

Do you have any idea how cheap stocks are? Wall Street is now being called Wall Mart Street – JayLeno

"The [mutual fund] industry is really gouging investors. I don't think people realize the amount that they are paying in fees and charges. A lot of us are really challenged: we don't really translate percentages into dollars and cents. And we also don't seem to understand the compounding effect of these amounts, which may seem relatively nominal." - Glorianne Stromberg, a securities lawyer and former OSC Commissioner [She cites a rule of thumb that every percentage point of fees,

compounded over an investing lifetime, erodes an individual's eventual capital by 20 per cent.] Source: G. Norris, *Mutual funds trim transactions fat: Minor relief from "egregious" fees*, Canadian Press, Jan. 5, 2007

<http://www.canada.com/topics/finance/story.html?id=e3d23726-d932-486b-bd6a-10ec2ef4be94&k=55509>

Watch out for window dressing

As you enjoyed the last days of 2008, think about what your mutual fund managers likely did. Lots of people who manage actively- managed mutual funds put in long work days just before New Year. The final week of every quarter is known as "window dressing week.". It's when portfolio managers sell stocks that have done poorly during the quarter and replace them with ones that did well. The idea is to make themselves look good: Reports to investors include snapshots of major fund holdings at the end of the quarter. Fundcos know that many investors look closely at a funds' top 10 or 25 largest holdings when choosing one fund over another so packing the big winners into the fund makes the manager appear like a great stock picker. They naively take these lists as accurate reflections of the manager's stock-picking prowess and investment style. Besides misleading investors, window dressing also racks up trading commissions and other costs (and tax liabilities). Since these are paid out of the funds' assets, they come from unitholders pockets, eroding investment returns in a way that's opaque to trusting investors.

A number of academic studies have found abundant circumstantial evidence of window dressing in both equity *Window Dressing and Equity Mutual Funds* http://papers.ssrn.com/sol13/papers.cfm?abstract_id=275031 [or <http://207.36.165.114/Toronto/oneal.pdf>] and even bond funds. There is a strong suggestion that fund managers pump hot stocks into their portfolios at the end of reporting periods. A window-dressing fund manager is like a job applicant who fakes his college transcript. The deception involved in window dressing is just one of many examples of fundcos putting their interests ahead of investors'. For example, MER's in Canada have remained unduly high, even though economies of scale of the industry should have produced efficiencies to drive fees down. Another example: Market timing was nothing less than an abusive assault on unitholder cash.

Fees feast on returns: According to the Ontario Securities Commission's online calculator at www.investored.ca, a \$1,000 investment with a market return of eight per cent annually over 20 years would produce a profit of \$3,661 without fees - but only \$1,807 after paying a 2.6 per cent annual management expense ratio. Source: G. Norris, *Mutual funds trim transactions fat: Minor relief from "egregious" fees*, Canadian Press, Jan. 5, 2007

"Of all the losers, you were the best"

- comment attributed to comedian Jerry Seinfeld to his financial adviser

Overheard in Executive Washroom: "The opportunity to meet our fund's objective did not present itself in 2008"

"His global infrastructure fund pitch started with nothing and went nowhere"

-Anonymous

What do you say to a merchant banker who knocks on your door?

How much do I owe you for the pizza?

What can you buy on eBay for \$1?

An Icelandic bank but they'll get you on the shipping costs.

Research provides some evidence that mutual fund alpha is asymmetrical

Mutual fund detractors commonly cite their long-term market under-performance after fees. An August 2006 research report by Professor Robert Kosowski of INSEAD concludes that actively-managed U.S. mutual funds actually perform better during recessions than they do during economic expansions. In other words, *mutual funds produce more alpha during recessions*. Furthermore, Kosowski contends that investors derive higher utility from a marginal increase in wealth during a recession - making mutual funds even better during bad times. The 53 page study entitled *Do Mutual Funds Perform When It Matters Most to Investors?: US Mutual Fund Performance and Risk in Recessions and Expansions* observes:

In expansions, when there is mostly good (positive) news about firms, corporate managers reveal most news and information is relatively symmetrically distributed in the market.²⁰ In recessions, when there is more bad news, corporate managers only partly reveal information and this leads to asymmetric information and higher information uncertainty or variance of information signals. Thus, in recessions, when the variance of information signals is higher, there is more potential for some fund managers to have different information signals, be possibly better informed than the average investor, and thus, under certain conditions, to outperform simple passive market benchmarks.²¹

There may be other explanations but whatever the reason, mutual fund alpha seems to be asymmetrical. "The results are strongly economically significant since the difference between NBER recession and expansion period performance is up to 3-5 percent per

year.⁷⁴ While Kosowski suggests investors might be able to exploit this finding, he acknowledges that they would also want to avoid equity mutual fund altogether at the beginning of a recession. Therein lies the fundamental challenge in exploiting this anomaly: it requires market timing. And if an investor was that good at market timing, he/she might as well just go long and short index futures. Absent any market timing skills, the patient retail mutual fund investor is still destined to receive the average performance of mutual funds over both expansions and recessions. i.e.: *market index under performance after fees*. Source: Chris Holt, Dec. 9, 2006, <http://etf.seekingalpha.com/article/23225>. The paper [Read Full Paper](#) is available here or for download at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=926971 With Canada's much higher MER's the situation is more extreme: Over the long run, Canadian mutual fund investors should not expect to beat market indexes. Fees count!

Gold bullion available for RRSP's: Visit www.kitco.com and <http://www.questrade.com/> As usual, make sure you understand the applicable Terms and Conditions, insurance, currency and all associated set-up and ongoing fees. [RRSP changes in 2005 budget](#); <http://www.cbc.ca/news/background/rrsp/>

“ She sent me a fax with a stamp on it.” – fund investor commenting on a FAX he received from his trusted adviser

2007 New Year's Resolutions for fund investors-a la Luukko [same for 2009]

Want to do better in 2007? Consider these wise actions provided by Morningstar Canada Investment Funds editor, Rudy Luukko:

- 1. I will diversify adequately**
- 2. I will be wary of "can't- miss" investments**
- 3. I will cut down on portfolio clutter**
- 4. I will dare to compare** and our favourite...
- 5. I will spend wisely on fees.** This could mean seeking out low-cost alternatives, such as exchange traded funds or no-load funds offered by institutional managers as a sideline to their core business. But even within the advice-giving channels favoured by most investors, there are wide cost discrepancies between firms. With dozens of them competing for your business, and no one having a monopoly on investment expertise, there's no need to invest with high-cost providers.

Source: R. Luukko, *Disappointed with 06'? Resolve to do better*, Toronto Star, Dec. 30, 2006 pg D4 <http://www.thestar.com/Business/article/166378> [We always like to add **I will not Chase Returns** and **I will educate myself on Investing**]

The US has made a new weapon that destroys people but keeps the building standing. It's called the stock market - Jay Leno

“ A penny saved is a penny earned”

1. Use ecoupons for Ontario's top attractions
<http://www.attractionsontario.ca/index.cfm?DSP=Chapter&ID=19>

2. Make a grocery shopping list. Dig out the cookery books, plan a few meals and only buy what you need .Ignore frivolous enticements at checkout counter.
3. Ebay, the online auction house, has opened individual sellers to a world of buyers. You can flog anything for the cost of a small commission.
4. Save money on home repairs- take a course at your local adult education college to improve the skills needed to tackle most household repairs.
5. Shop around- the internet has made finding cheaper insurance easy and you can compare hundreds of policies in minutes.
6. Buying books and movies gets expensive, and even renting can add up. Take a trip to your local library; and you'll find all of the latest books and movies available generally free of charge.

2008 market action

Now that the year has ended, check out the 2008 stocks and market indexes in pdf format. <http://business.theglobeandmail.com/servlet/story/RTGAM.20081231.w2008markets1231/BNStory/Business/home> Indexes are at (S&P/TSX composite fell 36.16%) <http://www.theglobeandmail.com/v5/content/pdf/Indexes.pdf>

Mutual funds also subject to defective Disclosure liability

Amendments to the *Securities Act* (Ontario) that came into force on December 31, 2005. provide investors in reporting issuers (including investors in public mutual funds) with a statutory right of action against a public mutual fund, a fund manager, their respective directors and officers and certain other persons connected with the mutual fund during a period when there is a continuous disclosure violation. The statutory right of action, first proposed in 1998, was designed to target disclosure violations by public companies. The regime, however, also applies to mutual funds that are reporting issuers in Ontario, even though it does not account for or accommodate the differences between public companies and mutual funds in some fundamental areas.

All documents that are filed or required to be filed with the Ontario Securities Commission will be subject to the regime, including simplified prospectuses and documents incorporated by reference. As well, all sales communications will most likely be subject to the regime, although this is uncertain since the test to be applied to determine if such a communication is caught is the same test discussed above for determining a material fact (in this case, would the communication reasonably be expected to affect the market price or value of the security), a test that is not easily applied to mutual funds. Source: Ogilvy Renault, *Civil Liability Regime for Continuous Disclosure Violations - as it Relates to Mutual Funds*, Oct.31, 2005 http://www.ogilvyrenault.com/en/resourceCentre_1620.htm

***: Winning lottery tickets are great investments; the catch is that you have no way of knowing if yours will be a winner, and they are bad investments for 99.9% of people. From a fund company's perspective, high-cost funds are like free lottery tickets because it has persuaded investors to pay the bill. If the fund company is lucky, it'll produce big enough returns to attract large sums of money. If it isn't, it'll**

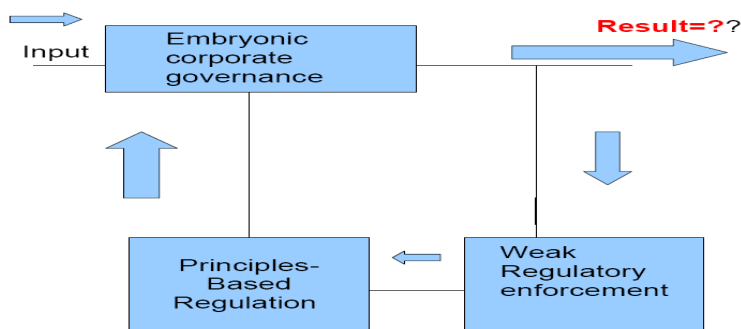
simply fold up the fund and hide its mistake under the rug. Of course, that doesn't make the fund's investors' losses any less real.” - Russewll Kinnell Source: IndependentInvestor Newsletter 037 of 05 01 2009

Painting the tape. In what also is called "banging the close," portfolio managers run up the price of what they already own. A fund that does this with a few dozen stocks would not only pump up its return, but also boost the fund manager's revenues, which are based on the assets it manages. Painting the tape is a one-day wonder. Historically, 80% of all U.S. stock funds and 91% of small-company funds have beaten the market on the last trading day of the year -- and roughly two-thirds have given most of that gain right back on the first day of the following year. "So we know how investors can avoid losing money," says finance professor Dan Bernhardt of the University of Illinois: "Don't buy small stocks or a small-cap fund on Dec. 31, and don't sell on Jan. 2." See *Smart fund managers? Stupid Money?* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=428088

“There is a perception in international financial circles that Canadian markets are the "Wild West" and it hurts Canadian companies when they try to raise money abroad. This is a very common refrain that we hear when we visit markets in New York or in Boston or in London or in Europe, a perception that somehow this is kind of a little bit more like a Wild West up here in terms of the degree to which rules and regulations are enforced”. - former Bank of Canada Governor David Dodge , Dec. 9, 2005

We're worried about the CSA proposal for principles-based regulation

Here's why:



The regulatory control system

The system senses the output of the system and compares it to the principles (rules) .If their is a significant difference, , a feedback signal (enforcement) brings the governance system back into control.If any components are deficient , the system cannot be regulated . If all the components are weak, the system is unstable and will break down.

Jovian Capital Announces launch of Horizons AlphaPro ETFs

Jovian Capital Corporation ("Jovian") (JOV: TSX) and its subsidiaries AlphaPro Management Inc. ("AlphaPro") and BetaPro Management Inc. ("BetaPro") announced the launch of its new family of Horizons AlphaPro ETFs ("AlphaPro ETFs"). The AlphaPro ETFs are the first actively managed Exchange Traded Funds offered in Canada. The Horizons AlphaPro Managed S&P/TSX 60(R) ETF (HAX: TSX) is the first AlphaPro ETF to be launched. MER= 0.70% -other benefits include intra-day liquidity, tax efficiency and the ability to place limit orders. . This should give actively-managed mutfunds a run for the money. Read the prospectus before investing. Because it's an ETF, you'll need a trading account with a discount broker.

Wall Street speaking

Cheerleading: Trading analyst coverage for investment banking

the Carrot: Swapping IPO windfalls for inflated commissions

the Stick: Demanding loans in return for fee based services

Give investors their money back

-they paid for due diligence and didn't get it

Canadian investors in Mackenzie Financial Corp.'s only hedge fund have become victims of Bernard Madoff's alleged giant Ponzi scheme. Mackenzie Alternative Strategies - a fund of hedge funds run by U.S. based Tremont Capital Management Corp. - had about 20 % of its assets invested with Mr. Madoff's New York investment firm. Mackenzie has suspended redemptions, and started winding down the \$19-million fund after it shed 47 % in December (The fund had \$177-million (Canadian) at its peak in 2004.) . The fund lost 59 % in 2008. Should Toronto-based Mackenzie, a unit of IGM Financial Inc., cover losses by retail investors clients as result of the exposure to alleged falsified returns by Mr. Madoff? Mackenzie's has admitted that they only became aware of the indirect exposure to Mr. Madoff's firm when notified last month by Tremont, the fund's sub-advisor. Source: S. Won, *Mackenzie hedge fund victim of Madoff*, Globe and Mail, Jan. 9, 2009 [We're not sure if any PPN's also held this toxic fund]

Ken's Believe it or Not -- CSA investor protection in action.

"We had a hearing and we handed down sanctions" -Ken Gracey, B. C. Securities Commission spokesman. The BCSC says the matter is closed- Thow's on the loose, fines not paid, investors left holding the bag. Source: B. Critchley, *Thow saga continues unresolved*, Financial Post, Jan. 8, 2009 [Ian Thow, was charged with 25 counts of fraud in June 2008 following a 2-year investigation by the Vancouver RCMP Integrated Market Enforcement Team. Those charges were laid against Thow, the former Victoria-based fund salesman and senior representative of Berkshire Investment Group, once part of AIC Ltd. and now a unit of Manulife Financial Corp. after a panel of the found Thow committed fraud. At least \$15 million has disappeared. The BCSC panel reported its findings in Oct., 2007, saying the "case represents one of the most callous and audacious frauds this province has seen. Thow preyed on his clients by offering them non-existent securities and instead using the funds to support his lavish lifestyle. He took their money and betrayed their trust. He has left a trail of financial devastation and heartbreak," said

the panel, noting that ". Thow befriended his clients and built trust with them through his high-profile support of charitable and community causes, his show of wealth, and his apparent close relationship with Michael Lee Chin, the principal of Berkshire. Thow helped clients borrow money to make the "investment"s through his relationships with loan officers at Scotiabank and the Bank of Montreal." Thow is believed to be safe in the U.S. as IMET twirls its thumbs and investors endure the pain and agony of severe losses to their nestegs]

ALERT: Be on the lookout for TD Waterhouse's changes to their account and service agreement.. Think twice about using voiceprint-it's not 100%. Whether you like it or not, you are being told that RRSP's will automatically convert foreign currency to Loonies at the then prevailing exchange rate into the " currency of the account".Your privacy may be impaired because they intend to share information with third parties for marketing purposes. The section on conflicts-of-interest is worth a read-basically conflicts abound .There a whole new section on TFSA accounts-check whether you will or will not be charged admin/withdrawal fees. We're talking 16 pages so read it carefully. **NOTE** also that both the Toronto Stock Exchange (TSX) and TSX Venture Exchange (TSXV) have made the decision to eliminate the ability to enter or execute All or None (AON) orders effective January 19, 2009

Yet more on Mackenzie hedge fund

*Mark Windu from New York, United States writes: *I question the thoroughness of Mackenzie's and these other money managers due diligence processes.Hopefully the OSC will take action!I have been reading up on due diligence lately and came across a new book which was actually really interesting! It was called Hedge Fund Operational Due Diligence: Understanding teh Risks by an author named Jason Scharfman (John Wiley & Sons, Inc. 2008) .Let's hope someone take's Scharfman's advice!

* Posted 10/01/09 at 1:19 AM EST | Alert an Editor <#alertForm> |

Link to Comment

<http://www.theglobeandmail.com/servlet/story/RTGAM.20090109.wrtremont09/CommentStory/SpecialEvents2#comment3010882>

Source:

<http://business.theglobeandmail.com/servlet/story/RTGAM.20090109.wrtremont09/BNStory/SpecialEvents2/home>

" I'm mad as hell. I'm hoping Mackenzie will sue [for lack of due diligence]."- James Mumby, a hapless 75-year-old Oakville, Ont.-investor in the Mackenzie Alternative Strategies fund..[The Mackenzie Alternative Strategies - a fund of hedge funds run by U.S. based Tremont Capital Management Corp. - had about 20 % cent of its assets invested with Mr. Madoff's now defunct New York investment firm. This hedge fund, which was launched in 2001, has an average annual compound loss of 13 % for the five years ended Dec. 31,2008. The fund had \$177-million (Canadian) at its peak in 2004.Mackenzie has suspended redemptions, and started winding down the \$19-million

fund after it shed 47 % in Dec. ,2008. The fund lost 59 % in 2008.] Source: <http://www.theglobeandmail.com/servlet/story/RTGAM.20090109> S.Won, *Mackenzie hedge fund victim of Madoff*, G&M, Jan. 9, 2009 pg B11 [looks like Mackenzie's due diligence won't win any Canadian Investment Awards]

Ten year mutfund returns pretty meagre

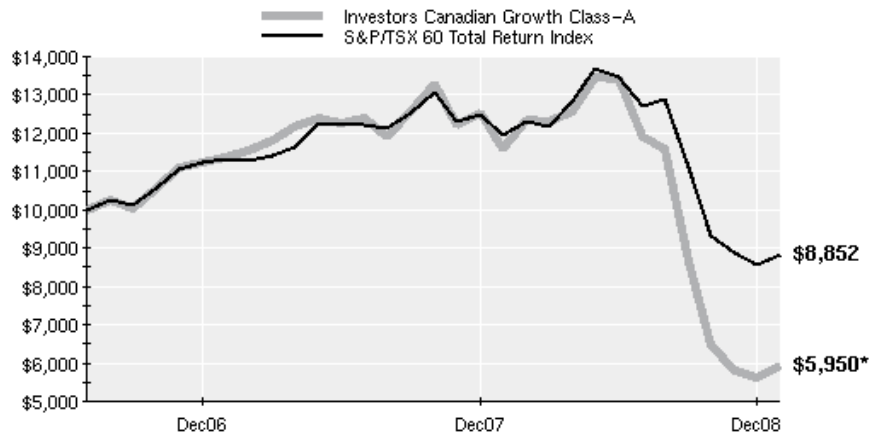
Here's the 10-year pre-tax returns in 5 categories to Dec. 31, 2008:

Category	Group avg.	Index
Canadian equity	4.49%	5.34%
Japanese Equity	-2.00	-1.51
Canadian fixed income	4.19	4.12
Global equity	-1.54	-2.40
U.S. equity	-4.72	-3.56

Note that magnitude of the returns versus a GIC and the fact that the funds on average found it difficult to beat the index. Global equity did beat the index but it's negative. Sales commissions and income taxes on distributions not included in the figures but would reduce fund returns if applicable . Observe also that after inflation , most returns are pretty puny. Maybe paying down debt isn't such a bad strategy. Source: globefund.com

"Growth" of \$10,000 chart -IG Canadian Growth Class A

MER=2.90% ; Stated returns assume no front-end load commission paid and no tax paid on distributions over the period. Final dollar values in current dollars, original investment in July, 2006 dollars.



This fund didn't protect assets during 2008 market downturn . One year return= -55.11% (Index= -33.00%) . The Fund's stated aim is to provide long-term capital growth by investing primarily in the Canadian equity markets. Canadian Savings Bonds anyone?

Read *Buy and Hold ain't what she used to be* in the January 2009 Canadian MoneySaver The article expresses doubts about the investment strategy in today's environment espoused by the fund industry

Expert Panel releases report and recommendations –National Regulator of sorts

The Hon. Thomas Hockin, Chair of the Expert Panel on Securities Regulation has released the Expert Panel's Final Report and Recommendations .The Report and Recommendations, along with the Panel's News Release and Mr. Hockin's speech, can be found at www.expertpanel.ca The Panel recommends a national regulator and a single Securities Act. It makes a number of worthwhile recommendations including improved enforcement and treatment of complaints (sections 14-19).As well, the Panel was asked by some stakeholders to provide communications tools to support the Panel's recommendations. These communications tools can be accessed through the Communications Tools button at the bottom left hand side of the Welcome page or directly through www.expertpanel.ca/communications_tools We will review and report back next issue.

Read the letter from Harry Markopolos to the SEC in November, 2005 warning of a likely fraud in the Bernard Madoff funds

http://online.wsj.com/documents/Madoff_SECdocs_20081217.pdf The report was made public by the Wall Street Journal on December 18th, 2008 .In it Mr. Markopolos reveals that the regulators had been given a detailed 19 page memo exposing the fraud and featuring 29 "Red Flags". This report has been making its rounds on the Internet.

ABCP advisors receive \$199.1 million!

John Greenwood, Financial Post Published: Monday, January 05, 2009
Canada's market for non-bank asset-backed commercial paper remains just as illiquid as it was the day it seized up in Aug. 2007 but the lawyers and financial advisors trying to rescue it have already billed noteholders for nearly \$200-million.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- \$87-million is going to JPMorgan, contracted by Crawford's investor committee to figure out how to convert the \$32-billion of frozen toxic paper into long term notes. The controversial restructuring should release cash to some retail investors who had been sold the garbage after being told it was safe by investment dealers., Canaccord and Credential

The Ponzi scheme in every hedge fund

Does the Madoff fraud seem somehow vaguely familiar to you? You are not the only one. In the January 5 Time magazine Ari J. Officer explains the similarities between the Ponzi technique used by Madoff and the approaches of many hedge funds.

<http://www.time.com/time/business/article/0,8599,1869196,00.html?xid=rss-topstories>

Source: Independentinvestor Jan. 11,2009 edition

ETF's capturing mutual fund market share?

Exasperated [American] investors are abandoning riskier stock strategies in favor of the relative calm and lower costs of plain-vanilla exchange-traded funds. Through November [2008], ETFs posted net inflows of \$138 billion for 2008, while long-term mutual funds saw an exodus of \$185 billion, according to consultants Financial Research Corp. "Last year was strong for flows in indexed products as investors preferred funds with lower fees and more stability," said Rob Ivanoff, an analyst at FRC. "Many actively- managed funds haven't performed well, and some star managers didn't live up to their fame." Source: John Spence, *Jaded investors seek diversification, low fees of passive funds after meltdown*, Marketwatch , Jan. 11, 2009

On the subject of the U. S. auto bailout, Murray Ross of Pleasant Hill, Calif., wrote the following letter to the Wall Street Journal:

"I must have dozed off and skipped a page. Our new policy [in the United States] is to sell government bonds to raise cash to give to private equity firms to lend to non-creditworthy borrowers so they can drive new Chevy Suburbans down our crumbling roads and bridges, converting Middle East oil into greenhouse gases at the highest possible rate? Unbelievable."

"Brokers service clients the same way Bonnie and Clyde serviced banks"

--William Bernstein

We need a national regulator now

- protection of investors should trump provincial protectionism

Too much of the emphasis has been on only one side of this equation. Yes, it's true that a national regulator will simplify matters for issuers, reduce costs and make us more competitive. But the real reason that we need a national regulator is investor protection. As it stands today, Canadian investors do not feel protected from corporate wrongdoing and the advisory business. Why do we have the highest mutual fund fees in the world? Who has been held accountable for Bre-X, Nortel, YBM and all the issues surrounding so-called rogue brokers and advisers? The answer is no one. The ABCP fiasco demonstrates how ineffective regulators were in protecting retail investors. The Livent case is only now being heard, 10 years after the fact.

Even when there is some regulatory enforcement, it tends to be of the wrist slap penalty variety. Complaints go into a swamp and lead to investor frustration. Restitution is rare. The only semi-viable source for resolution of a complaint is the Ombudsman for banking services, an industry sponsored and funded entity, with numerous restrictions and limitations. Tight Provincial statute of limitations ACT's make prompt resolution of complaints a necessity. (in Ontario the period is only 2 years!)

Investors are unduly losing billions of dollars each year due to weak regulatory enforcement. Investor protection is just too important to be left to "provincial" regulators. Wrongdoing does not stop at provincial borders. We need a robust, well resourced national regulator to protect investors from defective products, weak regulations, light enforcement, insider trading, defective disclosure, market manipulation, abusive sales practices etc. A National regulator should act as the "Investor's Advocate"

and an enforcer of a National Securities Act. The mere existence of so many different commissions means that companies-and individuals-can arbitrage the regulations and gain entry via the backdoor. This doesn't serve investors well and would be eliminated under the structure of a common regulator. Thirteen regulators and 13 Securities ACT's cannot and do not respond to market /investor threats in a timely, effective manner. If no action is taken, it won't be too long before we don't have a middle-class, so great is the leakage of nest eggs due to unattended market malfeasance The EXPERT PANEL report on securities regulation doesn't seem to share our sense of urgency.

http://www.expertpanel.ca/eng/documents/Expert_Panel_Final_Report_And_Recommendations.pdf

"We had a hearing and we handed down sanctions" -Ken Gracey, B. C. Securities Commission spokesman. The BCSC says MISSION ACCOMPLISHED! - Thow's on the loose, fines not paid, investors left holding the bag, no lessons learned. Source: B. Critchley, *Thow saga continues unresolved*, Financial Post, Jan. 8, 2009 [Mutual fund "adviser" Ian Thow, was charged with 25 counts of fraud in June 2008 following a 2-year investigation by the Vancouver RCMP Integrated Market Enforcement Team. The BCSC panel reported its findings in Oct., 2007, saying the "case represents one of the most callous and audacious frauds this province has seen."].

"Brokers service clients the same way Bonnie and Clyde serviced banks"

-- William Bernstein

Index funds do their job

"...The tale of Nortel strikingly highlights the miracle of indexing, and by extension, index-based investing. What else can you call it when a portfolio could maneuver a one-time behemoth out the door, leaving barely a scratch? "It's related to the mathematics of the index," said David Blitzer, chairman of the index committee at Standard & Poor's, which built and maintains North America's most important market indexes. "The index will adjust as the market adjusts."

The major market indexes are typically market-capitalization weighted, meaning that the stocks that make up the index are assigned percentage weightings based on their market cap relative to all other index members. Those weightings get automatically adjusted as those market caps change: as one company's market value goes up relative to the overall index, its weighting in the index rises, and as another company's relative value falls, its weighting goes down. This means indexes automatically reduce the share of the portfolio for stocks that are on the decline, and automatically increase the size in the portfolio of stocks that are on the rise. ..."
Source: D. Parkinson, *How Nortel's 'falling knife' proves worth of index investing*, Globe and Mail, Jan. 16, 2009 pg B9 [On Jan.14, 2009 Nortel filed for bankruptcy protection]

Ways to save money in investing

Your adviser or fund manager doesn't have much control over the markets; over the long-term the majority of funds underperform the relevant index. But you can seek ways to

reduce the costs of investing, regardless of whether you are a DIY investor or one who relies on an adviser. Cost count:

- a. Use low cost funds, index funds, ETF's or Do-It-Yourself
- b. Be tax smart-open a TFSA account *
- c. Look into DRIP's for stocks you like
- d. Check whether your advisory fees are tax-deductible
- e. Don't overtrade
- f. Use a discount broker to keep commissions low

Also, among some load funds sold through commissioned advisers, the expense ratio for the front-end-load version of a fund may be much cheaper than the deferred-sales-charge version. Work the numbers. Another potential source of savings is volume discounting, whereby mutfunds offer reduced management fees to attract larger accounts. They're not well communicated . Don't be shy to ask.

* Starting Jan. 1, 2009, you can start contributing \$5,000 a year to a tax-free savings account in which all income will grow tax-free as long as it remains within the account.

"Why should the seller of mutual funds receive trailer fees," one disgruntled investor wrote me. "I do my own investing and I don't get any reward like the sales person. The broker gets that money. Explain the fairness in that."

Source: R. Luukko, *Tax breaks a very rare sure thing*, Toronto Star, Jan., 2009 pg. B7

About the Canadian Foundation for Investor Rights (FAIR) Canada

The mission of **FAIR Canada** is to be a national voice for investors on securities regulation and a catalyst for enhancement of the rights of Canadian shareholders and retail investors. The following are some of the investor rights issues that are currently on the Foundation's agenda.

- Financial Literacy
- Point of Sale Disclosure for Mutual Funds and Segregated Funds
- Benchmarking Study of Investor Rights
- National Investor Advocacy Organization
- Product Suitability

The FAIR Canada website is now up and running:<http://www.faircanada.ca/>

You can view their position on product suitability at http://www.faircanada.ca/wp-content/uploads/2008/12/setor1-5470768-v1-ltr_to_joint_standing_committee_ep-2.pdf

Two-minute no-brainer portfolio handily beats the index

The Two-Minute Portfolio is a continuing experiment designed to test a theory: that stock-picking can be as simple as annually investing equal amounts in the two largest dividend-paying stocks by market cap in each of the 10 sectors of the Canadian market. No investing smarts are required for this strategy, and yet the results of the past year and beyond show it works quite well for patient investors who don't mind periods of weak returns. While the Two-Minute Portfolio did much better in 2008 (-19.0% excluding transaction costs) than the 33.0 % loss by the S&P/TSX composite total-return index (dividends included), it underperformed the index each year from 2004-2007. [The average Canadian Equity fund lost 34.56 % in the year ended Dec. 31, 2008]. But what

does a four-year slump amount to if you're able to lose a lot less money than a broader market in a historically bad year, and do far better over the long term?

Historical data for the Two-Minute Portfolio show that from Dec. 31, 1985, through the end of 2008, the compound average annual return for the portfolio was 10.1 per cent with dividends included. The S&P/TSX composite total return index averaged 7.6 per cent. What makes this performance edge notable is that it has come with substantially less risk than the composite index, which includes about 220 stocks and is thus more diversified. The worst possible setback you would have ever endured in the Two-Minute Portfolio (they call this maximum drawdown in financial circles) was the 25.7 % decline from October, 2007, through November, 2008. The worst result for the total return index was a 43.2 % plunge lasting from August, 2000, through September, 2002. Source: R. Carrick, *Two-minute portfolio beats index in a tough year*, Globe and Mail, Jan. 10, 2009 pg B13
Dominion Equity resource fund yields little in 23 years

The compound average return of this fund since its Sept. 1985 debut is 3.58 % pre-tax to Dec. 31, 2008. The MER= 3.52 % on assets of just \$12.5 million. Given that the CPI has run about 2.56 % * annualized over this period, even a CDIC- insured GIC would have been a tough competitor for this fund. Clearly, risk and return don't always go together. Buy-and-Hold? We think not.

* http://www.bankofcanada.ca/en/rates/inflation_calc.html

New Book: Warren Mackenzie's latest book *New Rules of Retirement: What your financial adviser isn't telling you* (co-authored by Ken Hawkins) is now available. It's targeted at retirees and those planning to retire in the next 10 years or so. The authors attempt to debunk many of the myths perpetuated by the financial service industry and provides an insightful and unbiased approach to planning for your retirement. The paperback lays out 38 Retirement Rules and, unlike most retirement-focused books, covers both the financial and non-financial aspects of retiring. Warren MacKenzie's credentials include a chartered accountant (CA), certified financial planner (CFA), certified investment management analyst (CIMA) and teacher (B.Ed.). He runs Second Opinion Investor Services Inc. You can order the book on-line for about \$16-17. Publisher: Collins Canada (Dec 22 2008); ISBN-10: 1554680018

Kenmar presents at McMaster U. World Congress on Economic Crime Prevention .For a copy of *The Impact of Financial Assault* contact kenkiv@sympatico.ca

Alberta premier a blocker for investor protection

"Right now I'm fixed on building confidence in the economy, ensuring that Canadians have jobs, that people entering into retirement are going to be guaranteed the pension that they were promised. All those things are much more important. Let's get on with moving Canada ahead and then we can come back to this discussion about a national regulator" - Alberta Premier Ed Stelmach. Source: Madhavi Acharya-Tom Yew, *Alberta premier says he's 'fixed on' economy*, Toronto Star, Jan 15, 2009 pg B4 [This proposed action will serve to distract attention away from regulatory fiascos such as the ABCP crisis, which in fact is at the root of why there is a lack of confidence in the capital markets and the economy. It was massive regulatory

failures that caused the problem. The CSA (the ASC is a member of this dysfunctional patch quilt of provincial regulatory thinkers) stood idly by as retail ABCP investors twisted in the wind. Stelmach is not a friend of retail investors and the delaying tactic he proposes is not in the public interest]

"Securities regulation is a provincial responsibility, and this would be an intrusion into an area of provincial jurisdiction. We will continue to oppose, through all available avenues, including legal action if necessary, any move toward establishing a single national regulator" - Alberta Finance Minister Iris Evans demonstrating his disdain for Main Street and arrogant tolerance for the status quo Source: Madhavi Acharya-Tom Yew, *Panel says to proceed even if provinces say no*, Toronto Star, Jan 13, 2009

ABCP regulatory fiasco swept under the carpet

-Why did the OSC not take a stand and ensure that all retail investors were given equal treatment?

"It [the OSC] starts with a view that they endorse a court process and then they don't take any steps to ensure that the court process is fair with respect to their constituency, which is the retail marketplace. The OSC should have been more diligent, especially given the findings of the IIROC study that showed there were breaches of know- your- client and suitability rules. They were highly remiss in not addressing the aberrations that were evolving in the so-called solution as it occurred. And now they are standing by and watching the [three dozen] left-out families be ultimately crammed down " - Diane Urquhart, an independent financial analyst Source: B. Critchley, *End of a shameful episode*, Financial Post, Jan. 12, 2009 pg FP2 [Urquhart also said the way the OSC "protected" the ABCP retail investor interests stands in complete contrast to how 12 U. S. states handled the US\$300-billion auction rate securities mess. Down there, the distributors and/or underwriters were made to buy them back. As well, fines were imposed. In Oct. 2008, IIROC, the brokerage industry self-regulator said in a 100-plus page report: *"This study and the compliance sweep found that the majority of dealer members that acted in the distribution of third-party ABCP to retail investors did not understand the underlying asset composition, liquidity risks and distinct rating methodology used for the structured financial assets underlying the ABCP. In short the dealers didn't do their due diligence or understand what they were selling"* No firm has yet been held accountable by IIROC or anyone else.]

Boring t-bills not so bad

"Here's the lowdown on Canadian stocks versus T-bills. The 10-year annualized change in the TSX composite index: 3.3 per cent. Average three-month T-bill yields over the 10-year period: 3.5 per cent. If you include dividends, the total return on Canadian stocks is just over 5 per cent. This was the weakest showing since the 1970s, says BMO economist Douglas Porter, and less than half the trend in the 30 years leading up to 2007. Still, you were better off investing in Canadian stocks than U.S. stocks. The 10-year annualized change in the S&P 500 index in Canadian dollars: -5.5 per cent. The total return on U.

S. stocks (including dividends) in Canadian dollars: -3.7 per cent.” Source: E. Roseman, Here’s the lowdown on your losses, Toronto Star, Jan. 14, 2009 PG B7

Are Canadians souring on actively-managed mutfunds?

In December, 2008, Canadians pulled more money out of mutual funds than they put in, capping a disastrous year for the mutfund industry. Investors redeemed \$13.7 billion worth of mutual funds in December and bought \$12.9 billion, leaving the industry in net redemptions of \$792 million for the month, according to IFIC. That was down from sales of \$2.71 billion in December 2007. For all of 2008, sales shrank down to \$107.8 million after redemptions and reinvested distributions. That's the worst tally since 2003, when there was \$521 million in net redemptions. In 2007, sales came in at a healthy \$33.49 billion. As of the end of December, 2008 the industry had \$506 billion in AUM. Assets shrank by 20.4 % compared to 2007. At one point fund industry assets exceeded \$700 billion.



Bernie Madoff is at the center of an alleged US \$50 billion Ponzi scheme for his funds. Many prominent investors and banks have lost millions, even billions as the SEC investigates the fiasco.

From our files –ASC in the cross-hairs- October 2005: After a three-month examination, Alberta's Auditor General concluded the enforcement system at the provincial securities commission, the ASC, "needs more discipline. In a much-anticipated report, Fred Dunn, Alberta's Auditor General, found "there was a general lack of information in the files to support key decisions," made to determine whether the provincial securities regulator pursued or closed enforcement cases, especially in the "most sensitive or potentially high-profile" cases. To remedy that, the Auditor General put forward 10 key recommendations to improve the watchdog's internal procedures. At the time Merwan Saher, a spokesman for Mr. Dunn said "We believe our report is a wake-up call to the commission". Of course, as you'd expect, it is the ASC now opposes the Expert Panel's recommendation for a national securities regulator. We wonder why, eh?

Words from never –never land: "Our system **works** for us and it's taken a long time to get there. We finally got it to the point that you don't have to deal with 13 different jurisdictions [the so-called Passport System] . We have totally harmonized legislation, no duplication, and now everybody wants to throw that work out" - William Rice, Chairman and chief executive of the Alberta Securities Commission commenting on the Expert Panel's recommendation for a national securities regulator. It may work for some Alberta Oil and Gas interests but it sure doesn't work for retail investors. Source: Theresa Tedesco, *Alberta pushes economic case against regulator*, National Post, January 17, 2009

Vengrowth sticks it to unitholders

"Last month, two labour-sponsored funds -- Ven-Growth I and VenGrowth II--moved to a policy of annual distributions and ceasing weekly redemptions in order to preserve shareholder value. From now on, investors will receive a return through an annual distribution of the proceeds from the disposition of portfolio companies, rather than through weekly redemptions. "This measure will prevent any mid-term liquidity challenges, help achieve optimal exit values for maturing portfolio companies once market conditions improve and ensure that proceeds generated from those exits are returned to all shareholders," it said at the time. At the end of December, VenGrowth I (formed in 1995) had \$45-million in assets while VenGrowth II (formed in 2000) was home to \$255-million in assets. About three-quarters of the investments in both funds were in private companies. The two funds have 2% management fees. Under the new policy, a determination of the surplus cash available to be distributed to shareholders will be made at the end of next August, the funds' fiscal year-end.

So far, so good. But one unitholder, who has written to the company and to the OSC, is less than pleased. "In my view it is unethical to hold client assets without their consent and continue to charge a management fee. I purchased a mutual fund which I believed to be open-ended. If due to some extraordinary circumstances it is impossible to redeem units, then it frankly appears dishonest to continue to charge the fund fees. In other words, if there is insufficient cash to redeem the units then how is there sufficient cash to pay the managers. Do the managers come first? Or do the clients? A fund manager is, after all, a fiduciary," said Doug Fox in the letter....": Source": Barry Critchley, *Funds change policies*, Financial Post, Jan, 17, 2009

“Online investing may not be right for those who know very little about investing, but it’s not as difficult as many think” –Warren Mackenzie

ALERT: The Jan, 25th edition of Money Reporter cautions us about GIC rates in TFSA accounts. Apparently some financial institutions are providing one-year GIC's for TFSA's at rates of about 2.5% vs. rates outside of a TFSA of 2.9%. Well, that's one way to charge a fee without specifically charging one.

Senior speaks out on the ABCP scandal

"There's been a lot of personal grief around trying to make ends meet for me and my wife. The worst thing was we couldn't even afford to go to a movie. That was all I had in the world. I think [this process] was a travesty. The people who knew that this was a flawed product, they are the real culprits and they are getting off scot free. They should be going to jail for what they did." - Reid Moseley, a retired Calgary school teacher with most of his savings tied up in frozen ABCP. Mr. Moseley said he bought the paper in 2007 after selling his house, regarding it as a temporary investment that he would cash in when the deal on a new house closed. Source: J. Greenwood , *Ruling clears way for ABCP restructuring*, FP, Jan.12, 2009 pg FP5

Goodbye trailer commissions for DIY's, but...

Toronto-based Questrade's (an IIROC member firm) Mutual Fund Maximizer is a service that reimburses mutual fund trailer commissions directly to investors. The trailer commission is one of the expenses associated with actively-managed mutual funds. It can be as much as 1%+ (less for fixed income funds) of the value of your investments. The stated purpose of trailer commissions is to pay your financial advisor or broker for ongoing services they may provide you. They are paid for as long as you own the fund whether or not you want , need or use advice. The fund company pays the same trailer commission to your broker no matter how much or little advice they provide or the quality of the advice provided. The trailer commission is an ongoing expense; as your portfolio grows, so do the commissions. Most mutual funds pay the trailer directly to the brokerage where your funds are invested. You don't see the trailer commission deducted from your fund because it is typically embedded in the fund's MER, thus quietly reducing returns while out of sight .The average trailer commission is about 1% for equity funds.. The primary competitor to mutfunds are ETF's with MER's a fraction of an actively-managed mutfund , TD's e funds and TBC DI's D series..

Questrade's Mutual Fund Maximizer reimburses trailer commissions back to you. Questrade deducts a monthly processing fee of \$29.95 per account from the trailer rebates received from the mutual fund company and reimburses you everything above this threshold. This processing fee is *never* charged to your account, so there is no additional payment if your rebate is less than \$29.95 for a given month. The trailer fee rebate will show up as a rebate on your statement. **It is not clear whether or not the rebate is taxable.** Trailer commission rebates are deposited into your account as cash, and cannot be used as part of a re-investment program. However if you own mutual funds that issue dividends, you can register your mutual fund as part of our dividend re-investment program. Once you start your account application you will have access to MyQuestrade- the admin aspect of your account. Within MyQuestrade the firm offers a Mutual fund Center which is powered by Morningstar Canada. This gives you access to a variety of news, charts, and a lookup function.

To check out the kind of rebate you'll receive go to the link for the mutual fund maximizer calculator. The listings of all fund companies are in middle section; the actual fund names are below. This link will take you straight through to the calculator:

http://www.questrade.com/trading/mutual_funds_calculator.html

Typically, the breakeven point is about \$45,000 (for a 50:50 bond/equity portfolio mix). On top of the processing fee, online mutfund trades will cost you **\$9.95 per trade**; for mutfund phone trades the cost is **\$9.95 plus a \$25 telephone surcharge**. If the fund company is negligent or delayed in disbursing trailer commissions, Questrade says it will pursue full and timely payment. When and if a fund company disburses a tardy trailer commission, your account will be credited the full eligible amount. Note that fund returns will still be calculated using the posted MER.

http://www.questrade.com/trading/mutual_funds_maximizer_details.aspx Exclusive to Questrade, you can also trade U.S. stocks and options in registered accounts without the currency conversion hit imposed by other firms. Questrade is covered up to \$1M by the Canadian Investor Protection Fund in the event of insolvency.

TFSA Comment: One of the few downsides of a TFSA is that although withdrawals can be made from the plan without tax consequence and the amount of the withdrawal is added back into total contribution room, that does not happen until the following year. So, for very short term savings required to cover expenses, a non-registered high interest savings account may be the best choice

Are mutfunds losing ground to ETF's? -Barclay's implies they are

"The rush into exchange traded funds has been gathering pace in tough times, with the dominant operator declaring it outsold the best-selling Canadian long-term mutual fund providers during 2008 for the first time. Barclays PLC's Barclays Global Investors says its [TMX listed] iShares ETFs added \$4.4-billion in net new assets during the year. Meanwhile, the mutual fund industry's assets, excluding money market funds, shrank by about \$15-billion. Barclays says exchange traded funds benefited from a "historic shift in Canada's investment landscape" amid last year's wrenching volatility". Source:

[http://www.theglobeandmail.com/servlet/story/LAC.20090121_RTICKER21-6/TPStory/?](http://www.theglobeandmail.com/servlet/story/LAC.20090121_RTICKER21-6/TPStory/?page=rss&id=GAM.20090121_RTICKER21-6)

[page=rss&id=GAM.20090121_RTICKER21-6](http://www.theglobeandmail.com/servlet/story/LAC.20090121_RTICKER21-6/TPStory/?page=rss&id=GAM.20090121_RTICKER21-6) Barclays claims 84 % of the Canadian ETF market; their decade-old iShares family, currently with 29 funds, now represents more than 5% of all trading on the Toronto Stock Exchange with \$16.4 billion in assets at the end of 2008. Much of the trading in ETF's is actually institutional rather than retail.

Email from a reader: New clients, a couple in their early 70's, had been defined by their previous advisor as 'accredited investors', that is, since they had slightly more than \$1 million in investable assets they could be sold a hedge fund. The advisor interpreted this to mean that they could purchase 4 hedge funds amounting to 40% of their non-registered account. One of these funds, the Lawrence Partners Fund declined in value from \$95,000 to \$19,000 in just a few months. Lawrence Partners were very candid about what had occurred. The fund was initially leveraged 1.4/1 but when the market weakened in Sept., leverage increased to 1.8/1. Their prime broker called the loan and demanded a cheque the same day, resulting in a forced liquidation. The fund is no

longer accepting redemptions pending re-structuring.

Does 'accredited investor' mean that all other criteria for 'client suitability' are to be thrown out? If so, why shouldn't their advisor recommend that 'accredited investors' eligible for RRIFs be allowed to purchase not just 40% but 100% in hedge funds? Was the client, who is not a knowledgeable investor, advised of the risk of leverage, or illiquidity or have even the most basic understanding of what hedge funds do? What was his advisor thinking and where was the compliance department at his firm? John Hood, B.A., M.A., FCSI, Pres. & Portfolio Manager, J.C. HOOD INVESTMENT COUNSEL INC.

“[Ask] How does this thing [the investment] work? If you can’t figure it out, stay away.” –J.Pratt, Mavrix Funds Management Inc. Source: A. Allentuck, *Too good to be true: Basics of financial skepticism*, G&M, Jan. 22, 2009 pg B15

Want to see what the mutual fund industry thinks about telling you about their products?

http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part8/Comments/81-318/com_81-318_index.jsp It's truly disgusting that an industry that is seeing huge redemptions and is under attack from ETF's (and even GIC's) doesn't want to address the fundamental needs of its customers. Sounds like GM, Ford, no? Contrast the Assante Comments with those of SIPA.

InvestorEd cartoon on credit cards <http://www.investored.ca/video/funnymoney/?aid=January2009newsletter>

Interested in the mysterious world of mutual fund taxation? www.rbcam.com/taxes-investing-in-mf.pdf

Can I transfer mutual funds and other securities into a TFSA?

You can effect an “in-kind” transfer up to \$5000 of mutual fund or other eligible investments you own outside of a registered plan and avoid paying tax on all future income. However, transferring securities into a TFSA is considered a sale (deemed disposition) for tax purposes. If your investments are worth more than your original cost, you will have to add the capital gain to your income and pay tax on it when completing your 2009 income tax return. If your investments have dropped in value since purchase, you won't be able to write your capital loss off against past and future capital gains. In this case, it might be wiser to sell them first and put the cash into the TFSA. Also, be sure to name an account beneficiary if your province is set up for this (we checked-Ontario is not yet ready).

NOTE: Tom Atkinson has been named the new chief of enforcement at the Ontario Securities Commission, an appointment that ends 5 months of speculation that began when former chief Michael Watson left to join the RCMP's Integrated Market Enforcement Teams (IMETs) in Sept. 2008. Tom founded and presided over Market Regulation Services Inc. (RS), the capital markets watchdog which regulated trading on

the Toronto Stock Exchange until it merged with the Investment Dealers Association in 2007. Let's hope there's a greatly increased emphasis on holding wrongdoers accountable.

Fund Factoid: According to Investment Funds Institute of Canada statistics representing most of the mutual fund industry, balanced funds made up 39 per cent of assets in long-term funds at the start of 2008, while accounting for only eight per cent of last year's record \$14.2 billion in net redemptions. [according to globefund.com, the average Canadian equity balanced fund returned -20.48 % vs. -20.54 % for the Globe Canadian equity peer index in 2008] Source: <http://www.thestar.com/Business/article/576522>

Risk Disclosure and suitability

Lack of product suitability is the number one cause of investor complaints. Large losses have been incurred as a result of an investors risk tolerance mismatch with adviser recommendations. If you want to learn more, read the 27 page MFDA suitability guidelines available on their website www.mfda.ca These guidelines provide consistent and objective industry standards for assessing investment suitability for the benefit of investors. It will also help prevent some of the despair of retail investors as they survey the horrific damage incurred as a result of unsuitable investments. We define unsuitable investments as those that are (a) unduly risky for the investor, (b) excessively priced vs. readily available alternatives, (c) are tax-inefficient for the type of account (d) are mismatched to the investors time horizon and goals and (e) unduly impact liquidity. Clearly, better POS disclosure would assist in the alleviation of this serious problem.

PPN's eventually will be recognized as a "security"

For over 4 years we've been after the CSA to bring PPN's under their wing. They are complicated and relatively expensive products. Some have recently experienced "nasty protection events". The CSA has finally requested that the MFDA take appropriate action to ensure that KYC and suitability obligations apply to all dealings in PPNs by Approved Persons (aka "salespersons") of its Members. The CSA expect MFDA to enforce KYC and suitability obligations on the sale of any PPN, whether or not it falls within the definition of a "security" in all jurisdictions. This would include PPNs that are deposit instruments currently sold by Approved Persons outside an MFDA Member firm.

In addition, the CSA expect KYC and suitability obligations should apply to all dealings in PPNs by Approved Persons of MFDA Members, regardless of whether or not the Approved Person is also an employee of a bank. The FCAC also have a rule (principles-based) for the disclosure /sale of PPN's applicable to banks. The CSA advised that all MFDA Members and Approved Persons, as registrants under securities legislation, must comply with their KYC and suitability obligations in selling all types of investment products The MFDA is working on the development of suitable rules. (presumably IROC is too) Boy, there doesn't seem to be any sense of urgency about protecting retail investors from PPN's. <http://www.mfda.ca/regulation/bulletins09/Bulletin0354-P.pdf> For some motivational cheer listen to Etta Jame's *At Last* <http://www.youtube.com/watch?v=ADDigK8LwyE&feature=related>

Investors lose All-Or-None option

As of Jan. 19th, the TSX and TSX Venture will no longer accept AON orders. All-Or-None orders are orders that must immediately be executed in full, meaning no partial fills are to be executed or booked pending a complete fill. By placing such orders, investors hope to avoid multiple transactions and associated trading commissions. For some, it looks like a money grab by the for-profit TSX and the brokerage industry. Most brokers were flippant about the change in their client communications. According to the TSX, AON orders were eliminated because of the recent development of multiple markets in Canada, including the arrival of Pure, Alpha and Omega. There is a set of rules that has to be followed and that is the obligation of the dealers to seek out the best price. In a multi-marketplace environment it's very difficult, [but] it's not impossible to support this type of order. They argue that the obligation is for the order to be considered in the context of quotes that are on all the marketplaces. And the obligation is to route the order to the exchange that has the best price. The commission-saving objectives of an AON order can conflict with the best price rule now that there are multiple markets especially for thinly traded stocks.

The logic tree is as follows:

TSX quote

Bid Size	Bid Price	Ask Price	Ask Size
500	\$10.10	\$10.50	1000

Market B quote

Bid Size	Bid Price	Ask Price	Ask Size
1000	\$10.00	\$10.75	1000

An AON order to sell 1000 at \$10 cannot be sent to marketplace B because it would trade through TSX. It cannot be split and have 500 sent to each market, as it is possible that one order is filled and the other one misses because it trades ahead. A partial fill is not acceptable to the client. If the AON sell order is "booked" in the TSX special terms order book it will trade immediately, however it will result in a tradethrough of Market B. If the sell order instead is booked in Market B, it will wait until the bid size on Market B increases to at least 1000 shares at a price of at least 10. However, the risk is that while the bids on Market B are building up to a point where the AON order can be filled, the bid on TSX increase to, say, \$10.20. If that happens, when the AON order resting in market B finally executes, it creates a best price violation by trading through the better bid on TSX

SPEED Scale: (1) glacier (2) snail (3) Investor restitution (4) IMET investigation and (5) Securities rule making [slowest]

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