



# **CANADIAN INVESTORS' COURSE**

## **Session 8 – The Investment Industry: The Players, Products and Fees**



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As you will learn in the CIC course, *all* investing involves some level of risk. Future results can be dramatically different from what you might expect of an investment at the outset. The same is possible regarding the opinions expressed herein. **One opinion we believe in MOST STRONGLY is the benefit of consulting an investment professional before investing.** Also, not ALL advisors are alike. We suggest you view Sessions 8 and 9 of our CIC course on the 'Investment Industry' to become fully aware of ALL the various types of licenced investment professionals which exist in Canada, the services they can offer and the different ways they may charge fees and/or receive compensation for the services they provide.



# Canadian Investors' Course



## The Investment Industry

- **Overview**
- **Who are the players?**
- **Licensing bodies**
- **How do they get paid?**



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## Overview

### **The investment industry can be confusing:**

- Many financial product sellers
  - Many financial licencing bodies
  - Many different titles which sound the same
  - Many “new” products
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- **Investors' right to information is not the same with all products or product sellers**
  - **Some advisors are restricted in the financial products they can sell**
  - **Imitation IS the greatest form of flattery: all of them would have you believe they have equally excellent solutions**



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## Who Are the Players?

- Bankers
- Insurance Agents
- Financial Planners/Mutual Fund Salespeople
- Investment Advisors
- Old school stockbrokers
- Discount Brokers
- Portfolio or Associate Portfolio Managers
- Robo-advisors



## Licensing Bodies

'Financial certifications and designations are not the same as a registration or license.'

### Regulators

- Investment Industry Regulatory Organization of Canada (IIROC)
- Mutual Funds Dealer Association (MFDA)
- The Autorité des Marchés Financiers (Quebec)
- Securities Commissions
- Insurance Regulators



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## Investment Industry Regulatory Organization of Canada (IIROC)

- **IIROC** is the regulatory body for all securities firms in Canada.
- IIROC has the **MOST STRICT** requirements for individuals who sell securities such as stocks, bonds, ETFs, mutual funds, options and/or futures.
- IIROC regulations require that advisors and management within the IIROC member firms must meet defined educational and work experience criteria.
- Of all regulatory bodies, investment client consumer protection with IIROC member firms is the strongest.



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## Mutual Funds Dealer Association (MFDA)

- The MFDA is formally recognized as a Self Regulatory Organization (SRO) in Alberta, British Columbia, Nova Scotia, Ontario, Saskatchewan, New Brunswick and Manitoba and is currently pending approval in Newfoundland & Labrador.
- The MFDA has also entered into a co-operative agreement with the Autorité des marchés financiers and actively participates in the regulation of mutual fund dealers in Quebec.
- The MFDA member rules reflect the mutual fund sales licensing proficiency requirements determined by the Provincial Securities commissions.
- The MFDA sets proficiency requirements for its members and for individuals who supervise those who sell mutual funds.
- MFDA Members and their Approved Persons are permitted to sell mutual funds, including certain ETFs that meet the definition of a “mutual fund”. However, MFDA Members have, historically, not transacted in securities that trade on an exchange. As a result, they have not developed the necessary systems functionality, and policies/procedures that would be necessary to transact in exchange traded securities





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## Financial Services Commission of Ontario (FSCO)

- FSCO regulates insurance companies, insurance agents and agencies, insurance adjusters, co-operatives, credit unions/caisses populaires, loan and trust companies, Mortgage Brokerages, Administrators, Mortgage Agents, and Mortgage Brokers Registered in Ontario, and pensions.
- FSCO Regulation includes registration or issuing a licence to those who are qualified and is responsible for licensing insurance companies and issues licences authorizing persons to conduct business as insurance agents. There are three classes of agent licences:
  - Life Insurance (Including Accident & Sickness)
  - Accident & Sickness
  - General
- Note: Agents listed may hold a combination of the insurance licences listed above. An insurance licence is issued by FSCO for a two-year term.
- **NOTE: Most IIROC licenced members and many MFDA licensed members are also FSCO licenced agents too.**
- **Bank Branch personnel cannot be FSCO licensed and may NOT discuss insurance products on bank premises**



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## Securities Commissions

- In Canada, each Province has it's own Securities Commission.
- The majority of rules and regulations tend to be similar or uniform from province to province but there some differences.
- Each provincial securities commission is the authority in that province, for the licensing requirements of all individuals selling any type of securities.
- IIROC members firms must license all individuals who will transact securities with the appropriate provincial securities commissions.
- Mutual fund companies must also file directly with the provincial securities commissions.



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## Summary -- Licencing Bodies and Players

### Investment Industry Regulatory Organization of Canada (IIROC)

- Stockbroker/investment Advisor
- Portfolio Managers/Associate Portfolio Managers

### Financial Services Commission of Ontario (FSCO)

- Insurance Agents/Brokers
- Stockbroker/Investment Advisor
- Portfolio Managers/Associate Portfolio Managers

### Mutual Funds Dealer Association (MFDA)

- Independent Financial Planners/ Mutual funds providers
- Bankers



# What is a Robo-Advisor?

- A Robo-Advisor is a low-fee, no minimum investment, on-line wealth management service
- Typically entirely on-line, including registration
- No advisor interaction
- Pie-chart investing – no customizing
- Use Algorithms (complex mathematical tools) to build ETF portfolios, factoring in liquidity, ETF MERs, index methodology, tracking error and tax strategies
- Only as good as the algorithm used.
- Past history with algorithm investing is imperfect (Long Term Capital disaster in 1998, Asset-backed paper disaster in 2008)
- **Very new, no Robo-advisor has been tested by a bear market yet.**



# How do Robo-Advisors work?

- Robo-advisors are usually registered as Restricted Portfolio Managers with the securities commissions of all provinces in Canada.
- Management fees are usually quoted on an annual basis
- Management fees may be tax deductible (in non-registered, taxable accounts)
- Most Robo-advisors provide strategic (pie-chart) asset allocation with auto rebalancing
- May provide Responsible (or social) investing, which is an umbrella term that encompasses several investment strategies, including ESG (environment, social, governance) investing, green investing, impact investing and values-based investing.



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## How do “advisors” get paid?

### **Five Forms of Compensation:** (repeated in Session 9)

1. Transactional
  - Commission based compensation
  - Trailer Fees
2. Fee-based compensation
3. Salary compensation
4. Salary plus quota (volume bonus) compensation



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## The Players and how they get paid

1. Transactional (commission based) compensation:
  - Insurance Agents/Brokers
  - Investment Advisors
  - Independent Financial Planners
  - Discount Brokers
2. Trailer Fees:
  - Insurance Agents/Brokers
  - Investment Advisors
  - Discount Brokers (under review)
  - Independent Financial Planners
3. Fee-based compensation:
  - Investment Advisors
  - Portfolio Managers/Associate Portfolio Managers
  - Robo-advisors
4. Salary compensation:
  - Bankers
5. Salary plus quota (volume bonus) compensation:
  - Bankers



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## Imitation creates confusion:

There is plenty of confusion in the Canadian Financial Services industry about what the 'Titles' mean:

Common titles are:

- financial planner, retirement planner
- registered representative
- Investment Advisor, Financial Advisor, Financial Councillor, Wealth Advisor
- Financial Services Manager, Client Services Representative
- Portfolio Managers/ Associate Portfolio Manager
- Vice-President, Senior Investment Advisor, Senior Wealth Advisor

And more....

Often, in the press, by bankers and sometimes by each other, they are all referred to as 'Advisors'... In this sense, the financial services industry is not like the medical or other professions, where not just anyone can call themselves a Doctor or a Nurse – or a Lawyer, Barrister, Solicitor, Accountant, Engineer, Pharmacist, etc ...

The overused term 'Advisor' is confusing the general public.

The most educated, comprehensively licenced and regulated "advisor" is the one who operates within an IIROC regulated Full-Service investment dealer, regardless of title.





# What is a Local Wealth Professional?



- A 'Full-service, IIROC-regulated, Life-licenced Investment Advisor
- Understands the first principle of good advice: Client interest always before advisor interest
- Practices 'Safety First Investing'
- Practices 'Rules based Investing'
- **You have to make the first contact:**
  - Go to the Postal Code Locator (on main webpage)
  - Enter your postal code
  - Receive back contact info for a Local Wealth Professional
  - You initiate contact



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**To connect with a Local Wealth Professional, please enter your postal code in the locator on this website:**

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