

**We need a 2009 Investor Town Hall now!** See info on the 2005 Investor Town Hall at [http://www.osc.gov.on.ca/Investor/Forum/TownHall/th\\_20050531\\_audiocast-transcript.pdf](http://www.osc.gov.on.ca/Investor/Forum/TownHall/th_20050531_audiocast-transcript.pdf)  
Note the lack of progress after 4 years. Can it be fear that prevents such an engagement?

**Small Investor Protection Association submits Comments on CSA proposals for mutual fund POS disclosure.** If you'd like a copy, contact [kenkiv@sympatico.ca](mailto:kenkiv@sympatico.ca). A total of 18 recommendations were made to repair the many deficiencies and oversights.

**OPEN QUESTION TO DAVID WILSON:** When will the OSC restart the Investor Advisory Committee?

**OBSI's rules forbid those who've signed their Consent Form from turning over their Report to police, law enforcement or the IIROC/MFDA if they suspect fraud.** Does this constraint seem fair from a justice, regulatory or civil rights perspective? Give us your feedback.

### **Oops! Makenzie's Target Date funds turn to crap**

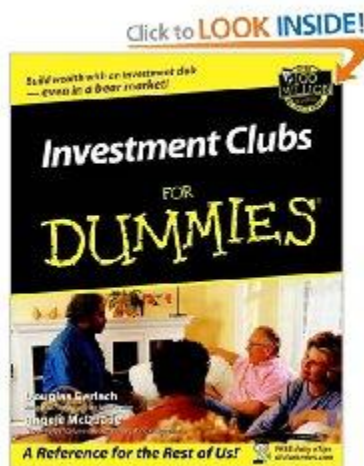
**“Last fall's market crash, however, forced all of Mackenzie's four Destination + funds, which were launched in January, 2008, to shift into strip bonds to be able to make good on their high-water mark. Investors who were fully invested in equities with such target dates as 2020 and 2025 found themselves in all bonds, and would have to stick with this investment to get their fund's best return last year.”***We didn't expect the catastrophic meltdown. It doesn't make sense to market those funds now to new investors because all they would be buying is zero-coupon bonds.*” -- Jim Fraser, senior vice-president of marketing at Mackenzie. Source: S Won, *Target date funds missing their mark*, G&M, Aug. 25 2009 [A target-date fund aims to generate returns for a goal such as retirement or a child's education. Also known as a life-cycle fund, it is typically a portfolio of mutual funds invested in stocks, bonds and cash equivalents. It is also sold with a target date, such as 2010 or 2015, when an investor might want to start drawing on the cash. Fees usually decline as the fund becomes more conservative. Some target-date funds are run like regular mutual funds. Others guarantee the highest daily or monthly net asset value if held to maturity, but generally charge a higher fee for this protection feature.]

**“The active management approach lends itself to a steadier course of investing. A shortcoming of many investors is that they get bumped off course because of a significant downside event in the market. Now, I'm not saying there aren't mutual funds that haven't lost money. But, on average, the active management approach over the long term will often get you to the same place as an ETF, sometimes better and sometimes worse, but with a smoother ride.”** – Mackenzie Financial CEO David Feather  
<http://v1.theglobeandmail.com/partners/free/globeinvestor/funds/feb09/openup.html>

**Suitability of leveraged ETF's Read**

<http://www.fundlibrary.com/features/columns/page.asp?id=12675>

**Want to start an Investment Club?** [http://www.iac.ca/InvestClub\\_1.asp](http://www.iac.ca/InvestClub_1.asp) An investment club is formed by people who would like to pool their money and invest together as a group. The Canadian Investment Club Kit is a sturdy 3-ring binder containing what you need to know about starting and investing to create a profitable and successful investment club. It is written in simple and clear English so that even an absolute beginner can follow it. The Kit also includes important sample documents such as partnership agreements, investment tracking forms and sample minutes. [Take a look at the Table of Contents.](#) The cost of the kit is \$29.95 + \$2.10 tax + \$4.95 pp. = \$37.00. For more details [contact@iac.ca](mailto:contact@iac.ca). By joining investment clubs, participants are able to pool their money to increase their [buying power](#), share their collective knowledge, and socialize while making their investments. They also avoid interfacing with a commission-based adviser. You might also want to read



or visit <http://www.douglasgerlach.com/clubs/> a U.S. site

Typical investment clubs usually meet once a month. Members take turns researching investments and then share their ideas with the other members of the group. These meetings also serve as an occasion for members to contribute to a monetary fund used for purchasing [stocks](#), [mutual funds](#) or other types of investments such as bonds. For the procrastinating investor, this may be a huge benefit. In order to remain a member, he or she will need to make the monthly dues. One of the important goals and benefits of investment clubs is the opportunity to learn. Successful clubs generally put as much effort into researching and learning rather than just simply buying. Experts in the field can serve as guest speakers for the group, and there may be required reading of books and other publications before each meeting

**Practice Your Way to Investing With Confidence:** Imagine if you could use the RBC Direct Investing site to experience real investing—without using real money. A *Practice Account* makes it possible! Use \$100,000 to test your skills. Visit <http://www.rbcdirectinvesting.com/RBC:SpABfKwWZA4AJNAYxRs/practice-accounts.html> You have to be a RBC client but most firms have similar simulators. You can also try the free Virtual Stock Exchange at <http://vse.marketwatch.com/Game/Homepage.aspx>

## Canadian money dusted with coke

A new study presented at the 238th National Meeting of the American Chemical Society, the new study suggests that [cocaine](#) abuse is still widespread and may be on the rise in some areas. It could help raise public awareness about cocaine use and lead to greater emphasis on curbing its abuse, the researchers say. The scientists tested banknotes from more than 30 cities in five countries, including the U.S., Canada, Brazil, China, and Japan, and found "alarming" evidence of cocaine use in many areas. *The U.S. and Canada had the highest levels, with an average contamination rate of between 85 and 90%, while China and Japan had the lowest, between 12 and 20 % contamination.* Wonder what the readings would be if fund prospectuses were tested.

**TRAILER: Michael Moore's 'Capitalism: A Love Story'** Check out this video on YouTube: <http://www.youtube.com/watch?v=lhydyxRjujU> Capitalism: A Love Story, is set to screen at the 34th Toronto International Film Festival and scheduled for wide release on September 23rd, 2009.

**"Part of financial literacy is understanding what constitutes a financial professional and knowing how licences work in this country with respect to financial advice and financial planning"** - Cary List, president and CEO of the Financial Planning Standards Council.  
List Source: Joel Schlesinger, *Recent financial scandals reinforce need for basic investment know-how* , Winnipeg Free Press , 23/08/2009

**You can tell the ideals of an industry by its advertisements** - *Anonymous*

**Classic Research:** Individual investors who hold common stocks directly pay a tremendous performance penalty for active trading. Of 66,465 households with accounts at a large discount broker during 1991 to 1996, those that traded most earned an annual return of 11.4 percent, while the market returned 17.9 percent. The average household earned an annual return of 16.4 percent, tilted its common stock investment toward high-beta, small, value stocks, and turned over 75 percent of its portfolio annually. Overconfidence can explain high trading levels and the resulting poor performance of individual investors. The central message of the researchers is that trading is hazardous to your wealth.  
[http://faculty.haas.berkeley.edu/odean/papers/returns/individual\\_investor\\_performance\\_4-99.pdf](http://faculty.haas.berkeley.edu/odean/papers/returns/individual_investor_performance_4-99.pdf)

**What's the difference between a guitarist and a mutual fund?** A mutual fund eventually matures.

Visit [http://www.priv.gc.ca/information/02\\_05\\_d\\_08\\_e.cfm](http://www.priv.gc.ca/information/02_05_d_08_e.cfm) for a Guide to the **Information Protection and Electronic Documents Act**, usually referred to as PIPEDA. Your personal information includes your...

- name, race, ethnic origin, religion, marital status, educational level
- e-mail address and messages, IP (Internet protocol) address
- age, height, weight, medical records, blood type, DNA code,

fingerprints, voiceprint

- income, purchases, spending habits, banking information, credit/debit card data, loan or credit reports, tax returns
- Social Insurance Number (SIN) or other identification numbers

**“puke” point:** The point in time at which an investor realizes his years of mutual fund investing have produced little in returns.

**“Cost is one of many factors an investor should review when looking at a fund. I think an investor should immediately rule out any funds that are outliers on cost. Anything with an MER above 2.70%, just stroke it off your list. But I don't think it's the most important variable.”** – Mackenzie Financial CEO David Feather

<http://v1.theglobeandmail.com/partners/free/globeinvestor/funds/feb09/openup.html>

### **On those wonderful guaranteed income funds**

<http://www.thestar.com/business/article/685881> James Daw

Unlike Manulife, Sun Life Financial spent the extra money to hedge its SunWise Elite Plus investment funds. But when the cost of those hedging contracts soared, it decided to scale back its guarantees, charge higher fees and force existing clients to reduce their exposure to stock markets. Sun Life had formerly permitted clients to invest 90 % of their money in equities, whether inside pure equity funds or in funds with a balance of stocks and bonds. But, beyond the end of 2011, it will start to require existing contract holders to reduce their exposure to the stock market to 70 %, while it also deducts higher fees on both stock and bond funds. The prospectus for the SunWise products did have a sentence that gave it the right to make a change in the maximum equity exposure. But it appeared on the bottom of page 61 in a document 63 pages long. It read:

***"The funds available for purchase under the Guaranteed Minimum Withdrawal Benefit, their fixed income weightings, and other investment requirements under GMWB may change from time to time in (sic) our discretion."***

*"For existing investors whose market values are down tens of thousands of dollars and are subject to heavy deferred sales charge fees, they are essentially being held hostage. They can't exactly cash in their investment and walk away from the product," yet they could be forced to sell stocks at a loss if prices have not recovered by 2012 "-- Thor Hervieux, an investment adviser with McNulty Group has written in a letter of complaint to the Financial Services Commission of Ontario. [www.fSCO.gov.on.ca](http://www.fSCO.gov.on.ca)*

**Cy's Law:** The usefulness of any fund performance metric is inversely proportional to its degree of disclosure.

**“ Well, with a 40 % drop in assets in the last 3 years, at least I'm paying less in fees”** - Disgruntled mutual fund investor

**This German fund has an MER of 0.00 %**

<http://www.dbxtrackers.com/EN/showpage.asp?pageid=143&inrn=153&pkpnr=179&stinvtyp=privinv>  
How? By lending securities and keeping the fees.

**Pharming** (pronounced farming) is a [hacker's](#) attack aiming to redirect a [website's](#) traffic to another, bogus website. Pharming can be conducted either by changing the [hosts file](#) on a victim's computer or by [exploitation](#) of a [vulnerability](#) in [DNS server software](#). DNS servers are [computers](#) responsible for resolving Internet names into their real [addresses](#) — they are the "signposts" of the [Internet](#). Compromised DNS servers are sometimes referred to as "[poisoned](#)". The term *pharming* is a [neologism](#) based on *farming* and *phishing*. Phishing is a type of [social engineering](#) attack to obtain [access credentials](#) such as [user names](#) and [passwords](#). In recent years both pharming and phishing have been used for [online identity theft](#) information. Pharming has become of major concern to businesses hosting [ecommerce](#) and [online banking](#) websites. Sophisticated measures known as [anti-pharming](#) are required to protect against this serious threat. [Antivirus software](#) and [spyware removal software](#) cannot protect against pharming  
Source: <http://en.wikipedia.org/wiki/Pharming>

### **Big News Release on money market funds – BUT NO Report**

On Sept. 26, 2008 the Canadian Securities Administrators (CSA) issued a press release [http://www.osc.gov.on.ca/Media/NewsReleases/2008/nr\\_20080926\\_csa-cur-cap-mar-event.jsp](http://www.osc.gov.on.ca/Media/NewsReleases/2008/nr_20080926_csa-cur-cap-mar-event.jsp) which stated that the organization was going to take a long, hard look at money market funds. This study was designed to determine whether investors in Canadian MMFs were exposed to losses as a result of the subprime meltdown and the freezing of billions of dollars worth of ABCP. It was a big deal at the time given that toxic ABCP was found in at least 24 m/m funds. <http://www.morningstar.ca/globalhome/Industry/News.asp?Articleid=ArticleID82420079371> Canadians have invested billions of dollars in these funds (as high as \$70 billion at times), thinking they are safe. The only public disclosure of findings was an item buried on page 39 of the OSC's 2008 annual report. It said that 50 of the largest money fund managers in Ontario had been surveyed with a questionnaire and that on-site follow-up visits to many of them had been made by OSC staff. The conclusion was that there were no "material issues" relating to MMFs. Something's not right. We've been trying for 3 weeks to obtain a copy so far without success. We wonder why. We'll keep you posted.

### **Q: What do you call an unqualified adviser selling a high cost mutual fund to a financially illiterate retail investor:**

1. A wonderful opportunity
2. The perfect storm
3. A very rare event
4. None of the above

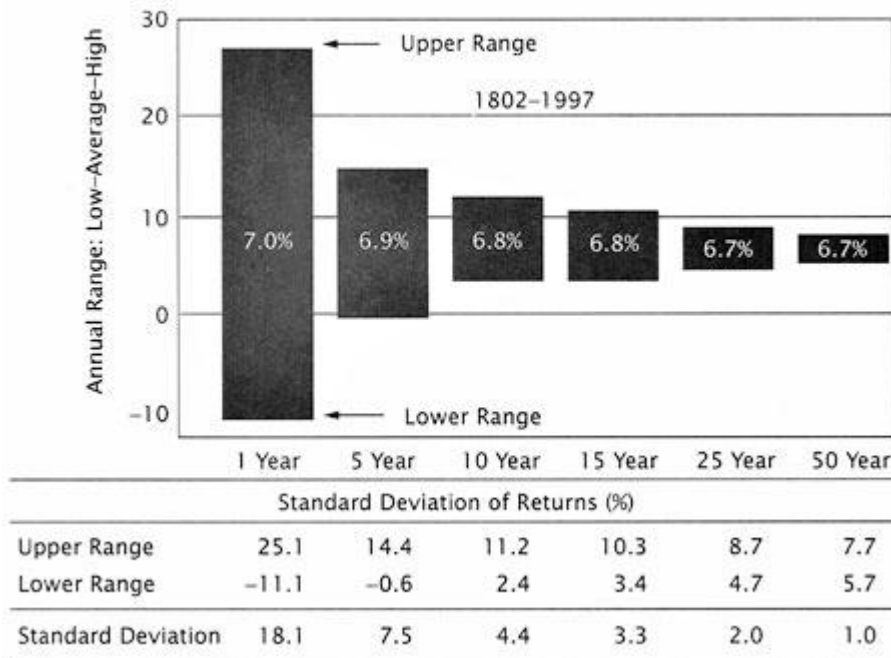
### **“It's time in the market not timing the market that counts” –is it misleading?**

[http://www.jennisondryden.com/view/upload?docURL=/WDocs/EB51E601626A51148525752200554440/\\$File/JD2545VolatilityFL.pdf](http://www.jennisondryden.com/view/upload?docURL=/WDocs/EB51E601626A51148525752200554440/$File/JD2545VolatilityFL.pdf) The chart below makes it clear that longer investment horizons reduce average volatility over the term. But, critics argue that time **increases** risk: by increasing magnitude of potential dollar losses as time increases, the increasing cost of insuring investments as time increases, and the increasing likelihood of experiencing within-horizon losses as time increases. Mark Rittman, the CEO of Windham Capital Management and a

frequent contributor to finance journals, has critiqued the idea of time diversification. Kritzman proves that risk *increases* with time. Kritzman’s analysis directly disproves the notion that the probability of loss decreases with time. Source: Zvi Bodie, “On the Risk of Stocks in the Long Run,” *Financial Analysts Journal*, May-June 1995, 18-22.

**FIGURE 1.3**

**Range of Stock Market Annual Returns**



If the *decrease* in the probability of a loss is exactly offset by the *increase* in the potential magnitude of loss, as some argue, then long hold periods of a constant asset mix may be **inappropriate**. Chart Source: [Common Sense on Mutual Funds: New Imperatives for the Intelligent Investor](#), by John C. Bogle, published by John Wiley & Sons (© 2000)

**"It's madness to see that these criminals can ruin the lives of honest Canadians and then are given ridiculously short prison sentences. Who knows how many times they [victims] paid tax on virtual income so this is an issue we should take a look at.** – Liberal MP Denis Coderre on white collar crime

[http://montreal.ctv.ca/servlet/an/local/CTVNews/20090828/mtl\\_liberals\\_earl\\_jones090828/20090828/?hub=MontrealHome](http://montreal.ctv.ca/servlet/an/local/CTVNews/20090828/mtl_liberals_earl_jones090828/20090828/?hub=MontrealHome)

**OBSI has moved to Bay Street**

Effective **August 17, 2009** OBSI is located at:

401 Bay Street, Suite 1505

P.O. Box 5

Toronto, ON M5H 2Y4

**AIC vanishes into Manulife**

The firm who was ordered to repay \$58.8 million in Dec. 2004 to its mutual fund unitholders whose returns were robbed by abusive market timers is being sold to the firm that didn't hedge its bets and had to cut its dividend. AIC's assets have fallen from \$15 billion in 2001 to about \$3.6 billion in July 2009. AIC's founder Michael Lee Chin gets part of his compensation in MFC shares and a contract for his firm, Portland Holdings Inc. to be the external manager of 12 funds with \$2 billion in assets. Who knows what to expect? Guess Mike *bought, held and prospered* but the investors in most of these funds didn't.

### **MRFP: The Mulvihill World Financial Split Corp. – WFS: TSX**

We just reviewed the latest MRFP for this fund (class A) to June 30, 2009. We put on our glasses to read it as the font was quite small. But some of the numbers weren't. The objective was for the fund to provide shareholders of the Class A shares with regular quarterly cash distributions targeted to be 8.0% per annum and to return the original issue price to holders of both Preferred shares and Class A shares at the time of redemption of such shares on June 30, 2011 (the "Termination Date"). The Class A shares lost 70% in 2008. In 2007 the fund lost 21% .Distributions remain suspended for the Class A shares. The fund had a cash position of 19.0% as of June 30, 2009 vs. 39.8% at the end of the March 2009. The fund's weight in all geographic areas increased during the quarter to June 30<sup>th</sup> and ended with a regional asset mix of 37.0% weight in Canada, a 33.5% weight in the United States and a 10.5% weight in the Rest of World. The U.S. dollar exposure was reduced during the quarter and ended June 30, 2009 essentially fully hedged vs. 50% hedged at the end of the 1st quarter. The fund carries an MER of 1.48% and a TER of 0.24%. Some of the footnotes were so small we needed a microscope. For H1, the total return of the fund was -0.27% vs. the MSCI World Financial Services Index (C\$) of 2.8%. Makes you wonder why the fund exists.

**Million Dollar Journey provides [a primer on Canada Savings Bonds and Canada Premium Bonds](#).** Thanks to Preet Banerjee for pointing this link out

**OBSI has appointed Douglas Melville as new Ombudsman and CEO effective August 25, 2009.** His bio posted at [https://www.obsi.ca/images/document/up-1Douglas\\_Melville\\_Bio\\_sketch\\_EN.pdf](https://www.obsi.ca/images/document/up-1Douglas_Melville_Bio_sketch_EN.pdf) We are hopeful that the many reforms needed will be implemented under his leadership.

### **The limits of diversification**

There is still reason to believe that the underpinnings of diversification will deliver better returns and lower risk over the long-term. But in 2008 we were reminded that just because something will be true over 10 or 20 years doesn't mean it will be true over one year. If that's the year you head into retirement, it's bad news. Investors have to examine how much short-term volatility they can tolerate. Conventional wisdom used to be that investors should be prepared to withstand a one-year decline of 25 to 30% in the equity component of their portfolio. Going forward perhaps that should be adjusted upward to a possible decline of 50%. For investors who can't live with this, it will mean saving more, retiring later and/or scaling back their retirement lifestyle. And for investors in retirement it might also mean holding more assets in cash or cash-equivalents, so they will be able to withstand negative performance without being forced to sell

investments at fire sale prices to meet expenses. A clearer picture of the benefits and limitations of diversification will lead to more realistic expectations and improved portfolio construction better matched to investors so-called *risk tolerance*. This of course has tremendous implications for NAAF forms and KYC.

**“Our government feels that those committing serious crimes or defrauding honest citizens should serve their sentences behind bars and not in the comfort of their own homes. As far as we’re concerned, victims’ rights trump those of the criminals. Our government will continue to seek harsher sentences for these types of crime, which have disastrous consequences for their victims.”** -Prime Minister Stephen Harper is in a meeting with victims’ rights stakeholders in Quebec City August 27<sup>th</sup>. Harper expressed sympathy for Canadians who have seen their savings wiped out by fraud, as well as for the victims of violent crime. He pledged that the government would persevere in its efforts to ensure that victims of both violent crime, and those who have lost all their savings as a result of fraud, can obtain justice. Source: <http://www.conservative.ca/EN/1091/110319> and <http://pm.gc.ca/eng/media.asp?category=1&id=2775>

**National Coalition Against White-Collar Crime being launched.** Watch for details. <http://www.theglobeandmail.com/news/national/victims-of-swindlers-to-launch-national-coalition/article1267502/> The group plans to hold a demonstration on in Montreal ( Palais de Justice) on Monday Sept.28 outside the court house to officially launch the coalition – that’s the day that Earl Jones will be appearing in Court-. With each passing day, support is growing and that in due time it will soon become a force to be reckoned with by all political parties.

**Is your money safe?** <http://www.ismymoneysafe.org/> Some shocking videos on the financial services industry abuses.

**You can find the complaint-handling process for your financial institution by searching** <http://www.fcac-acfc.gc.ca/eng/consumers/Complaints/CHPSearch-eng.asp>

### **Fees count! Let’s stop the endless debate**

“In the United States, Morningstar’s Russel Kinnel observes in his new book, *Fund Spy*, the chance of a low-cost fund outperforming its category average is higher for bond funds than equity funds. U.S. stock funds in the cheapest quintile were 2.5 times more likely to beat their category average than funds in the most expensive quintile, while taxable bond funds in the cheapest quintile had a 6.9 times advantage. There’s also a strong relationship between costs and survivorship, which compounds the negative attributes of high-cost funds. For instance, with U.S. taxable bond funds, *Kinnel found funds in the most expensive quintile had a much greater rate of closures and mergers (57%) than those in the least expensive quintile (35%) over 10-year rolling periods since 1995. Not only are investors paying a lot, they also risk having their fund close on them.*”

[http://www.advisor.ca/advisors/investments/marketinsights/article.jsp?content=20090714\\_160351\\_10220](http://www.advisor.ca/advisors/investments/marketinsights/article.jsp?content=20090714_160351_10220)

**Wanna learn about securities lending?** Visit

[http://www.canseclend.com/documents/Introduction to Securities Lending Canada.pdf](http://www.canseclend.com/documents/Introduction%20to%20Securities%20Lending%20Canada.pdf)

*Introduction to Securities lending (Canadian edition)*

### **Do Shariah compliant investment funds threaten capitalism?**

Extract from NP article by Dr. Sebastian Gorka, military affairs fellow at the Foundation for Defense of Democracies <http://www.defenddemocracy.org/> :

“...In the case of shariah finance, the justification is not simply religious but ideological. The vast majority of bankers and financial analysts have no idea that this strategically designed movement is based upon a lie. The lie is that Islam forbids the charging of interest. In truth, as anyone versed in the Muslim faith is aware, Islam has something to say about riba, or usury, but it does not outright ban interest. To quote the pre-eminent expert on shariah finance, Dr. Patrick Sookhdeo of the U. K.: "Islamic scholars and some leaders are making strategic use of the impetuses of both faithful Muslims and Western financial institutions and governments to erect a massive and fast-growing parallel financial system based solely on religious fiat and arbitrated only by themselves." Under Islam the duty of jihad is linked to the duty to tithe (zakat), and tithing can only be done in ways that are shariah-compliant. Western approved shariah finance is therefore a perfect channel to feed the beast of military and political jihad. Moreover, as originally conceived by extremist ideologues and fundamentalists, shariah finance has as its goal the total replacement of the current secular economic system..." –Source: S. Gorka, *Shariah Finance: A zero-sum game*, National Post Aug. 28, 2009 pg A14

<http://www.nationalpost.com/todays-paper/story.html?id=1938089&p=2>

### **Canadian Securities Lending Association**

<http://www.canseclend.com/>

The Canadian Securities Lending Association (CASLA) works with Canadian regulators, self-regulatory organizations and other market participants to ensure the long-term viability of the Canadian securities lending industry and the adoption of best practices. CASLA seeks to enhance the public's understanding of securities lending and the role it plays in Canada's financial markets. CASLA's [sponsor organizations](#) include: CIBC Mellon, RBC Dexia, Northern Trust and State Street Corporation. CASLA will canvas industry firms and professionals for membership in the near future, and will hold elections for executive positions in 2010. Participants in the beneficial owner and borrower and lender communities are encouraged to join. The securities lending market in Canada has been active for over 25 years. In securities lending transactions, beneficial owners such as mutual funds, pension funds and other institutional investors lend securities to borrowers often through intermediaries such as custodian banks. At year end 2008, the Canadian industry had CAD \$886 billion available for lending and CAD \$119 billion on loan according to U.K.-based [Data Explorers](#).

**Fund Factoid (U.S.mut funds)** The set of SRI funds has become broader as well as bigger. Secular SRI funds dominated the universe a decade ago, but faith-based offerings have been launched at a fairly rapid rate in the 2000s and now make up more than half the total of all SRI

funds. In the meantime, the number of green funds has increased from less than one dozen five years ago to nearly three dozen today. The three main types of faith-based funds are Catholic, Protestant, and Islamic, and they, too, have many similarities when it comes to their social criteria. All of these funds shun companies involved with alcohol, gambling, tobacco, and pornography. The funds vary considerably, however, in their overall philosophies and in some of their specific screens. The Islamic Amana and Azzad funds shun banks and other financial-services firms as well as pork producers. Source: <http://news.morningstar.com/articlenet/article.aspx?id=305081> *Values Investing: A Look at the State of (U.S.) SRI Funds*

### **Who can argue with Einstein?**

As an engineer I enjoy physics and math. I've always admired Albert E. The power of compounding - what Albert Einstein once called the most powerful force in the universe- makes avoiding high mutual fund fees especially important for investors. [Jack Bogle](#), U.S. fundco Vanguard's founder, preaches about the [tyranny of compounding](#), the financial devastation wrought as fees feed on themselves and cut into returns. By betting against the [relentless rules of humble arithmetic](#), most mutual fund investors are needlessly paying 2 % or more in fees. To illustrate the impact of the tyranny of compounding (actually *decompounding*), consider a \$10,000 investment in each of two stock funds, and assume that each will beat inflation by 4.5 % annually, before costs. We also assume that the index fund meets its benchmark and the actively-managed fund does too (actually less than 20 % do over the long term but we'll be kind) The low-cost index fund charges 0.2 % annual expenses; the other charges 2 %. This means the low-cost portfolio will earn an average of 4.3 % a year after inflation, while the other portfolio earns 2.5 %. At first, it looks like the high-cost portfolio is giving up "only" 55% of the return. Yet bad goes to worse with the tyranny of de-compounding. The average-cost portfolio gains \$8,540 in inflation-adjusted dollars over 25 years, while the low-cost portfolio earns \$18,650 or more than twice as much. The difference gets worse over market periods of low returns.

**"Stock brokers service customers like Bonnie and Clyde serviced banks" -Bill Bernstein**

### **Investors Dividend fund-C over the long term (pre-tax returns)**

This is a 2.85% MER load fund:

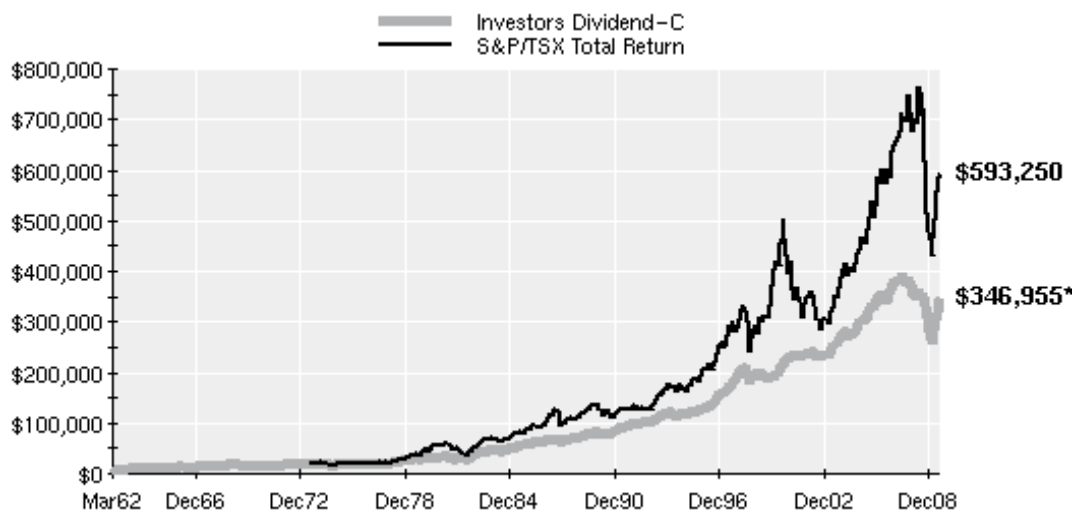


Chart assumes all distributions reinvested and no tax payable on the distributions. Volatility appears to be less than benchmark.

**CIBC in the news again:** Four years after Canadian Imperial Bank of Commerce paid a record \$3-billion settlement to disentangle itself from Enron litigation, the spectre of the failed U.S. energy trader has come back to haunt Canada's fifth-largest bank. CIBC has disclosed that it is preparing to go to court with the Canada Revenue Agency to defend its position that the settlement is tax-deductible. If the bank wins it will recognize a tax benefit of \$214-million, but if the government prevails CIBC could end up having to pay \$826-million. *Should the bank be allowed to deduct fines and penalties for expenses related to illegal activities?* Let us know. <http://micro.newswire.ca/release.cgi?rkey=1708266651&view=16497-0&Start=0> para 10.

**National Bank of Canada receives Enforcement Notice:** The bank (NA:TSX) has disclosed that regulators are contemplating taking enforcement action against its investment-banking division in connection with the failure of the market for non-bank asset-backed commercial paper just over two years ago. It's the first bank to confirm that a number of large bank-owned broker-dealers are targets of a months-long probe by regulators in Quebec and Ontario and the Investment Industry Regulatory Organization of Canada. The coalition of regulators looked into the behaviour of manufacturers and dealers of non-bank-sponsored asset-backed commercial paper (ABCP) in the weeks ahead of the mid-August 2007 collapse of the \$32-billion market

**Is risk tolerance a constant?** Research shows that we tend to believe we have a much higher risk tolerance in good times. During down years, research also shows that fear takes over and our attitude on taking risk drops dramatically. In bear markets, we find ourselves much less willing to take risks than we might have thought, which causes us to buy stocks during the good times and sell during the bad. That is why, on average, an investor pays a 1.5 % annual penalty for poor market timing. It's also why most risk tolerance questionnaires are unreliable and the NAAF question on risk tolerance needs changing.

## **Courts continue assault on Main Street-scary**

The plaintiffs brought a motion for production in furtherance of their action against an investment dealer and an individual investment advisor. They sought documents pertaining to complaints brought by other clients against the advisor based on a claim that the dealer failed to supervise the advisor. The Court applied the “semblance of relevance” test called for by Nova Scotia’s now-replaced *Civil Procedure Rules* and held that the records should not be produced. Though it framed its analysis as being about relevance, the Court clearly weighed the relative value of production against its impact on non-party privacy: common. [MacGowan v. RBC Dominion Securities Inc., 2008 NSSC 421](#). Extract of Judge’s decision:

*“..How Mr. Youden supervised the trading accounts of other clients of Mr. Bagnell would have little probative value in this determination, especially where different clients often have different investment objectives and risk tolerances in their trading activities. I am simply not persuaded that the production of these records would likely lead to the discovery of admissible evidence in this action...”*

**Education standards unacceptable:** The Ontario Education Quality and Accountability Office (EQAO) has released provincial-level highlights of student achievement on the 2009 Assessments of Reading, Writing and Mathematics, Primary Division (Grades 1–3) and Junior Division (Grades 4–6), and the Grade 9 Assessment of Mathematics. The results show improvement in most grades and subjects over the past 5 years and a few notable year-to-year gains in Grade 6 reading and Grade 9 applied mathematics. Since last year, the percentage of students meeting or exceeding the provincial standard in Grade 6 reading has increased by 3 percentage points to 69%; for Grade 9 applied mathematics, the percentage meeting or exceeding the standard has increased by four points to just 38%.

<http://www.eqao.com/NR/ReleaseViewer.aspx?Lang=E&release=b09R007> The new proposed Fund Facts form is tailored to mutual fund unitholders with a Grade 6 literacy level. Looks like numeracy level isn’t that much higher. Hopefully, advisors don’t exploit this knowledge deficiency of their clients and OBSI take it into account when investigating complaints.

**New Financial Literacy Newsletter** Subscribe at <http://www.fcac-acfc.gc.ca/eng/publications/NewsLetter/200905/newsletter-1-eng.asp> **NOTE** Four out of 10 adult Canadians, age 16 to 65 - representing 9 million Canadians - struggle with low literacy. They fall below level 3 on the prose literacy scale (*Adult Literacy and Life Skills (ALL) Survey, Statistics Canada and the Organization for Economic Co-operation and Development, 2005*). [http://www.abc-canada.org/en/adult\\_literacy/facts](http://www.abc-canada.org/en/adult_literacy/facts)

**SIPA comments on CSA Mutual Fund Point –of- Sale Disclosure proposals are at** [http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part8/Comments/81-101/com\\_81-101\\_index.jsp](http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part8/Comments/81-101/com_81-101_index.jsp) Eighteen recommendations for change are identified; some of them show-stoppers.

**Dealing with OBSI?:** Read this **ALERT** at <http://www.investoradvocates.ca/viewtopic.php?f=1&t=178&sid=5d928f7aea9aa9c0955b65730353942b>

**“It’s definitely good news. It’s great that this decision is set out as clearly as it is .I always take the position that all other complaints are irrelevant. What is relevant is the duty of care to the specific plaintiffs .”**

- Ellen Bessner, formerly with national law firm Gowling Lafleur Henderson LLP commenting on NS court ruling barring the previous history of an advisor from proceedings. Source: IE, Sept. 2009 pg 14 You can now reach her at [ebessner@casselsbrock.com](mailto:ebessner@casselsbrock.com) or 416-860-6514

### **CSA Staff Notice on Suitability, KYC and KYP**

[http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part3/csa\\_20090902\\_33-315\\_know-your-product.pdf](http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part3/csa_20090902_33-315_know-your-product.pdf) The Canadian Securities Administrators (CSA) have issued a reminder to dealers and advisors of their duty to satisfy their suitability obligations to clients, which includes the requirement to fully understand the products they recommend to clients. We’re working on a **Know Your Advisor** KYA form. You can be sure it won’t be on any regulators’ website .

**SPIVA Mid year 2009 performance Results paint a sad picture for fund managers:** The majority of actively-managed mutual funds underperformed their respective Standard & Poor’s benchmark over longer time periods. *Only 16.7% and 7.6% of active Canadian Equity funds were able to outperform the S&P/TSX Composite Index over the three and five-year periods.* Over the one year time period, active Canadian Equity funds fared better with 54.6% outpacing the S&P/TSX Composite Index. For active funds in the U.S. Equity category, 27.1%, 19.6% and 10.6% of funds outpaced the S&P 500 over the one, three- and five-year periods respectively. " <http://www.newswire.ca/en/releases/archive/September2009/02/c9379.html?view=print> Only 43.8% of Canadian equity funds available five years ago are still on the market -- with the majority falling due to either mergers or liquidation!

### **MFDA releases policies and Procedures Reference Guide**

<http://www.mfda.ca/regulation/bulletins09/Bulletin0395-C.pdf> Not sure why this Guide is needed-didn’t firms know how to write a manual after all these years?

### **Ontario appeal court overturns Taub decision**

Ruling affirms SRO’s jurisdiction to pursue wrongdoers who have left the industry  
The Court of Appeal for Ontario has reversed a lower court decision, and reaffirmed a self-regulatory organization’s jurisdiction over former members. A earlier court decision [ the Taub case] had concluded that the wording of the Securities Act prevented the IDA from dealing with members who had resigned or were forced out.

<http://www.investmentexecutive.com/client/en/News/DetailNews.asp?Id=50488&IdSection=8&cat=8> and <http://www.ontariocourts.on.ca/decisions/2009/august/2009ONCA0628.htm> This still doesn’t mean the IIROC or MFDA will be able to collect any fines levied however. We expect the decision to be appealed to the Supreme Court.

### **Inspector General issues scathing report on the SEC’s handling of the Madoff affair .**

Executive summary at <http://www.sec.gov/spotlight/secpostmadoffreforms/oig-509-exec-summary.pdf>

**These leveraged ETFs are designed to lose in the long run.** You will see why in these videos .  
<http://etftrendtradingstrategy.com/etf-trading/extra-leveraged-etf-truth>

## **DISCLAIMER**

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