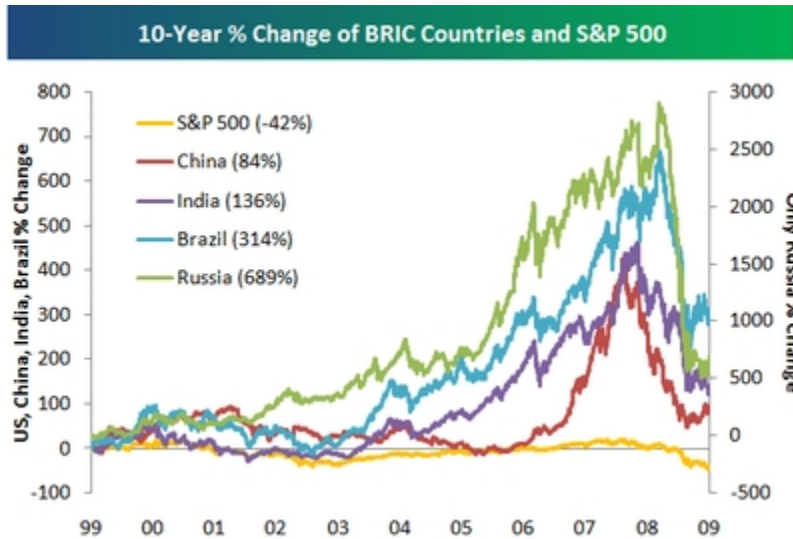
Trimark's COO Peter Intraligi on the new hybrid mutual funds that own ETFs He explains why the firm believes in the value of financial advice. He said DIY investors are "not our target market." Such investors, he observed, can buy the underlying Invesco PowerShares ETFs on American exchanges rather than the new hybrids. He says DIY investing isn't as easy as it sounds, discount brokers entail other costs, buying investments strictly on price is risky, and that setting trailer fees [aka sales commissions] at a different level than the one on actively- managed class A funds would open up potential conflicts- of- interest.

<http://www.financialpost.com/personal-finance/wealthy-boomer/index.html> Source: J. Chevreau, *Funds should serve clients , not advisors*, FP Dec. 10, 2009 pg FP6

BRIC Stocks Top Developed Markets Over Decade

Stocks in Brazil, Russia, India and China beat developed-country equities this decade as surging commodities lifted the fastest-growing markets, while investors lost money in advanced nations from the U.S. to Germany. A note from Bespoke Investment Group LLC, shows that so-called BRIC stocks, led by Russia, climbed since the end of 1999 as equities in the biggest developed markets retreated. Emerging-market stocks rose as oil prices almost tripled, copper quadrupled

and economic expansions boosted demand. A collapse of technology shares in 2000 and banks last year spurred losses in the U.S., Japan, the U.K., Germany, France and Italy. “It’s been the decade of emerging markets,” said Justin Walters, the co-founder of Bespoke, a research firm based in Harrison, New York. “Oil has been another major theme of the decade, and those two go hand-in-hand with each other. The commodities boom is broad-based. The developed countries have pretty much been awful.”



In Russia, the world’s largest energy exporter, the dollar- denominated RTS Index jumped seven-fold since 1999, recovering from the ruble crisis that wiped out 85 percent of its value the previous year. The Bovespa index in Brazil, home to Vale SA, the world’s largest iron-ore producer, and Petroleo Brasileiro SA, the third-biggest oil company by market value, quadrupled. India’s Bombay Stock Exchange’s Sensitive Index more than tripled and China’s Shanghai Composite Index doubled. Canada’s S&P/TSX climbed 35 % over the decade, while a 48 % decline in Italy’s benchmark FTSE MIB Index led losses among the other G-7 nations. The term BRICs was coined by Goldman Sachs Group Inc. Chief Economist Jim O’Neill in 2001 to describe the fast-growing economies of Brazil, Russia, India and China.

<http://www.bloomberg.com/apps/news?pid=20601109&sid=aPBPBGr86E1E&pos=15> Read also The Ultimate Guide to the BRIC ETF’s <http://www.etftrends.com/2009/05/ultimate-guide-bric-etfs.html>

“Don’t tell my mother I’m a fund manager, she thinks I run a brothel”- Contributed

The bitterness of poor fund returns remains long after the sweetness of a slick sales pitch is forgotten - Ken Kivenko

[Time-Weighted vs Dollar-Weighted Returns](#) by Preet Banarjee .The **Dollar Weighted Rate of Return** measures how much your investment *dollars* returned on average. Use this measure when you want to see if your return is above or below your long- term return objective.

The **Modified Dietz Method** is a calculation used to determine the performance of an [investment portfolio based on time-weighted cash flow](#). Find out more at http://en.wikipedia.org/wiki/Modified_Dietz_Method

Luukko cautious on virtual bond funds

A virtual bond fund is a specialty fund that mimics the returns of a bond portfolio while spinning off capital gains instead of highly taxed interest. The magic transformation is accomplished by means of forward contracts. Recent new offerings of these bond fund alternatives, both launched in November, include Claymore Advantaged Canadian Bond ETF (CAB/TSX) and Renaissance Corporate Bond Capital Yield. Similar financial engineering is occurring in the fixed-income portions of some balanced funds. Taxes are always an important consideration when investing in a non-registered account. But the investment in a virtual bond fund must stand on its own merits, the risks should be understood by the investor and the fees should be reasonable. A drag on the performance of the virtual bond fund are the fees charged by the counterparties to the forward agreements. These fees are reflected in the prices the counterparties are willing to pay for their forward purchases. Though forward agreements don't get factored into MERs, their effective cost would typically be in the range of 25 to 50 basis points. Investors take heed: This alone will offset some of the tax advantages of holding a virtual bond fund rather than the real thing. <http://www.thestar.com/business/article/737881--virtual-bond-funds-spin-interest-payouts-into-capital-gains> If your tax rate is low or NIL or you are investing in a tax-deferred account , these funds make little sense. To learn more, visit <http://www.claymoreinvestments.ca/etf/fund/cab>

Four Pillars explains [another way to use RRSPs to reduce taxes](#). (thanks to wheredoesallthemoneygo.com)

Useful study: A recent study from the Ontario Investor Education Fund sheds additional light on the most influential life events that drive financial decisions, barriers to making informed decisions, top money questions, and the tools people look for in this age group. Key findings include that Canadians in this age group do their research online due to the security of anonymity, time constraints and fear of “ageism”. They also tend to seek out like-minded sources – others who have gone through the same experiences. Time, money and lack of information are barriers to making informed decisions. Even with good financial information, people can still hold back from action because of finances (cash flow restrictions), fear of commitment (the time required to pay off debt) and the economy (the unpredictability of the market). <http://www.getsmarteraboutmoney.ca/Investor-research/Our-research/Pages/2009-IEF-Learning-and-Key-Events-Age20-34.aspx> For details [Download the summary of findings](#).

Should I pay down debt or contribute to my Registered Retirement Savings Plan (RRSP)? <http://www.getsmarteraboutmoney.ca/managing-your-money/investing/rrsps-for-retirement/Pages/should-i-pay-down-debt-or-contribute-to-my-registered-retirement-savings->

[plan-rrsp.aspx](#) Calculator at <http://getsmarteraboutmoney.ca/tools-and-calculators/pay-off-debt-or-invest/default.aspx>

Pape summarizes Mutfund industry woes: According to statistics compiled by the Investment Funds Institute of Canada (IFIC) its member companies recorded net redemptions in excess of \$1 billion during September and October. <http://www.fundlibrary.com/features/columns/page.asp?id=12815> Mr. Pape describes the issues-high fees , chronic underperformance , conflicted “advisors’ and unhappy clients. He shares a few of the comments he recently received from a disgruntled fund investor. Hopefully, industry participants will heed his warning call.

Some good news: An Ontario court has approved a final payment to clients of *Portus Alternative Asset Management Inc.*, which will see the collapsed hedge fund's customers receive at least 95 cents on the dollar of their investments as the recovery process now winds down. On Dec. 7th Mr. Justice Colin Campbell of the Ontario Superior Court approved a fourth distribution to Portus customers worth 3.14 cents of each dollar they invested in the fund, boosting their recoveries to 95.14 % of their investments so far. The final payment approved yesterday means the long-running receivership of Portus is drawing toward a close, with the receiver KPMG Inc. preparing to end its work after almost five years of efforts to recover clients' funds. Portus was shut down by the Ontario Securities Commission in 2005 amid concerns that the firm's money was not being invested as promised, leaving 26,000 investors worried about the fate of more than \$800-million in investments. <http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/portus-investors-recover-95-with-final-payment/article1392283/> It’s been a painful journey and disrupted many lives. There are 50 Portus clients who did not come forward to collect their payouts from the receiver and cannot be located-their accounts total less than \$400,000.

Islamic Finance – default possible? With \$25-billion in Dubai debt potentially in default, much of it on the spectacular Palm Jumeirah -the palm-shaped island off this Middle East emirate -the ramifications of Dubai's debt problems go far beyond the potential for global contagion. A default will also test the true nature and performance of Islamic financing under stress. This critical area to watch has never really been tested before. Full story at <http://www.nationalpost.com/related/links/story.html?id=2314469>

OSC forecasts deficit for next three years : Regulators operating under a deficit could loosen up on enforcement. Not a healthy situation for retail investors. Even when fully funded, investor protection is nothing to write home about. In terms of its financial picture, the OSC is forecasting an operating deficit in each of the next 3. For the three years ending March 2013, it projects that its operating costs will exceed revenues by \$25.4 million. This deficit will be offset by applying the expected March 2010 surplus of \$24.8 million and \$600,000 of its operating reserve. <http://www.investmentexecutive.com/client/en/News/DetailNews.asp?id=51757&IdSection=8&cat=8&BImageCI=1> Bay Street bonuses still flowing however. Not sure if OSC is curtailing salaries of its staff like industry does when times are tough. Salaries at <http://www.fin.gov.on.ca/en/publications/salarydisclosure/2009/crown09.html>

Education Savings Calculator :Find out how much you will need to save and contribute for your child's education <http://www.fundlibrary.com/tools/EducationSavings.asp>

Must see Video: Larry Elford, former financial adviser is blowing the whistle on lax regulations for the Canadian financial services industry

<http://ismymoneysafe.org/video/CBCPowerandPolitics-LarryElfordblowingwhistleonfinanceindustry12142009.wmv>

Canadian Debt-income ratio at dangerous level: Household per capita net worth grew 1.8% during the third quarter of 2009 to \$168,800, still below the \$179,000 peak in the second quarter of 2008. Household debt (in the form of mortgages and consumer credit) continued to increase in the third quarter. Falling mortgage rates, along with increased sales of existing homes and renovations, sustained increases in mortgage demand. In addition, strength in auto purchases led to a further increase in consumer credit. The household debt-to-net worth ratio remained relatively unchanged. However, personal sector liabilities increased from \$1.39 trillion to \$1.41 trillion (+1.6%), driving up the household debt-to-income ratio 2 points to 145%.

<http://www.statcan.gc.ca/daily-quotidien/091214/dq091214a-eng.htm>

Overheard: Currently, aggrieved retail investors who present a legitimate claim of a contravention of a provincial securities act are directed by the provincial securities commissions to contact a self-regulatory organization ("SRO" e.g. the MFDA). The SRO, not being a creature of statute, regulates its members and those registrants employed by the member by contract. The terms of that contract are the by-laws and constitution of the SRO. The securities commissions have "recognized" the SROs for the purpose of regulating its members subject to those terms. The contract however does not extend to the public as they are not a party to that contract. The consumer/retail investor, with a valid claim, has the right to have their claim investigated and, if warranted, adjudicated by direct application of the relevant Securities Act and not by terms of a contract to which the consumer is not a party. To exacerbate the problem further is that there are no statutory remedies within the current regulatory structure available to the retail investing public even though it was contemplated and incorporated into the Securities Acts.

Australia has a Consumer Advisory Panel, Canada does not

The Consumer Advisory Panel (CAP) was established in 1998. Its role is to advise the Australian Securities and Investments Commission on current consumer protection issues and give feedback on ASIC policies and activities. CAP also advises ASIC on key consumer research and education projects. CAP members from across Australia meet quarterly at ASIC's offices in either Sydney or Melbourne. The members of CAP are selected to reflect a diverse range of consumer interests in the financial services sector. They include both representatives from consumer and investor organizations and individual members. Membership is varied over time to make sure that a broad range of organizations have the opportunity to participate. Here's a sample of their work: Research report: [Consumer decision making at retirement](#) No Canadian provincial securities regulator or SRO has such a Panel.

www.thereformedbroker.com “**The Reformed Broker** is a blog about Wall Street, the economy, politics and anything else that I feel like discussing. I’ll use statistics, satire, anecdotes, pop culture references, sarcasm, fact, fantasy and any other device I feel necessary to get my points across.”

ABSTRACT of new research paper “Excess cash and mutual fund performance”: I document a positive relationship between excess cash holdings of actively managed equity mutual funds and future fund performance. The difference in returns of portfolios of high and of low excess cash funds amounts to over 2% annually, or approximately 3% after standard risk adjustment. I study whether this difference in performance can be explained by the differences in managerial stock selection skills, market-timing abilities, fund liquidity needs, and operating costs. I show that managers of high excess cash funds make more profitable stock purchasing decisions, while low excess cash fund managers make better sell decisions. Neither high nor low excess cash groups exhibit significant market-timing skills; however, funds with volatile excess cash holdings are successful market timers. The difference in returns between high and low excess cash groups is particularly pronounced during periods of low fund flows, suggesting that high excess cash funds are better able to anticipate fund outflows. Finally, I show that high excess cash funds incur significantly lower operating expenses than do their low excess cash peers. I additionally document new important determinants of mutual fund cash balances, showing that funds with riskier or less liquid shareholdings, as well as those with higher return gap measures hold more cash. The determinants I consider jointly explain three times more cross-sectional variation in cash positions than variables studied in prior literature.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1516069

Great article on Asset LOCATION <http://www.fundlibrary.com/features/columns/page.asp?id=12823> *Explains the issues and benefits of locating assets in the right account type. It’s Not What You Make That Counts – It’s What You Keep!*

Many people take no care of their money, till they come nearly to the end of it. -- Johann Wolfgang von Goethe

From our Files

The Dec. 2003 *OSC Regulatory Burden Task Force Report* recommended that:

- There should be a mandated KYC form with definitions that are more understandable.
- Registrants should be required to follow mandated procedures regarding their use of the form with investors.
- The form should require signature by the investor in all cases (with a copy retained by the investor) and all changes in the investor information contained in the form should require initialing by the customer.
- The form should also contain clear bold-faced instructions to the investor as to how to best use the form to protect themselves and how to pursue a complaint regarding their account, with the registrant and its internal ombudsman and, if necessary, with the OBSI [Ombudsman for Banking Services and Investments].

- The Commission and the IDA [now IIROC] should consider requiring registrants to send clients copies of their KYC form annually together with a request to advise the registrant if the information in the form should be amended.

As at Dec. 2009 these changes have not yet been fully effected.

From ReirementAction.com: Dan Richards had a couple of articles in the Globe and Mail on pensions. The first, **“Let’s turn down the panic on the pension plan problem”**, suggests that Canada’s pension system is not in crisis and not in urgent need for action; he wrote that all we need is “to turn down the rhetoric and turn up the substantive discourse.” Obviously his pension must be from U of T and rather than Nortel, Abitibi or even Air Canada or Ford. One point in the article was certainly true. This is a problem that has been festering for years and nothing was done about it. And just because it was festering for years it doesn’t mean that there is no crisis. In fact there is a crisis because of years of neglect on part of at least some of the parties who had fiduciary and/or professional responsibilities toward pension plan beneficiaries or were elected to protect the Canadian public. His second article a week later (more than likely after much negative feedback to the first), is a better reasoned **“A fundamental rethinking needed on pensions”** where he recommends a solution to the pension crisis, like the Ontario Teachers’ Pension Plan where risk is shared between employees and the government (sponsor). (Great idea, except for at least one (actually quite a few more) little thing(s), a private employer sponsor can still go bankrupt and not pay its half of the bills, whereas the government (the taxpayer) will pay; oh well, back to the drawing board. The other ‘minor’ consideration is that this does not solve any of the problems associated with the current commitments of existing pension plans.)

OSC claims Coventree at centre of ABCP collapse

http://www.osc.gov.on.ca/documents/en/Proceedings-SOA/soa_20091207_rev_coventree.pdf

According to independent financial analyst Diane Urquhart, the provincial securities commissions, including the OSC, exempted the Non Bank ABCP from being sold by a registered dealer and by prospectus, if it has an approved credit rating from an approved credit rating organization as defined in National Instrument 45-106. The provincial securities commissions were enablers of DBRS being the only credit rating organization providing top credit ratings for the Non Bank ABCP. The provincial securities commissions could have forced the Non- Bank ABCP sponsors to prepare prospectuses for their commercial paper when Standard & Poor's reported that the Non -Bank ABCP was below investment grade in 2002. Instead, the provincial securities commissions granted Mutual Reliance Review System for Exemptive Relief decisions that allowed the dealers to proceed with distribution of the money market paper on just the one credit rating from DBRS passing the minimum credit rating standard in the regulations.

IIROC transparency improved: The Small Investor Protection Association www.sipa.ca recently submitted Comments on proposed IIROC KYC and Suitability Guidelines. As it turns out the various Comment letters were not be made available for public viewing. Instead, they were to be consolidated and summarized by the SRO. This is not regarded as a Regulatory Best Practice because a few retail investor comments are mixed in with dozens from industry participants. After we pointed this out, IIROC agreed to post the letters.

Recommended reading for regulators: **Professor Julia Black's insightful research study for the IDA [now IIROC] Task Force, "Involving Consumers in Securities Regulation" at:**
[http://www.tfmsl.ca/docs/V6\(9\)%20Black.pdf](http://www.tfmsl.ca/docs/V6(9)%20Black.pdf)

The IDA [now IIROC] Task Force published its Final Report with the research studies in 2006 - three years ago. Regulators should review Professor Black's recommendations, especially section 3 on "Consultation and Participation," section 4 on "Consumer Advocates" and section 5 on "Embedding Consumer Interests in Decision- Making". Her recommendations are summarized on pp. 558-560 of her study available at the above link. Thanks to Dr. Reeve for reminding us of this important study.

[Dividend investing: everything you wanted to know about it \(or almost\)](#)



Page 1 of 2



Do you, consciously or by happenstance, invest solely or mostly in dividend-paying stocks? Maybe you have been thinking about it. Many investors follow a policy of dividend investing. Our readers have asked how it compares to index investing. Being fans of the latter approach we expected dividend investing to compare rather unfavourably, but the reality turned out to be more ambiguous. So we decided to devote several commentaries to dividend investing. We first look at its background and history. In subsequent commentaries we will look at its advantages, its disadvantages, and finally the different ways of putting it into practice (e.g. directly, through dividend reinvestment plans or through mutual or exchange-traded funds).

<http://independentinvestor.info/content/view/807/1/>

For the DIY'r: "Personal experiences, analysis and assessments of a mid-50s Canadian. I take a do-it-yourself approach, covering taxes, investing, ETFs, portfolio and asset allocation, insurance, annuities and related book reviews in Canada and the UK."

<http://www.canadianfinancialdiy.blogspot.com/>

Morningstar offers free Option Trading Guide: In a volatile market, options are your key to limiting risk. Are they right for you? Find out--free. [Click here](#) for a 30-page Guide to Equity Option Investing, compliments of Morningstar. If you are not already registered, you'll have to register, no charge.

"After their substantial run-up in recent years, home prices could recede... any bubbles would tend to be local, not national, in scope" - then US federal reserve chairman Alan Greenspan, March 2003

"In today's regulatory environment... it's impossible for a violation to go undetected"- Bernhard Madoff, October 2007

RRSP contributions forecast to fall: Only 1-in-3 are planning to contribute to their RRSPs for 2009. One-in-three Canadians have not started saving for retirement yet, compared to one-in-four

in 2008, according to a new RRSP poll released by Royal Bank of Canada. The study also found only 36% say they are planning or have planned for retirement, down from 42% in 2008. The decline is most noticeable among those aged 55 and over, with only 53% doing any retirement planning compared to 67% in 2008. Among the reports other findings:

- Many Canadians are waiting until the last minute to contribute to their RRSPs, with 35% who plan to make a one-time RRSP contribution expecting to do so just before the March 1, 2010 deadline.
- Only 24% of respondents plan to maximize their RRSP contribution for the 2009 tax year.
- Among Canadians who have an RRSP, 76% plan to contribute at least as much as what they contributed in 2008.
- Only 31% of RRSP investors make regular contributions through a plan.
- Although mutual funds remain the top planned RRSP investment choice (42%) for the 2009 tax year, they have been declining since 2006 (55%). Younger Canadians (aged 18-34) are more likely to favour savings accounts (29%) and cash (23%). The RBC 20th Annual RBC Poll was conducted by Ipsos Reid between Oct. 21 and Nov. 2, 2009. For this survey, a national sample of 1,457 adults from Ipsos' Canadian online panel was interviewed online. For some people, the TFSA is a better way to go, especially if they're starting out, if they're in a low marginal tax rate or they need to accumulate an emergency fund.

Small penalties paid for \$32 Billion non-bank ABCP fiasco

Seven financial services firms have agreed to pay a modest \$138.8 million in penalties and costs in connection with the investigations into the non-bank asset-backed commercial paper (ABCP) market. Settlements were reached behind closed doors between the Autorité des marchés financiers (AMF), the Ontario Securities Commission (OSC) and the Investment Industry Regulatory Organization of Canada (IIROC) and seven institutions involved in the Canadian third party ABCP market. Victims and Victim Impact Statements were not part of the proceedings. The Canadian \$32 billion ABCP market ground to a halt in Aug. 2007 amid fears that the assets behind the notes included U.S. subprime mortgages and other high-risk loans.

Thousands of Canadians suffered, some brutally, from the aftershock. National Bank Financial Inc.'s settlement totals \$75 million, including an administrative penalty of \$70 million, \$4 million to fund an investor education campaign, and \$1 million in investigation costs. The OSC reached 2 settlements: one with CIBC and CIBC World Markets Inc. and the other with HSBC Bank Canada. IIROC reached 3 settlements, with Scotia Capital Inc., Canaccord Financial Ltd. and Credential Securities Inc. The AMF reached two settlements, one with National Bank Financial, and the other with Laurentian Bank Securities Inc. The administrative penalties and investigation costs (not identified) to be paid by the firms is as follows:

- National Bank Financial Inc. (TSX:NA), \$75 million
- Scotia Capital Inc. (TSX:BNS), \$29.27 million [includes \$320K costs]
- CIBC and CIBC World Markets Inc. (TSX:CM), \$22 million
- HSBC Bank Canada, \$6 million
- Laurentian Bank Securities Inc. (TSX:LB), \$3.2 million
- Canaccord Financial Ltd. (TSX:CCI), \$3.1 million
- Credential Securities Inc., \$0.2 million

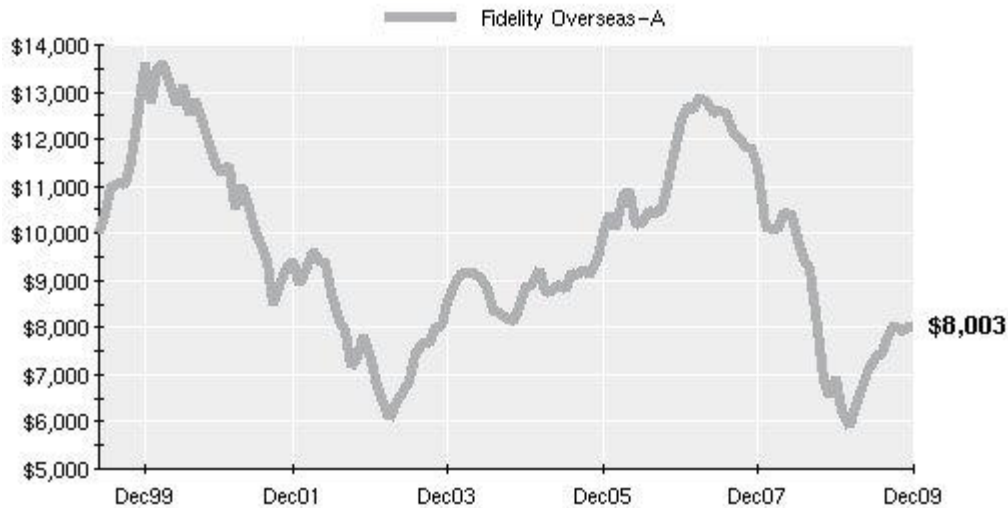
“With regard to financial penalties imposed, a fair and appropriate use for the sanction monies will be determined in accordance with applicable laws, court orders and in the public interest,” the regulators said in a joint release. The settlements work out to just \$430 per million dollars of grief unleashed on investors . The penalties amount to less than the fees advisors, lawyers and accountants took home* to restructure the toxic ABCP into long-term notes, most of which still aren't tradable. None of the regulators assisted retail investors in their 2-year successful battle for recovery of assets with the huge institutions. * According to documents filed in connection with the proposed \$32-billion restructuring, lawyers for the investors committee, their financial advisors JP Morgan and others had been paid or submitted invoices for \$199.1-million as of Dec. 8, 2008. The lion's share of that money - \$87-million – went to JPMorgan, the New York financial advisor contracted by the investor committee to figure out how to convert the \$32-billion of frozen paper into long- term notes.

“ ... One reason for the lousy performance (of Caldwell funds): lots of trading activity. Five of his funds had portfolio turnover of at least 75 percent last year, three of them more than 100 percent. In total, the funds paid \$800,000 in brokerage commissions-almost one percent of assets at year-end. And where did those commissions go? Primarily to Caldwell Securities Ltd. according to Caldwell's regulatory filings....” -Derek DeCloet, *Volatile funds scorch Caldwell*, FP, Aug. 9, 2002 pg. FP1

"The [ASC] securities commission should have followed it up. The delay between the investigation and formal charges prove that regulatory oversight is "next to nil" in this country. Ultimately, it's a matter of enforcement. Laws have to be tightened, regulation has to be tightened and enforcement has to exist."--Stephen Jarislowski, president of Jarislowski Fraser Investment Management and a prominent advocate for investor protection commenting on the latest Ponzi scheme in Alberta

<http://www.canada.com/news/Oversight+blamed+Alta+scheme/1999095/story.html>

Can you lose money after 10 years of holding a fund? You bet. Consider the Fidelity Overseas A Fund. For 10 years to Nov. 30, 2009 the fund has returned less than ZERO – its compound annual return is – 1.02 %. Since inception it did even worse -2.01 %. This load fund's MER is 2.64 %, it's a third quartile performer (3 yr) and assets thankfully, are just \$9.1 million. The fund's stated investment objective is to obtain long-term growth of capital by investing primarily in equity markets located in Europe, Australasia, and the Far East. Long- term must mean 20 years+. Here's the "Growth" of \$10,000 chart, courtesy of globefund.com:



AMIDEX Cancer Innovation & Healthcare wins Lump of Coal Award. Category: Not recognizing that high fees and bad strategies kill performance. This tiny fund is a specialized play on the health care sector, but its approach has proven hazardous to investor wealth in 2009. For starters, there's the 5 percent expense ratio (no, that's not a misprint). Then, nearly half of the fund's assets haven't gone to cancer-related biotech stocks, but rather into a Fidelity money-market fund; since money fund yields are less than 0.5 percent - and the fund's expenses outweigh that by a factor of 10 - it means that management is strategically letting shareholders take a loss on about half of the money they invest with the fund. That's bad medicine. Source: C. Jaffe, *It's time for Lump of Coal awards again*, <http://www.theday.com/article/20091220/BIZ03/312209816/-1/BIZ> While Lump of Coal is a U.S. based award, our own Sprout Asset Management won the *Insulting Investors over Injurious Fees Award*.

"It is only good for the dealers, and certainly not for any of the poor retail investors who end up buying it. By the time these holders get their account statements in January, the stock will likely have traded down, while the dealers [will have] stuffed their pockets with unwarranted underwriting fees." - Investor commenting on a series of coordinated transactions by TD that will result in a secondary offering of BIG 8 capital shares [BIG.A: TSX] at a price above Net Asset Value. Closed-end funds normally trade at a discount to NAV. FP journalist Barry Critchley figures the dealers will rake in \$2.52 million in fees if the maximum number of shares (\$75 M) is sold. <http://www.financialpost.com/opinion/columnists/story.html?id=26fafde2-c44d-4c5b-beb6-93c03a3f4ec7>

FINRA deals with leveraged ETF's: Over the past year, leveraged and inverse ETFs have come under scrutiny forcing the U.S. Financial Industry Regulatory Authority (FINRA) to increase margin limits to aid in curbing the volatility of these investment instruments. Earlier this month [Dec, 2009], the margin requirements for leveraged and inverse ETFs have increased by a factor commensurate with the leverage of the ETF. Prior to the ruling, margin costs were 25%

of the market value for a leveraged long ETF and 30% of the market value of a leveraged short ETF. What this means for investors is that those who hold leveraged and inverse ETFs will not be able to take on the same amount of margin as investors who hold traditional securities.

<http://seekingalpha.com/article/178165-finra-raises-margin-limits-on-leveraged-etfs> FINRA Regulation Notice at

www.finra.org/web/groups/industry/@ip/.../@notice/.../notices/p120383.pdf

Canadian securities regulators approve new complaint-handling rules proposed by IIROC /MFDA

In a Dec. 18 OSC Bulletin, the Ontario Securities Commission announced that it has approved the new rules and rule amendments required to implement new complaint-handling standards by the IIROC and the MFDA. The other regulators have ruled similarly. The objective of the proposed amendments is to establish minimum requirements for the client complaint handling process, and to harmonize them between the self-regulatory organizations and the Canadian Securities Administrators. Among other things, the IIROC rule requires firms to appoint a designated complaints officer, establish written procedures for dealing with complaints, it imposes deadlines (complaints must be acknowledged in five days, and clients must receive a substantive response in 90 days), and it prohibits settlement agreements from imposing confidentiality restrictions that limit disclosure to regulators or law enforcement. OSC Bulletin at <http://www.oscbulletin.carswell.com/bb/osc/bb/3251/on3251.htm>

Retail investing in the U.S. and Canada: a comparison :

<http://independentinvestor.info/content/view/808/1/> Conclusion is that retail U.S. investors appear to be better protected. The author hopes that things will improve in the future. Ho, ho, ho

You might be a Fund Bug by Kenmar

How do you know if you've become obsessed with mutual funds? Taking a page from **Jeff Foxworthy's** *You Might be a Redneck* series, I thought I'd offer some guidelines...

- If you consider *Diversification* to mean a portfolio consisting of 7 Canadian equity funds...you might be a fund bug.
- If you can't spell MER...you might be a fund bug.
- If the family dog's name is **Frontend** ...you might be a fund bug.
- If you have a poster of a shirtless David Feather hanging over your bed...you might be a fund bug.
- If you're more sensitive to your advisor's feelings than your portfolio returns...you might be a fund bug.
- If every single fund in your brokerage account contains the word "ultra" in it's name...you might be a fund bug.

- If you get your financial advice from BNN...you might be a fund bug.
- If you start off many sentences with the phrase "Active management always wins," ...you might be a fund bug.
- If you don't know your RRSP returns...you might be a fund bug.
- If t your literacy level is 6.0...you might be a fund bug.
- If the panic room you've just installed has it's own panic room...you might be a 2X leveraged ETF fund bug.
- If the birthday cards you send to friends and relatives include warnings about the danger of ultimately eating catnip...you might be a fund bug.

Anyway, these were some possible ways I came up with to help you determine whether or not you've gone overboard on the mutfund thing. My commentary above is neither an endorsement nor a disparagement of mutual funds...I just wish the fundcos weren't quite so tedious.

DISCLAIMER

Information contained herein is obtained from sources believed to be reliable, but the accuracy is not guaranteed. The material does not constitute a recommendation to buy, hold or sell. The purpose of this Document and others in the series is to educate investors by bringing together personal finance information from a variety of sources. It is not intended to provide legal, investment, accounting or tax advice and should not be relied upon in that regard. If legal or investment advice or other professional assistance is needed, the services of a competent professional should be obtained.