kurt.rosentreter@manulifesecurities.ca 416-628-5761 ext. 230

Explore the Benefits of Using an Independent Brokerage To Manage Your Life Savings and Financial Goals

Written by Kurt Rosentreter, CA, CFP, CLU, TEP, FMA, CIMA, FCSI, CIM, FMA, CPA
Senior Financial Advisor, Chartered Accountant, National Best Selling Personal Finance Author

In today's financial services industry in Canada, there are tens of thousands of agents, advisors, brokers and financial planners competing for your investment and insurance business.

One group of financial services providers are the Canadian banks. The banks offer at least four different entry points for you to interact with their professional advisors: you may work with a teller or planner/advisor in a local branch to buy GICs or bank mutual funds, you may work with a full service stockbroker or Investment Advisor who can offer you a wide variety of investment and insurance products, you may work with a private banker who represents several of the bank's array of products and services or you may work with a portfolio manager out of a wealth management department who will offer discretionary investment portfolio management. In some cases you may work with several of these professionals to manage your finances all through the bank's group of companies. All in all, they are all "the bank" brand, represented by an army of professionals with different credentials, services, fee approaches and marketing.

Culturally we have all grown up to have a comfort level with the Canadian banks, turning to them to be the primary source of bank accounts, mortgages, credit cards and more - this makes them an easy default that we should engage their advisors as well to manage our RRSPs, Tax Free Accounts, employer savings accounts and now even buy life insurance through them. You may favour "the banks" because they are convenient, located practically on every street corner. Or you may favour the banks because they are viewed as safer – a falsehood in reality. Or you may favour the banks because you have no familiarity with Canada's non-bank financial advisory options.

In this article we will explore the independent brokerages and the non-bank professional advisor channel in Canada. Twenty years ago, as I was looking at all brokerages in Canada as a home for my practice, specific aspects of products, fees, services, culture, freedom and more were important to me in choosing a home for

my clients and my practice. I chose an independent brokerage and I'm still here today. I'm writing this article because I want you to know more about the independent channel for financial advice and products in Canada. Frankly I think I is better for you and your money management needs as it continues to be better for me.

Global Banking – How it Has Changed

In the aftermath of the 2008 global banking crisis, the world of banking has changed greatly. The banks of yesteryear are no longer the banks of today – not even in Canada. Prior to 2008, many of the world's largest banks, most of them many times larger than Canadian banks, have been portrayed as greedy institutions who's mandate was to make money at any cost, take exorbitant risks using borrowed money (leverage), often for the pursuit of massive personal wealth of a few executives and traders.

In 2008 this all came crumbling down. Many financial institutions we grew to trust experienced major declines – some have gone bankrupt (more than 25 banks in 2008, 140 banks in 2009 and 157 in 2010 in the United States[1] alone) – many more have only been saved by billion dollar bailouts from their governments (for example, ING Bank NV in the Netherlands was bailed out to the tune of $13.5 Billion U.S. dollars by the Dutch Government in 2008[2]). Since 2008, ING one of the biggest holders of subprime debt in 2008, sold off global business divisions to raise cash to strengthen itself – selling their Canadian ING division to Bank of Nova Scotia in 2012 as part of their global survival strategy.

A lesson limited to 2008 you say? No way. You only have to look back to 2012 to see the devastation and questionable business practices created by banks – world leading banks – also viewed as safe havens by investors in their countries continue to occur:

- JP Morgan's multi-billion dollar trading error in June 2012 caused by one of their traders called the "whale" in their London, England trading office – downplayed as immaterial by the CEO Jamie Dymon; costs the bank billions in losses despite their CEO downplaying the need for more regulation.
- Barclays Bank's billion dollar fine as a result of being accused of manipulating the Libor rate in June 2012 – a rate used the world over to benchmark a wide range of financial products (e.g. used to set loan interest rates) offered by many of the world's financial institutions.
- Even the annual compensation packages of Canadian Bank CEO's coupled with mega pensions for their top executives across Canada. Pensions that you pay for through service fees on your chequing account and the fact you are paid almost zero interest on your basic savings balances. In 2016, the CEO of Royal Bank, David McKay, had total compensation of $11.6 Million CDN[3].

In an industry fueled by huge paydays, million dollar stock awards and varied regulation, banks and their employees have taken huge risks to lift their and the bank's success higher and higher – with drastic consequences if they guess wrong. And yes, Canadian banks are just as complicated, conduct similar types of trading activities as the world's largest banks, also make leveraged investments and are not immune from having problems.

Let me ask you: would you invest with a business that you don't understand? Warren Buffett, the Chairman of Berkshire Hathaway and one of the modern era's most successful investors says no, you should not.

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[1] Source: Looking Back at Bank Failure Rates, Forbes, March 25, 2013
[2] Source: ING Gets a Magic Bullet, Forbes, October 20, 2008
[3] Canadianbusiness.com. January 3, 2017

Try this: order the Annual Report for any Canadian bank from your Investment Advisor. Read the notes to the financial statements – do you understand it? If you cannot comprehend their Annual Report, then you may want to start looking at other options for your money management needs – options like the independent brokerages in Canada.

Bank, Brokerage, Private Banking – Which Bank Department is the Right One For You?

In some Canadian banks today, there may be more than five competing entities that will pursue you to manage your money:

- Local branch staff – you may end up buying GICs or bank mutual funds from the local branch counter staff.
- Stockbroker upstairs – you may get referred to a stock broker at the brokerage owned by the bank to meet with you to discuss your investment needs. You may end up owning stocks and bonds, wrap programs, mutual funds or a long list of other investment products.
- Discount brokerage – open your own investment accounts and manage your own finances.
- Portfolio Manager – positioned as more elite and only available to the bank's wealthiest clients. They will invest your money into stocks and bonds directly, often portraying them as the bank's top picks by their elite research staff.
- Private Banker – often a jack-of-all-trades who can draw on other areas of the bank to quarterback a variety of services through him or her.

So here is the million dollar question: where do you really belong among these five (or more) choices for service providers under one roof? Five competing divisions and this is just one institution! All of these professionals in their departments have different fees, different services, different titles on their business cards and different investment, banking and insurance products to offer you – all of these folks want your business – and all of them compete against each other directly or indirectly - how do you know where you truly belong in the banking world when one bank may have five departments for investment services? And of course they are all saying "you belong right here!". It is not hard to feel lost, left out, left behind, confused and misplaced in a system with so many alternatives that may appear the same to you.

When A Broker Gets Fired

Periodically we have a bank stock broker visit our office in the hopes of moving their investment advisory practice to our dealer and away from a bank brokerage. Sadly, the story is usually the same: they have just been fired from the bank brokerage because they didn't "produce" enough revenue for the bank owned dealer over the last year few years.

In plain English, they didn't do enough selling of products and/or trading in your RRSP to produce a level of commissions that satisfied their bosses at the bank brokerage – and because of this they were terminated for under-performance. One fellow, a 50 year old with five years of experience building a practice and his career at the bank brokerage was fired on a Friday and shortly thereafter his bosses had re-allocated all of his clients to other brokers. Those other brokers were calling his clients to say they are the new advisor now. In the meantime, he has to try to find another brokerage to transfer his license to and then hopefully save his client relationships. Welcome to the cutthroat world of some brokerages – sell, sell, sell or else.

As a client of this type of system, it is important to be vigilant that the fees you pay are fair for the services you get. It is important to demand fee disclosure and transparency. It is important to demand value through service and advice for the fees you do agree to pay.

Proprietary Products Bias

Trust disappears between a client and advisor when the client can see clearly that the advisor is biased, lacks objectivity and clearly is providing advice or products that benefit the advisor.

One of the easiest ways to discover bias is to look at what investment products the bank based financial advisor has put in your account.

If they have recommended their own bank or brokerage's manufactured products, this may be a clear sign of professional bias. It is easy to tell: if their GIC rates are lower than the competition but they sell them to you anyway; if their mutual funds lag their peers or a passive index but they sell them to you anyway; if they sell you IPO (initial public offering) products created by their own corporate finance group that subsequently underperform, or if they use their own bank's money market funds to hold your short term cash when the interest paid is inferior to others. All of these tests are easy to apply by getting a second opinion by an independent, non-bank based advisor. He or she can do these comparisons and show you clearly in a report if your bank advisor is making recommendations that are the best for you.

Our Research is Better Than Your Research

The national brokerage firms, owned by the banks, each have more than 1000 investment advisors that regularly like to tout their internal investment research created by teams of analysts on staff. If you are a client of a stockbroker at one of these firms, you may hear annually that they have among the best research on the street, that their analysts win awards and that this is a competitive advantage that you will benefit from if you are a client of that firm. You infer this to mean that if you invest with this firm; get the stock tips of their analysts that you will end up with better returns.

Savvy investors should not rely on one person's opinion or even one research firm's opinion. Savvy investors rely on consensus research (from the likes of Bloomberg or Thomson One Research) that aggregates the opinions of hundreds of research analysts and firms from around the world to create one overall average opinion – an opinion that is more likely to be accurate than one guy at one firm. Further, the research of one analyst at one firm is often no better than the research from another firm over time – and that the predictability of one analyst or one firm in getting stock calls right is almost a random likelihood.

Let's test my thesis using Royal Bank analysts. It is a safe bet that the stock research a broker at RBC Dominion Securities would make available to a client of the broker is the same research that the professional money managers that run Royal Bank's mutual funds have access to for picking stocks to run their mutual fund mandates.

When you evaluate Royal Bank equity mutual fund results on Morningstar, a third-party rating service of mutual funds in Canada, a few funds show as above average, many show as average and several show as below average[4] - so much for one firm's research being a competitive advantage.

Corporate Finance Departments

Canadian banks have large internal corporate finance departments ("investment bankers") that help companies create new securities (e.g. a new preferred share issue), who internally themselves create manufactured products to sell clients (e.g. split share corporation) and who also may distribute shares (e.g. IPOs or initial public offerings) for new or existing companies. All of these products may be created by the

[4] Source: Globeinvestorgold.com, January 2, 2018, of 275 mutual fund versions review, only 55 had a 4 or 5 star ranking from the globe ratings system.

corporate finance department of a bank and then sold to the public (brokerage clients) through the brokerage arm of the bank – basically passing the product from the right hand to the left. As much as there are supposed to be "Chinese walls" between the two businesses, let's be clear: the level of objectivity and independence between advice, advisor brokerage, banker and product could be enhanced further if you dealt at a brokerage firm that didn't have this embedded, internal relationship. Hold your investment portfolio with a brokerage that does not have its own corporate finance group looking to distribute their products through the dealer's financial advisors.

If you are someone who is a target of your bank-based financial advisor selling you every new fangled product that comes out each month from their corporate finance team perhaps it is time you go back and ask for a performance history of all the products you bought and compare them to a passive index like the S&P500. The last thing your portfolio should be full of is manufactured corporate finance products that lag market performance indexes. A bank brokerage talking up access to IPOs that "only they can offer" may be no advantage at all.

Product Ties

A lesser discussed topic in financial services in Canada is the desire to keep a client with the dealer long term – this can mean making it more difficult for a client to take their business elsewhere by tying them to so many services and products that it is hard to leave.

One element of this approach that the banks have mastered is the use of proprietary products. Proprietary products are products that are only available from that one dealer or bank – meaning you may not be able to easily transfer to another bank or brokerage if you want to take your business elsewhere.

Some examples of proprietary products are: some bank's GICs cannot be transferred to other dealers; private pooled funds available from a bank's investment counsellors or private bankers are not portable; and sophisticated wrap programs offering third party portfolio managers to affluent clients are not portable. Take note, none of these are fringe products: they are mainstream products that many, many Canadians own. If you are a bank or bank brokerage client, were you told if the products you bought could lock you into the dealer? Find out if you own products like this! Several independent brokerages do not have these types of products.

Service, service, service…..it's the little things that count!

There are over 100,000 financial advisors in Canada – all competing for your business. With everyone basically offering the same products and no one able to guarantee investment performance, the only real differentiators between advisors are fees, services and service.

Service means regular, meaningful communication. Service means spelling your name right and knowing the names of your children. Service means coming to see you, not dragging you downtown. Service means regular face to face meetings. Service means immediate email responses and no voicemail. Service means personally tailored services based on your goals.

Examples of where the banks can fail at service are everywhere – and provides you with even more reasons to take your business to the independent brokerage industry:

- Standing in line at a bank branch
- Standing in line at a bank branch to talk to a teller that has limited training
- Standing in line at a bank branch to talk to a teller that doesn't know your name – or know anything about your financial goals and resources.
- Standing in line at a bank branch to talk to a teller who is rarely the same person twice.

- Working with a bank brokerage stock broker who has not taken the time to meet with you face to face in two years – and you have no idea when he will.
- Working with a bank brokerage stock broker that only calls to sell you something – she has never asked you about personal goals or measured progress towards them in the five years you have worked with her.
- Working with a bank brokerage stockbroker only to find you talk to her junior staff more than you talk to her.
- Working with a bank brokerage stock broker who doesn't explain the fees you pay nor provide you with fee choices.
- Working with a bank brokerage stock broker that has so many clients that they never look at your portfolio and only call you to get more money in RRSP season. (How many clients does your bank broker have? More than a few hundred is too many – they may have a few thousand!)
- Working with a bank brokerage stockbroker that will only meet if you come downtown during the day to their office, paying your own parking cost to boot.
- Working with a bank brokerage stockbroker that bullies you in emails, orders you around, pushes you to buy without any indication of how a product fits into a real plan and expects you to approve trades suddenly when they call.
- Working with a bank brokerage stock broker that transfers your account to a call centre because you are "too small; or charges high minimum fees because you are "too small"; or passes you off to junior advisors because you are "too small".
- Working with a bank brokerage stock broker that has never produced an engagement letter that identifies what services they will provide, what fees will be and when they will review these fees yearly, how often you will hear from them and more – a written document that frames your professional relationship parameters.

Flexibility At Non-Bank Independent Brokerages

Independent financial advisors at non-bank brokerages are not bank employees, with standard hours and very structured services and fees to follow. Independent advisors are entrepreneurs that control decisions around their service offerings, services, staffing, products, fees and more – They have the flexibility to design detailed service packages that reflect your needs and price them accordingly. They have the ability to hire qualified staff as needed to properly support their practice. They can work with the types of clients they want and as entrepreneurs, know that keeping the client happy is vital to their survival. Structurally, one could say that independent financial advisors are more hungry to exceed client expectations and have more tools and control over their practice to accomplish this as compared to bank brokerage stock brokers.

There are 200 working days for all of us in a typical year. If your bank based broker has 800 clients or 1500 clients, how many new clients can they take on before your service suffers? Even with only 800 clients, that's four a day once a year – limited time to spend quality financial planning time with you in person or perhaps a small amount of time to monitor your investment accounts. Limited time for extensive creation of a financial plan based on your goals. What are some symptoms that you are low on the list of priorities for a bank based broker? Failure to meet with you in person at least once a year. Or you spend a lot of time talking to the junior staff, not the advisor you hired. Overly focused on trades and new product sales. No discussion of goals. Is this you?

Entrepreneurs vs. Employees – Who Cares About You More?

In the previous point I discussed how the independent advisor has more flexibility to enhance and personalize the services for each client. Let's look deeper at why this is – it gets to the very heart of how the bank broker is set up in their bank investment dealer.

Bank brokers work in bank offices, use bank furniture, have bank hired staff and the clients are viewed as bank or brokerage clients. Their marketing is often standardized nationally and their entire sales force is a homogeneous group with a similar look and feel. The bank controls this. The bank controls your relationship with them. The bank brokerage permits a standardized website they can use. They have rigid standards on how to act, what services and products are offered and even what fees are charged.

Independent advisors at non-bank brokerages can work in their own offices with their name on the office lease, own their own furniture and hire and pay their own staff – the independent advisor is a business owner – an entrepreneur – someone whose world revolves around the client relationship. They will work hard to satisfy a client – after hours meetings are a norm and meetings in your home are a regular service aspect. The array of financial planning services can be customized to your needs. Fees are flexible and can be adapted for your preferences.

Is the independent advisor more risky to work with? No. In Canada, qualified professionals that manage investments and insurance products for you must be licensed and insured. The investment and insurance dealers that an advisor is affiliated with can be as large, or larger than the bank brokerage sales forces across Canada. In fact, you may find that outside of the banking world, independent advisors may be more highly trained and skilled than the broad masses of bank staff that have to meet fairly low minimum standards for skills.

The main point we are making here is that entrepreneurial non-bank financial advisors are small business owners and only survive if you thrive in a relationship with them. Take your business away and they wither. Compared to a 9-5 employee of a big bank corporation and they will often go the extra mile for your satisfaction. They are likely to have a relationship with you, know your kids' names, want to put a full financial

plan in place, offer fee flexibility and meet with you at home at night. Individuals with this passion for caring and advice for you would be a great choice for your advisory needs.

Three More Examples to Doubt the Objectivity of Banks and Bank Brokerages

Example One: GIC Rating Shopping. Has this been you? You have a GIC that comes up for maturity and your broker or banker calls you to renew. They quote you a rate they want to offer you. You ask if they can do better and they say no. A day later you call them back after you shop around a bit and you have news that a local trust company is offering you 0.25% more. On the spot, the bank agrees to match the rate – but hold on – does this really sit well with you? They only match the rate when you force them to – a day earlier they would have gladly sold you a product with an inferior rate – has their behavior compromised your trust in them? Occasionally they will only offer you lower mortgage rates, higher GIC rates and waive service fees if you push them or threaten to move your business. It is "bank profits vs. your goals", instead of them acting as your advocate and partner in financial planning sitting on your side of the table.

Example Two: Mortgage Insurance. Many financial advisors in Canada know (and warn) to never buy the life insurance that the bank offers when you take out a mortgage with them. It is likely that the mortgage holder needs the life insurance to guard against death but the life insurance offered from the bank directly is often the most expensive you will buy, is not portable if you want to move your mortgage in the future and the insurance (and related annual cost) does not decline as you pay down your mortgage. Yet, time and time again, young couples taking out mortgages are sold this life insurance through the bank despite these flaws.

Example Three: Banks that take advantage of existing banking relationships to cross sell clients into more services pose a formidable challenge to independent advisors. A bank that offers 0.25% discount on a line of credit interest rate provided you hold your RRSP account with them uses the power of a multiple service platform to cross sell. Often this view of a bundled service array can hide the fact that you may end up paying

more in total than had you unbundled the pricing and paid separately for each service or product. At a minimum, price compare both ways.

How Much Expertise Does your Bank Advisor Have?

None of the banks or the bank brokerages have required their sales forces to obtain or carry the Certified Financial Planner designation for financial planning, the Chartered Life Underwriter designation for insurance nor a university degree or the Chartered Financial Analyst designation for investments in order to do their jobs helping you with your money management needs.

While there are always exceptions, generally the thousands of brokers, tellers and bank advisors meet a minimum level of education and experience only. Often the core training the staff gets is how to sell their own products to you – something I have already addressed above as less than objective compared to an independent financial advisor that can select products from a global broad choice.

This is your life savings we are talking about – expertise is measured in courses and credentials that take years to obtain and are recognized in the industry by peers. Make sure you take time to ask your bank broker what education and experience they have. Of course they will have an answer for you – but do they have the globally recognized standards I have stated above?

Download a powerful set of questions here: (http://www.kurtismycfo.com/document/Questions%20for%20your%20Advisors.pdf) to obtain a list of must-ask questions to send to your bank broker – demand written answers for every question and learn whether your bank advisor is competent.

Everyone in the Same Box

The Canadian banks and brokerages have millions of clients, making it challenging to get to know you and serve your specific goals. Getting to know you takes many hours a year – time they cannot easily allocate to each client because they deal with so many people. The brochures, the products, the fee schedules and the services are designed to treat thousands of clients the same way – they may not have time to tailor individual solutions to fit your needs – instead they may put you in the same products, same strategies and paying the same fees as everyone that may be considered "just like you". With stock brokers and bankers having as many as several thousand clients, a bank or bank brokerage may struggle to deliver personally tailored advice and relationships. Often stock brokers are bundled into "teams" with several advisors and their support staff grouped together for even more efficiencies for the dealer. This standardized approach coupled with putting clients into the same types of investment solutions (think wrap programs or pre-designed model stock portfolios where everyone gets the same mix) allows brokers and broker teams to manage hundreds of millions of dollars of client money and oversee thousands of clients all at once. For Canadians who largely "follow the crowd" for financial services, they may never know the difference, often victims of slick marketing campaigns and a sales pitch that tells them this is better. I'm not sure how a "portfolio in a can" and limited communication for a high, hidden fee can be better.

Fees

When it comes to investment management, the only two natural drags on performance are fees and taxes. Banks and bank owned brokerages may have higher fee and commission rates when you buy products (e.g. stock commission rates, wrap program fee rates, individual account fees) because they have to pay for the thousands of branches and staff across Canada and millions of dollars of executive compensation annually for bank executives. We have routinely compared our commission and fee rates vs. different bank brokerages and have found our rates to be lower.

Here is a sample of our past research:

- CIBC Wood Gundy is telling clients they will have to pay an administrative fee of $250 annually on investment accounts below $100,000.[5]
- TD Wealth Private Investment Advice has an administration fee when clients have under a minimum of $50,000.[5]
- BMO Nesbitt Burns charges a minimum annual fee of $500 if the total commissions or fees paid is less than that amount.[5]
- RBC Dominion Securities has implemented a minimum household fee.[5]
- The Nesbitt Burns high net worth Advance wrap program charge 2.25% to 2.75% annually on the first million for equity portfolio.[6]
- ScotiaMcLeod charges stock trading commissions as high as 2% per trade value.[7]

In my practice at Manulife Securities we have no minimum account or trading fees and our commission rates and advisory fees are as much as half the rates shown above. If we can put as much as $10,000/year of fees back in your pocket, this is another reason to explore independent dealers.

What Does "Financial Plan" Mean?

The public is getting fed up with just being sold products – we are learning that you should not buy products until you have a comprehensive financial plan first. A focus on your goals along with integrated thinking that links the various parts of your finances together, regular checkups and progress measurement on all aspects of your finances: retirement planning, estate, insurance, real estate, tax planning, career finances, debt levels, investing and more. This is a financial plan. Advice on all the important areas of your finances together that make product purchases the last step and a function of the plan you create first.

The banks and bank brokerages have approached these services in different ways and no consistent experience exists between different banks and even between different advisors at the same bank: they still sell you all the products, but now some advisors will do a bit of a plan, some still do no planning and some do a financial plan with a canned software tool that generates a standard report. Your investment advisor at the bank or your private banker may also bring in a regionally hired financial planner to do this plan for you – it won't be your own advisory team that does the work. In my opinion, this approach to financial planning by banks in Canada is flawed – using cookie-cutter software inputted by an outsider to produce a templated report that everyone gets is of limited use – and again demonstrates that a bank advisor can only go so far in providing truly customized advice. Second, this plan is may be offered around a product sale – either managing your investments or selling you insurance policies. A more objective financial plan would be invoiced at a separate hourly rate, have nothing to do with products, link all areas of your finances together, be customized to your situation (not a canned software program) and be completed by credible professionals that understand all parts of your finances. That's how we do it in my practice as an independent non-bank owned dealer.

It's All About Goals, Isn't it?

At the very heart of your financial plan are the financial goals you are striving to achieve. Retirement someday, helping children pay for post-secondary education and taking a big vacation are three examples of goals. As financial advisors, we know our biggest objective is to help you define and achieve your goals. It is the first step of a real financial plan and annually your goals should be measured and updated. Writing down your

[5] Source: The Chronicle Herald newspaper, September 4, 2013
[6] Source: BMO Nesbitt Burns Advance Program Fee Schedule
[7] Source: www.chrissimpson.ca

financial goals and attaching dollar values and timelines is essential. When was the last time your bank advisor asked you about your goals? When was the last time your bank advisor wrote down your goals? When was the last time your bank advisor pulled out the goals they wrote down and measured the progress towards these goals? When you hire us to be your financial advisor, aren't you engaging us to help you reach your goals? If your bank based financial advisor loses focus on this or worse, has never tied their strategies or product recommendations to your goals – perhaps it is time to reconsider your choice of advisor.

Beware Bank Brokerage Wrap Programs

Many bank based brokers have moved all their clients' investments into "wrap programs" over the last twenty years. These are pre-packaged portfolios of stocks and bonds put together by in-house or third part money managers that the bank has engaged to manage your money. This stable of money managers may include some of Canada's leading professional money management firms and now they are managing your money for as little as $100,000 per mandate. You pay a single wrap fee around the entire portfolio yearly. You get fancy quarterly reports. You are put through a consulting process at the beginning and your Investment Advisor becomes a consultant over the program. They no longer have to recommend investments for you – now all investing is taken care of by the professional managers in the program. Investing on auto pilot for a single overall fee. Sounds good right? No way.

The fees can be highest you'll ever pay – approaching 3%/year in some cases, making it some of the most expensive forms of money management in the world. The platform of money managers runs the portfolio so your bank brokerage advisor has less to do than ever before while you may be paying them more than before (e.g. 1% of this fee may go to the broker each year). Performance may or may not be great – it is easy to measure these results against the TSX 300 or the S&P500 index yearly and you should do this. Your taxes can be higher as a result of all the trading in the account that is done by the portfolio manager. You may have no say over what they buy and sell in the portfolio. And these products can be proprietary to the dealer so you cannot transfer away from the firm – ever – without the potential to pay hefty fees or taxes as a result.

Wrap programs have been great for brokerages and brokers – they result in fees that are now being paid by you every day of the year to the brokerage – while the advisor may be doing less than ever before. These programs have allowed some brokers to build huge practices of "managed money" accounts, earning potentially millions of dollars a year in fees and commissions. But the question of "are you, the client, better off?" is not a clear answer – returns cannot easily be index-beating over time with such high fees. And the portfolio managers positioned as elite in the program are often available to hire directly if you have the money – with investment performance that may be no better than many other options that are cheaper and don't lock you in. Perhaps one of the most relevant questions to ask is this: what is the broker doing to justify earning 1% a year on your accounts when they no longer have any investing responsibility for you? Folks, don't buy wrap programs. Canadian banks have led the way for more than a decade in offering these terrible products to their most valuable, most affluent clients.

Private Investment Counsel – The Latest Offering, But Nothing Really New

Alongside the stock brokers, the staff in bank branches and the private bankers, now the banks are launching yet another service for clients to consider: private investment counsel (PIC). PIC is focused on the affluent client marketplace – clients of the bank that have more money, perhaps at several different institutions or perhaps within different areas of the bank today. Investment counsellors offer a discretionary stock and bond portfolio management service – either using pooled funds unique to the bank (proprietary, discussed earlier) or selecting stocks and bonds using nationally run model portfolios or based on the bank's internal research department's "best picks". The fee is a single wrap fee yearly of 1% to 2.5%.

There are many reasons why I would suggest you shouldn't use a private counsel service:

- Portfolio managers may struggle to produce consistent above average investment returns compared to the more than 200 professional money management firms across Canada that have been offering exactly this service for decades. Shop around – outside of the bank – and see the differences you will find among Canada's elite professional money managers whose sole business is discretionary money management. Get audited five-year portfolio returns from both sources and compare.
- Fees that may be lower than the bank stockbroker upstairs at the bank used to charge you, but fees that are no means low – and may be even further from a good value proposition when you consider they don't include any financial planning services and only limited communication.
- If you hold bonds in the portfolio, are you paying the same 1% or more fee on the bonds as you do on the stocks? If the bonds are only paying you 1.5% / year and your fees are 1% (or more) per year, why would you ever agree to a fee approach on your bonds that robs you of most of the return?
- Stock picks based on the words of the bank's internal analysts – I pointed out above why this may be far from the best approach to stock picking.
- A program that uses pooled funds (basically mutual funds) is proprietary product – something I discussed earlier in this article as a product to avoid.
- They are using pooled funds? By the time your portfolio reaches a few hundred thousand dollars you have long outgrown the inefficiencies of pooled or mutualized funds – stay clear of all products like this, particularly for taxable savings accounts where their poor tax characteristics can be particularly punishing to your after-tax investment returns each year.
- Never place all your money into one money management approach or style – one portfolio manager in a bank's private counsel service is one set of ideas, one set of stocks and may fall short of proper diversification that is crucial to portfolio construction.
- Don't want them to buy that airline stock or tobacco company? Sorry, you may not have a say in this form of money management program. Why? Because they often run model portfolios set up nationally for investors that are the same type of profile – so much for the customization you deserve as an affluent investor. If you know that every portfolio for every investor in this platform nationally for the bank is working off the same stock recommendation list daily, this sure sounds like standardization again – it sounds like a mutual fund – no matter what it looks like.

Smaller Investors Beware the Banks

For many years now the Canadians banks have been emitting clear signals that they don't want small investors – perhaps the clearest signal was when they started moving smaller clients of the brokerages into call centres for servicing. One day you had a financial advisor helping you with your goals – the next day you were assigned a faceless phone relationship following a standardized set of rules. Ouch. Yet another aspect of Canadian banking and brokerage that says "you don't matter enough to warrant a personal service level". This again demonstrates a type of thinking that should worry all Canadian investors seeking value from a bank advisory relationship.

Fee Transparency and a Focus on Value

When you purchase apples at the supermarket, you can clearly see the price you pay for the pesticide free organic apples or the regular apples. In that moment of selecting the apples for your family, you decide on a value proposition that matches the cost of the apples you can afford with your concerns over food health. The key here is that you know all the factors and you make an educated decision.

That is why it is flabbergasting that for something as important as your life savings, the bank brokers often make it impossible to complete the same value analysis. For mutual funds, they may not take the time to

explain the hidden MER fees inside the mutual fund or tell you there are as many as five different commission options to purchase the funds – all with different pros and cons. Or they may not disclose what commissions they earned when they sold you the bond, the GIC or the IPO product they recommended to you. And they may not tell you about the five different ways they can structure fees for your advisory relationship with them (hourly rate, flat fee, commissions, asset based fees, or a blended approach) and let you pick the fee method that best suits your preference for services and service. No, the banks may not present a transparent, educational fee approach that lets you make the same value decision that you can make with apples. If you cannot judge value for the services that you get from your bank or your bank based broker, perhaps you need to move on – leave the bank's services behind and find new professional advisors with a fresh approach.

Four Documents That Say "Quality" from a Financial Advisor

One of the easiest measures of quality that defines a professional financial advisor or investment advisor is the quality of the documentation they create in getting to know you. Documentation that summarizes their knowledge of you, their recommendations, your relationship, fees, strategies, communication and everything else you are engaging them for. The documentation serves as a blueprint, a roadmap, a benchmark and a measuring stick in defining the engagement, services and results you are hiring the advisor for.

Fail to get this documentation and you have engaged nothing more than a salesperson – and that you don't need.

Here are four key documents that I would like you to reflect on with your existing bank broker relationship:

1. **Engagement letter** – summarizes the terms of your advisory relationship. It states the services you will get, fees, timing of services and how and when the advisory team will communicate with you. It summarizes the deliverables you will get and what is expected of both parties. It is a solid document that clearly states what your relationship will entail. Why wouldn't you want this?
2. **Financial Plan Executive Summary** – an overall summary that states your goals, strategies, results and follow up action plan from your financial plan, details on progress towards retirement, spending levels after retirement, your estate plan, levels of insurance, debt strategy, investment portfolio design, tax strategies, how much to save for children's educations and more. This planning summary brings together the very essence of advice you engaged the advisor for – it answers your questions on personal finance. And importantly, it services as the foundation that then allows an investment portfolio to be built on. No one will have a proper investment portfolio constructed unless it is based on this financial planning first.
3. **Investment Policy Statement (IPS)** – this is a multi-page document used the world over to define your investor profile so that an investment portfolio can then be built and reflects who you are. An IPS contains all sorts of details about you as an investor: your net worth, life goals, resources, expectations and preferences – It is a clear picture of what you want to achieve as an investor and who you are. IPS documents have been used for decades as the hallmark of good investment portfolio structure.
4. **Annual Results Analysis, Letter & Meeting –** a personalized meeting (no excuses, it must be a meeting with your primary advisor at least once a year in person) that reviews your results and measures your progress towards your written financial goals. Your investment statements need to have rate of return on them. Portfolio results need to be compared to peers and indexes after fees, so you can gauge results on a relative and absolute basis. You need good reporting and regular meaningful communication from your advisor using good data. Getting a newsletter doesn't count.

Good financial advisors provide meaningful, clear and valuable written documents to you yearly.
Does your bank broker provide any of this? Have they ever?

In the End, It's About a Philosophical Difference Between You and Your Bank

You engage a financial advisor for help to reach your life goals. You engage them to invest your life savings as a crucial component of reaching your goals. And you rely on your financial advisor to be an expert who will guide you through situations and stages with the right financial advice. You are counting on them to be a qualified, highly trained expert.

Unfortunately banks and bank based brokers may not have quite the same goals as you do. Management of the bank is charged with increasing the company's stock price in the stock market first and foremost. This is done by providing highly profitable services and products to more and more clients of the bank. More clients, served by fewer staff, offering services that ideally cost as little as possible to deliver, all with the goal of producing higher profit margins and more profit for the bank. As a reward for driving up share price, management and advisors receive compensation (salaries, bonuses, stock, stock options, pensions, promotions, etc.) that are based on these successes. Sure, somewhere in their mission you and your finances come into play – and hopefully they focus on your goals now and then – but the very structure of their organizational expectations may run in conflict with your personal interests. You just want an expert to help you reach your goals. They will tell you they will do this – as long as it fits with their goals first. This fundamental difference, now explicitly stated, means you are likely better off not using the services of any division of a Canadian bank for financial planning or investment management. Use them for your basic banking as you always have, but stop there. For mortgages, shop rates through an independent mortgage broker. For life insurance, shop product through one of the thousands of independent life insurance agents across Canada. For your investing needs, consider a highly qualified independent investment advisor at one of the many premier non-bank owned investment firms in Canada. And for high net worth wealth management services, turn to the more than 200 professional advisory firms that have been around for decades and whose services are designed for you.

In Closing…

In Canada, we have grown up culturally with a love affair with the Canadian banks. They are viewed as safe institutions staffed by folks with a warm smile. And the banks themselves know you feel this way, and they may take advantage of it. But the financial system has changed a lot in the last fifty years – there are many good, honest and value priced competitors available to choose from now – institutions that are just as safe, are staffed by professionals and take a new, fresh and innovative approach to financial advice. Institutions that don't pay their management millions of dollars in bonuses and who are entrepreneurially structured to make you, the client, the centre of their advisory world. Institutions that never forget you are the client and may jump to help you when needed. 24/7.

Take time to explore the financial advisory world beyond banks and bank owned brokerages. Seek out independent advisors at independent non-bank owned brokerages. You may find it a refreshing change that is long overdue and offers very competent solutions to the challenges of the banking system identified in this article.

There is almost nothing that the Canadian banks have to offer with respect to investing, insurance, financial planning and wealth management that you cannot find elsewhere in an equally competent or more competent format. Break free of their hold on you – step outside your known territory and venture into the rest of the Canadian financial services industry that has so much to offer you.

Kurt Rosentreter, CPA, CA, CFP, CLU, TEP, FMA, CIMA, FCSI, CIM is a Senior Financial Advisor with Manulife Securities Incorporated in Toronto. Kurt is also a Chartered Accountant and national best-selling author on wealth management in Canada with seven books. For more than a decade, Kurt has been an Instructor of Wealth Management, teaching eight courses for the Ontario Chartered Public Accountants Association of Ontario. Kurt is also the past co-founder of a billion dollar investment consulting firm at one of Canada's "Big Four" accounting and consulting firms. Today Kurt runs a national wealth management practice helping Canadians with a wide variety of personal finance needs.

Kurt can be reached at kurt.rosentreter@manulifesecurities.ca and 416 628 5761 Ext 230. Learn more about Kurt at www.kurtismycfo.com.