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Rob Carrick answers the big-picture questions on CRM2

In 2017, investors will be seeing more comprehensive reporting under Phase 2 of the Canadian Securities Administrators' (CSA) Client Relationship Model (CRM2). Some see this as a step forward and believe the increased transparency will help investors to better evaluate the value of the advice they've been receiving. For many investors, the new reporting may raise some questions. Globe and Mail financial writer, Rob Carrick, helps us understand some of the larger issues at play in the new CRM2 environment.

T.E. Wealth: Many Canadians have heard of CRM2 but don't fully understand what it is or why it might be important for them to understand. What advice do you have for them?

Rob Carrick: Start paying a lot more attention to your account statements because you're going to get additional information on the fees you're paying and the returns you're getting. It's a great opportunity to assess the value you're receiving from your planner or advisor. Note that CRM2 means you'll see the dollar cost of advice, but not for the investment products you own. Product fees are not included.

ROB CARRICK, GLOBE AND MAIL FINANCIAL WRITER

> "Ask what financial planning is done so that the advisor can recommend the right portfolio."

TEW: In your Globe and Mail article, *Why won't Canadians pay for investment advice?*, you say that many investment advisors are really just salespeople hustling mutual funds.[1] What steps could a person take to ensure they're getting quality investment advice?

RC: Ask what financial planning is done so that the advisor can recommend the right portfolio. If there's just a perfunctory talk about risk or a short questionnaire to fill out, then you're probably not going to get true advice.

INSIDE

TEW: How effective do you think CRM2 will be in levelling the playing field for investment advisors, and what will that mean for investors?

RC: The playing field will truly be even when investors are shown the dollar cost of their investments and the cost of advice. For now, they will at least have a chance to compare the cost of using various types of planners and advisors.

> "There's a risk that investors will focus too much on fees alone and not consider value."

TEW: What do you see as the biggest shortcoming of CRM2?

RC: As mentioned, it's that product fees aren't there alongside advice fees. I'm hoping this is addressed fairly quickly by regulators.

TEW: There's a lot of complex information found on the new performance and fee reports. What are the key things investors should be looking at, and what questions should they be asking?

RC: Not just what did I pay and what did I make, but what services did I receive? There's a risk that investors will focus too much on fees alone and not consider value. Of course, it's up to advisors to demonstrate value.

TEW: What should an investor be concerned with in addition to the rate of return on their investments?

RC: The real question is how people are progressing toward their investment goals. Rate of return over a year is basically trivial. What matters is whether someone is accumulating enough money over the long term to retire comfortably.

TEW: Goshka Folda, president and CEO of Investor Economics, predicts that regulators will next look at how to unbundle fees.[2] What are your thoughts on that, and do you have any predictions of your own?

RC: Unbundling[3] would signal a new, more mature phase of investment advice in Canada and I'm all for it. There is no reason any longer to hide the cost of advice in product fees. Unbundling will be a significant change, but I see it helping the advice business to evolve into a true profession offering a valuable service at a transparent cost.

Lucy Conte, T.E. Wealth, Toronto

[1] Rob Carrick, theglobeandmail.com. (2016, July 18). *Why won't Canadians pay for investment advice?* Retrieved from http://www.theglobeandmail.com/globe-investor/personal-finance/household-finances/why-wont-canadians-pay-for-investment-advice/article30927394/

[2] Katie Keir, Advisor.ca. (2014, November 12). *Regulators won't stop at CRM2*. Retrieved from http://www.advisor.ca/news/industry-news/regulators-wont-stop-at-crm2-169425

[3] Bundling is a marketing strategy that joins products or services together in order to sell them as a single combined unit. The products and services are usually related, but they can also consist of dissimilar products.

T.E. Wealth welcomes these changes in investor reporting. If you're a client of T.E. Wealth, you would have received performance reports from us on a quarterly basis along with disclosure about the management fees you pay. In addition, we have always been unbundled and our compensation consists entirely of the fees we charge our clients. We value open communication with our clients through regular annual meetings and welcome every opportunity to speak with you about your investments and goals.

CRM2: What is it and how will it affect you?

In the Canadian investment industry, the information investors receive regarding the costs and charges for investment advice and the investment returns generated by that advice has varied considerably from firm to firm. T.E. Wealth has always strived to provide transparent reporting to clients in terms of fees and the new CRM requirements should result in more consistent fee and compensation reporting across the industry.

In an effort to bring transparency and consistency to the investing process, and give investors the tools they need to make informed decisions, the Canadian Securities Administrators (CSA) introduced Phase 2 of the Client Relationship Model in mid-2013. Often referred to as CRM2, it has ushered in new requirements for providers to report to their clients the costs of investing, the performance of their investments, and the content of the clients' accounts.

The new reporting requirements apply to investment services providers all across the spectrum — including investment dealers, mutual fund dealers, and investment managers.

In addition to the standard performance reporting received in the past, clients of T.E. Investment Counsel will receive additional reporting disclosing book and market values on an account-by-account basis, as well as a separate report detailing any fees paid to TEIC. The end result is a larger reporting package from TEIC.

CRM2 has been phased in over the past three years and the third and final phase took effect this past July. In the first phase, which kicked in on July 15, 2014, investment firms were required to disclose pre-trade, charges associated with that trade and, in the case of a debt securities transaction, to report the advisor's compensation. The second stage — which came a year later — required that account statements include the cost for each stock position in a client's portfolio, and that the market value of those positions be determined using a prescribed methodology.

By prescribing and standardizing two specific reports, the requirements of the third phase are perhaps the most extensive. That's because the investment industry has historically used various methods to calculate returns or report costs, making it hard to perform an apples-to-apples comparison.

CRM2 requires that investment firms provide an Annual Report on Charges and Compensation, which discloses— in dollar terms — the charges to the account and the compensation paid to the dealer and advisor for products and services provided over the past year. This includes, embedded trailer fees, redemption fees, switching fees, and RRSP administration fees. Clients will know, separately and in aggregate, what they have paid to hold their investments during the past year.

Likewise, the new Annual Report on Investment Performance will show how each client's account has performed. Using the "money-weighted" rate of return methodology, performance calculations will take into account money deposited into or withdrawn from the portfolio. The report will also show, as a percentage, your investments' performance over the past one, three, five and 10 years.

T.E. Wealth welcomes these changes and shares the belief of the CSA and industry observers that these measures will provide investors with plain and consistent reporting of cost, compensation and performance.

Tessa Wilmott is a financial editor, writer and researcher. She was formerly editor-in-chief of Investment Executive, and has held various reporting and editing positions with the Financial Post, the Financial Times of Canada and the Toronto Sun.

Before you dive into DIY investing

As Canadian investors begin to receive the enhanced annual reports mandated by Canadian regulators, some may consider the do-it-yourself investment approach as a way of avoiding professional investment management fees. T.E. Wealth has always provided its clients with this information. For investors who are thinking about managing their portfolios themselves, here are some things to consider.

Know your investment options

In today's era of 24/7 news coverage and omnipresent technology, anyone can conduct investment research with a click of a button and access the unprecedented database of equity research that is freely available on the internet. But the vast amount of data and information available makes it equally likely that small – but crucial – details could be overlooked.

Consider the case of Deutsche Bank last fall. It is possible that a DIY investor in this security might have missed certain crucial details such as the U.S. Department of Justice investigation into how mortgage-backed securities were sold during the 2008-2009 financial crisis, the subsequent $14-billion-dollar litigation made public in September 2016, and the intricacies of the settlement process resulting from this action.

Investors who sold Deutsche Bank around September 2016 likely experienced a variety of emotions ranging from confusion to frustration when that same stock promptly rebounded and—by February 2017—was up by as much as 72%.

Investing on paper is different from real-life risk taking

Indeed, the investment process can be an emotional exercise. When investors rely on emotions rather than analysis to make decisions, they are more prone to abandoning disciplined investment models, no matter how sophisticated and well-thought-out. Emotional decision-making can be costly.

However promising it is, an investment strategy can only be effective if it is consistently implemented. An investment

professional can help an investor stay the course during times of uncertainty, when the investor might otherwise be tempted to make drastic changes to their portfolio.

Be skeptical of what you see on TV

Media pundits often suggest stock picks to their viewers, and while this might be entertaining to watch, investment advice obtained in this way may not be effective. Rather than offer unique investment insight, these shows tend to merely reflect general market sentiment and might well encourage investors to buy or sell without a firm grasp of the underlying fundamentals driving the stock price.

Investment news obtained in this way might encourage investors to trade around earnings announcements, buy and sell on hype, and attempt to capitalize on claims of opportunity without fully questioning the underlying assumptions.

The cost of managing a portfolio

Due in part to increased competition as well as advances in technology, trading commissions have declined significantly over the past decade. Notwithstanding, transactions do incur costs, and costs accruing from an investor's trading frequency can influence returns over time.

Investors considering self-directed investing will do well to weigh the benefits of using a professional investment manager against the cost of not using one.

Closing thoughts

Self-directed investing puts knowledge and emotions to the test. As the example above illustrates, security selection requires time, discipline, and skill. Professional investment advice can provide the expertise and reassurance needed to help investors adhere to a predetermined strategy— even when emotions run high.

At T.E. Wealth, our priority is to develop investment policy statements that make sense for our clients and allow them to benefit from the expertise of carefully selected investment managers and a continually refined, disciplined approach.

Vadim Lidich, T.E. Wealth, Toronto

The difference between financial planners and advisors – and why it matters

The financial industry is filled with practitioners of different stripes with varying levels of education. Under the umbrella of advisory services, financial advisors and planners are often both perceived as investment product providers in pursuit of your investable assets. A consequence of this misconception is that many people do not experience the benefits of holistic financial planning and unbiased advice, separate from any investment product they could receive, when they choose an advisor over a planner.

In Canada, financial advisors are subject to extensive regulation by the securities commission in their region, and are required to uphold fiduciary duty under the Investment Funds Institute of Canada (IFIC). Likewise, financial planners are governed by rigorous principles enforced by the Financial Planning Standards Council (FPSC) and the Institut québécois de planification financière (IQPF). The FPSC and IQPF seek to protect the personal finances of the public by training financial planners and establishing standards of professional practice. They provide consistency and specify unified standards within the financial planning profession.

So what's the difference between the two? By definition, personal financial planning is a process of optimizing your financial situation and your assets. It helps you determine how to best meet your life goals through the proper management of your financial affairs. So, while an advisor will usually focus solely on your investment strategies, which represents just one aspect of the financial planning areas that need to be considered, a financial planner will look at your whole financial situation in addition to your investments. This includes estate and succession planning, education funding, finance, insurance and risk management, legal aspects, retirement and taxation.

What your financial planner should be doing

A financial planner should guide you through the planning process by helping you choose a strategic action plan that

takes a holistic approach to your financial needs. This also takes your constraints and personal goals into account. Your planner will devise realistic strategies and suggest coherent measures to attain the financial goals you have set for yourself. With your input, they will set out valuable guidelines that allow you to track your financial progress and make the right decisions – at the right time. In other words, your planner will: evaluate and analyze your situation, recommend and implement strategies, and follow up with you on a regular basis to review a plan tailored to your needs, goals and measurable objectives.

How to get the most out of your planner

For you to get the most from the process of financial planning, you will have to get involved. This means reflecting on your goals and aspirations, tracking your financial habits, and becoming more conscious of your budget planning, savings strategies, and cash flow management. Let's face it; who better than *you* to be fully invested in achieving your goals? Remember, this is *your* financial plan.

Why you need an annual check up

As you go through various life stages, your financial affairs will change in complexity and priority. A financial planner will help you navigate through the myriad of situations, processes, strategies and financial solutions that pertain to your needs. Reviews and adjustments will be made throughout various stages, career paths and personal situations as they arise. Your annual "Financial Fitness Check-up" should be no different than your annual visit to your doctor: financial health is a staple to your well-being.

As a wealth management specialist with knowledge of various aspects of personal finances, your financial planner will remain the constant bridge between you and other specialists such as your accountant, lawyer, banker and investment advisor. A planner who has a mutual understanding of - and engagement in - your goals will act as a lifetime resource of guidance to help you along the way.

Karen Hennessy, T.E. Wealth, Montreal

What a robo-advisor can't do

Do investors need traditional advisors anymore? Over the past few years there has been a rise in the use of online portfolio managers amongst affluent investors.[1] These robo-advisors started out as automated online services that used risk tolerance questionnaires to determine a suitable investment solution for you. But they have evolved from solely providing basic portfolio management, to now include access to a qualified advisor when needed. This shift should be a clue that the role of a traditional investment advisor is still relevant in portfolio management today.

The rise of the machines

Robo-advisors are becoming increasingly popular amongst affluent do-it-yourself investors who don't necessarily have the time or interest to commit to educating themselves, and would like to delegate the task. They are also being used by investors who have an existing relationship with an advisor, but may be diversifying their portfolios between institutions. In fact, some advisors are even suggesting their clients try out robo-advisors with a portion of their portfolio.

One would think the rise in their usage would be attributed solely to technology-loving millennials. But that's not the case. In fact, robo-advisors are being embraced by investors across *all* demographics. According to the report *Wealthy Investors and Their Perceptions of Robo-Advisors*, 64% of investors over the age of 61 who sought investment advice for the first time used a robo-advisor.[1]

> **"64% of investors over the age of 61 who sought investment advice for the first time used a robo-advisor."**

Proponents of these services argue that investors need minimal help from humans. They claim that robo-advisors can better manage their portfolio needs, and deliver index-equivalent performance at a lower cost than bank-offered mutual funds. The typical robo-advisor uses passive investment products, such as exchange-traded funds (ETFs) or index mutual funds, while some use a combination of ETFs and pooled funds. Pooled funds are mutual funds that are designed for high-net-worth investors. But is that really all there is to it?

When the tide turns

Robo-advisors may do a good job of maintaining a client's portfolio, especially during periods of low volatility in the markets and over long periods of time, but what happens when the markets turn volatile? It would be interesting to see how clients of robo-advisors would deal with a market decline similar to what we saw back in 2008/2009, when equity markets dropped more than 30%. Would robo-advisors be able to keep their clients invested and help them avoid selling stock in a panic? Managing an investor's behaviour and emotions, while trying to avoid mistakes, is an integral part of the services an advisor can offer.

> **"What happens when the markets turn volatile?"**

There are numerous studies which have proven that the returns of investors who trade more frequently underperform their buy-and-hold peers.[2]

A more technical point to consider is whether the robo-advisor's algorithms are right for the future. Will the assumptions that hold true today still be valid in years to come? Or, are they adjusting the portfolios to be more in line with the current realities of inflation and growth, not to mention the likelihood of rising interest rates.

> "Investing is just one piece of the puzzle."

The whole enchilada

Firms like WealthBar, BMO SmartFolio and Questrade Portfolio IQ now offer mobile apps that allow you to monitor your investments even if you are not using their advisor services. But are simple risk-tolerance questionnaires, which serve as the core of the robo-advisor's client discovery process, an adequate substitute for a one-on-one conversation?

Basic information such as age, goals and risk tolerance do not necessarily get to the heart of understanding the entirety of an investor's financial needs and objectives. Nor do they consider how one's investment portfolio works in the context of their complete financial situation. Investing is just one piece of the puzzle. People need to see the bigger picture, which includes a complete financial plan that addresses many issues in addition to investing.

The well-known robo-advisor site Wealthsimple has acknowledged this demand and offers some financial planning with an expert advisor in addition to their online investment services. But financial planning involves more than a couple of conversations over the phone with an advisor. It's an interrelated process that involves delving into an individual's or family's financial situation, that may go beyond their investments.

Traditional advisors can work with their clients to create customized plans that address their clients' evolving needs, such as balancing multiple savings goals, creating an effective estate plan, and implementing tax-minimizing strategies.

For example, consider a situation where your income might be higher than normal – perhaps you sold a property or received a severance package – and this put you into a higher tax bracket.

> "Financial planning involves more than a couple of conversations over the phone"

A traditional advisor who knows of your circumstances can provide tax-minimizing strategies to reduce the impact of such an event, whereas a robo-advisor would not offer any kind of tax planning. It would continue to churn capital gains while systematically rebalancing your accounts, creating additional income.

While robo-advisors can help you make some tailored decisions, based on your reported risk profile and by using rules of thumb related to asset allocation, they cannot provide holistic financial planning in the way that a traditional advisor can. Not yet.

Robo-advisors can be a helpful tool as much as any digital platform. They can certainly complement the services of a traditional advisor, but have some way to go before they can serve as a substitute for the more personal aspects of wealth management that a traditional advisor can offer.

Darin Yuzyk, T.E. Wealth, Calgary

[1] Investment Executive. (2017, January 12). *Mass affluent investors in the US relying more and more on Robo-advisors*. Retrieved from http://www.investmentexecutive.com/-/mass-affluent-investors-in-the-u-s-relying-more-and-more-on-robo-advisors

[2] Wall Street Journal. (2016, February 28). *Can Robo Advisors Replace Human Financial Advisors*. Retrieved from https://www.wsj.com/articles/can-robo-advisers-replace-human-financial-advisers-1456715553

Join us this spring for an evening of inspiration

The T.E. Wealth Speaker Series

Freedom in Forgiveness: Amanda Lindhout

In Toronto, Calgary and Vancouver, author and humanitarian Amanda Lindhout will share her riveting story of perseverance and compassion. In August 2008, Amanda travelled to Somalia – "the most dangerous country on earth" – as a freelance journalist to research a story on the millions of people affected by two decades of war, drought, and famine. On her fourth day, she was abducted by a group of masked men, who would hold her and a fellow journalist in captivity for 460 days.

A captivating, unforgettable speaker, Lindhout alights on the positive and leaves the audience with a fuller understanding of the freedom we can all experience when we choose to embrace compassion.

Amanda's memoir, *A House in the Sky*, is a New York Times bestseller and was described as "a young woman's harrowing coming-of-age story and an extraordinary narrative of forgiveness and spiritual triumph". The book is slated for development as a major film.

Dates and locations:
Toronto Wednesday, May 24, 2017; Vancouver Tuesday, May 30, 2017; Calgary Wednesday, May 31, 2017. *Details to follow.*

Attitude, passion and determination: Chantal Petitclerc

photo by Martin Girard, Shoot Studio

In Montreal, our speaker will be athlete extraordinaire Chantal Petitclerc. Chantal needs no introduction: over a career that spans more than two decades, she has won a record 21 Paralympic medals for Canada, fourteen of which are gold. She is the only Canadian athlete to have won gold at the Olympic Games, the Paralympic Games, and the Commonwealth Games.

Chantal plays a crucial role in furthering a more inclusive society, motivating people with disabilities to achieve their full potential. She was appointed to the Senate in 2016.

Chantal's impressive achievements and her personal journey have made her an inspirational speaker who has been sharing her life story for the past fifteen years. In her talks, she speaks about attitude, passion and determination: how to keep a positive mindset, how to have a clear vision of what you want to accomplish, and how to set your goals and do what it takes to achieve them.

> *"We don't always control what happens to us in life,*
> *but we can always control our attitude toward the trials life throws our way."*

Chantal Petitclerc will be speaking in Montreal on Thursday, May 25, 2017. *Details to follow.*

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