

Ken's Hypothesis: Real men don't read prospectuses

Leveraged ETF's can trash your portfolio

Leveraged ETFs have been all the rage among investors hoping to multiply their gains. What many people may not realize is how the math can trick them. Read about their true risks in plain Main Street language in this article by Don Luskin.

<http://articles.moneycentral.msn.com/Investing/MutualFunds/these-etfs-can-trash-your-portfolio.aspx> Luskin: Let's say you pay \$100 for an LETF that tracks an index and that the index is at 100. If the index goes up 20% the first day, it will be at 120. Your LETF promises you twice the 20% return -- that's 40% -- so your \$100 grows to \$140. So far, very good. Now suppose the next day the index falls back to 100. That's a drop of 16.7% (after rounding), so the LETF has to give you twice that -- a loss of 33.3%. Does that bring your LETF back to \$100 where you bought it?

You might think it would. Since the index is back to square one, why shouldn't your LETF be back there, too? Simple. Your LETF was worth \$140, and 33.3% of that is \$46.62. So your LETF is now worth \$93.38, not \$100. You see what happened? Over each of the two single days, the LETF did exactly what was promised -- exactly twice the daily return of the index. But over both days put together, it didn't do that at all. Over two days, the index had a zero return. So you'd think the LETF should give you twice zero, which is still zero. But, no, it gives you a net loss of 6.6%

"The first thing that hit me is that they only have to pay \$138 million out of 32 billion dollars, which as a settlement represents roughly .04 cents on the dollar. Everybody involved in this settlement got immunity. They do not lose their right to practice at any of the banks or in the investment community at large. Everybody is walking around with smiles pretending this is all behind them. I think this is still a case of fraud. I would like to see a criminal investigation as to who knew what. Luckily, I was one of the guys with less than a million dollars invested, so I got paid out. I just got my last cheque a month ago. I've wasted a whole year on this thing, and it was so frustrating. The lingering problem is this is going to happen again. People will be able to put together some fraudulent garbage and pass it off as a savings program." - Layne Arthur, an Alberta-based investor who had the proceeds from the sale of his family farm locked up in what he thought was a safe investment [non-bank ABCP]; Arthur fought for 18 months to get his money back. Source: Mark Noble, *ABCP investors blast settlement, regulators*, Advisor.ca, Dec. 22, 2009

A sickening case of unauthorized trading

<http://www.istockanalyst.com/article/viewiStockNews/articleid/3730481>

"Nobody knows about the Financial Consumer Agency of Canada because they don't do anything to try and make themselves known. They are a lapdog. They are not interested in

regulating the banks. The agency has virtually no public profile. Consumers have very little reason to trust the agency given its very weak enforcement record ``- Duff Conacher, chairman of the Canadian Community Reinvestment Coalition (According to its 2008-2009 annual report, FCAC collected just \$50,000 in administrative monetary penalties in 2009, down from a paltry \$76,000 in the prior year.) <http://www.thestar.com/business/article/742515--task-force-aims-to-turn-page-on-financial-illiteracy>

<http://www.cancrc.org/> The **Canadian Community Reinvestment Coalition (CCRC)** is a non-profit, non-partisan coalition of 100 anti-poverty, consumer, community economic development, labour and small business groups representing more than three million people from every province and the Northwest Territories that since 1996 has led the campaign for bank accountability in Canada.

On-line brokers have responsibilities too

Regulators expect that any trading system that is developed must be reasonably designed to function correctly, to be responsive to client orders and to changes in the environment. Regulators have taken action against firms for failures in their computer systems that deal with such issues as breach of client confidentiality, failure to detect manipulative trading and failures to reflect changes in the makeup of a particular security. As an example of the latter in the discount brokerage environment – IIROC had a case where a reverse split of the shares of a company was not reflected on the client’s portfolio. The result was that the client believing that share value had increased exponentially sold the shares. The result was an unintended short when they sold what they thought they owned but in reality had been reduced significantly due to the reverse split. This caused the client a considerable loss when they had to repurchase a very thinly traded equity to make good on the short. The client was ultimately compensated for the loss, but IIROC did take action against the firm for having a system that did not meet their standards.

A 2003 case <http://www.osler.com/resources.aspx?id=8744> shows that broker disclaimers don’t always apply. Wei Zhu, a Merrill Lynch client who had registered to use Merrill Lynch's NetTrader online brokerage service, attempted to sell 4,000 shares from his registered retirement savings plan (RRSP) account by placing a sell order through the online service. Almost immediately after placing the sell order, he attempted to cancel it. He received an electronic message advising him that, by the time he had initiated the cancellation request, 200 of the shares had already been sold and that the transaction had been cancelled. A few minutes later, Zhu submitted another sell order for the remaining 3,800 shares. Although Zhu believed his original sell order had been cancelled, his cancellation request had not in fact been processed. Both of his sell orders were subsequently executed and, as a result, Zhu's account was "short" 3,800 shares. Since short positions are not permitted in an RRSP account, Merrill Lynch requested that Zhu purchase 3,800 shares to fill the short position. Zhu did so, but at a loss of almost \$10,000 since the price per share had increased from \$3.70 to \$5.26.

Zhu brought a claim against Merrill Lynch HSBC in B.C.'s Provincial Court to recover his loss. In denying any liability in respect of Zhu's loss, Merrill Lynch sought to rely on disclaimer clauses which were displayed online during the trading transaction and which were also included in the contract used when opening a trading account. Merrill Lynch also argued that Zhu should have contacted them by phone to verify that the sale transaction had, in fact, been cancelled. The court stated that, because of the high risk of loss of the customer's investment, the nature of an online investment service demands a higher duty of care and performance than might ordinarily be expected from providers of other services. It noted that the system was configured such that the computer prompts created substantial confusion to the user and stated that: "...an electronic system which is incapable of giving to a customer a simple instruction that he should not continue with a request for a trade or cancellation until he or she is advised specifically that the request has been successfully and completely dealt with, or that his transaction is pending until he is advised to the contrary, is a faulty system, and does not provide that 'reasonable level of performance' that a [consumer] is entitled to receive from that system and for which he contracted." Another interesting case at <http://www.canlii.org/en/on/onsc/doc/2001/2001canlii28366/2001canlii28366.html> Robet v. Versus Brokerage Services, April, 2001 also deals with online broker issues.

"I am convinced there will be another Warren Buffett over the next 40 years. But, am even more convinced I'll never know in advance who they will be." – Ben Yevzeroff

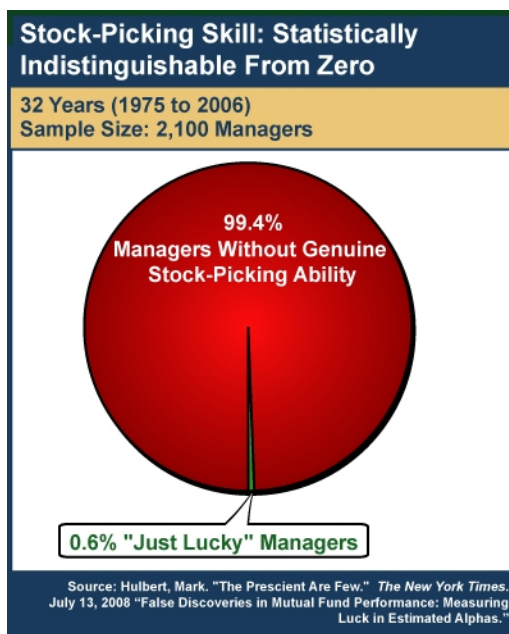
"We have spent two lifetimes thinking about which mutual fund managers will have the best performance year in and year out. Here's what we now know: It was and is hopeless."
- Two giants of the investing world -Burton Malkiel and Charles Ellis

Cute NBSC video on fraud prevention <http://www.youtube.com/user/NBSC2008> The New Brunswick's Securities Commission's "Invest in Knowing More™" campaign is an investor protection awareness campaign launched in the spring 2006. This multi-year campaign promotes awareness of the Commission as the place to call if investors have concerns about a suspicious investment or opportunity. The Invest in Knowing More™ campaign uses a variety of media to deliver its message. In 2009, the campaign includes a television commercial, print, internet and billboard media.

Great site: www.taxtips.ca Throughout this website there are resources, *tips* and *calculators* which will allow you to compare different scenarios. You will be able to see what a big difference a small change in your money management decisions can make. You may not think that this applies to you when you are young, but this is when it is most important, because you have the luxury of time (and compounding!) on your side.

New brochure: *Why IIROC matters to you, the investor*
http://www.iiroc.ca/English/MemberResources/Brochures/Documents/WhyMatterBrochure_en.pdf

New Research: A recent study by Laurent Barras, Olivier Scaillet, and Russ Wermers investigates the lack of true alpha in the results of 2,076 open-end domestic equity mutual funds (U.S.) for the 32 years from January 1975 to December 2006. The study [False Discoveries in Mutual Fund Performance: Measuring Luck in Estimated Alphas](#), employs the use of t-statistic hypothesis testing and statistical data to compare funds relative performance, employing a False Discovery Test to avoid errors which commonly plague statistical analysis and mitigate the effects of false positive and negative results. Unlike many previous studies of mutual fund performance, this method allows for distinctions to be made between fund results based on luck and those based on skill. The conclusions of the study decisively reveal the folly of chasing alpha. Using data which prevents survivorship biases and excludes funds with less than five years of performance history, and taking into account the large effects of active management fees, the study concludes **that 99.4% of all fund managers failed to demonstrate true stock-picking ability.** The researchers also found a marked decline over the last two decades in the number of fund managers able to pass the False Discovery Rate test. **Source: Index Funds Advisors Oct. 3, 2009 contact@ifa.com**



[<http://www.nytimes.com/2008/07/13/business/13stra.htm>

[? r=2 .]

You've heard of OBSI, well here's the Ombudsman for Canadian Taxpayers:

<http://www.taxpayersrights.gc.ca/> Unlike OBSI, the Taxpayers' Ombudsman is enshrined by an Order-in-Council and has the full authority to investigate systemic issues. The Taxpayers' Ombudsman's role is to:

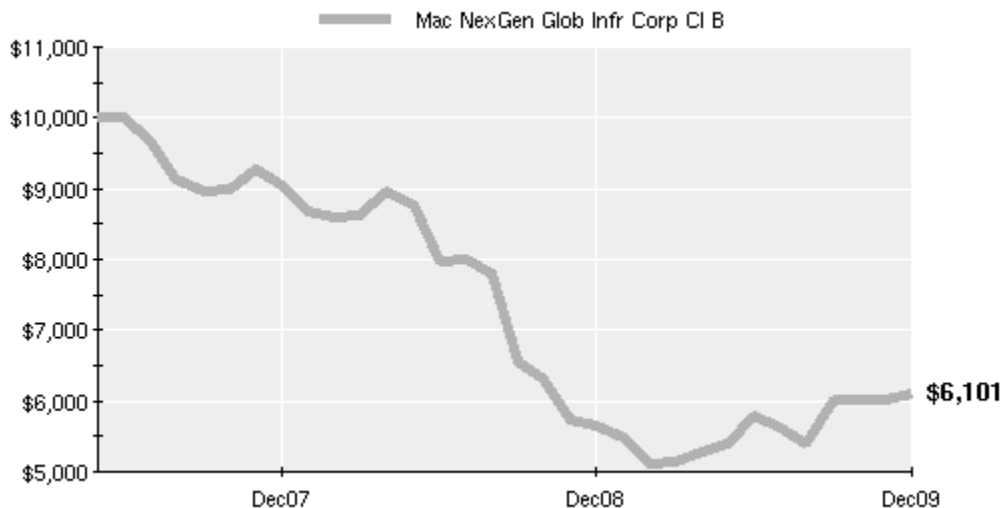
- conduct impartial and independent reviews of service-related complaints about the Canada Revenue Agency (CRA);

- facilitate taxpayer access to assistance within the CRA;
- identify and review systemic and emerging service-related issues within the CRA that have a negative impact on taxpayers; and
- provide advice to the Minister of National Revenue about service-related matters in the Canada Revenue Agency.

<http://www.protectinginvestors.com/> A blog from Vernon. Healy “the firm that advocates for investors’ rights every day.”

MRFP for the MacQuarie NexGen Global Infrastructure Corp. Fund (TSX: MNF)

What a wonderful name. Too bad it’s a dog. According to its Sept. 30, 2009 Management Report of Fund Performance the objective of the fund is to maximize total returns to shareholders while providing tax-efficient monthly distributions. Well, since it’s dropped about 40 % since inception it can at least maximize tax-loss selling. The Fund utilizes forward contracts to indirectly invest in the associated underlying Limited Partnership. The MER of this piece of work is 4.78% plus a TER of 0.47%. (Class B shares) Portfolio turnover at Sept.30th is a whopping 65.19 %...NAV has dropped from \$8.52 in 2007 to \$5.06 in 2009. For 2009, the fund returned -5.6% vs. the fund’s benchmark of --2.0 %. While the MRFP asserts that there have been no material changes to the Fund’s risk profile since inception, it does acknowledge that the Partnership has experienced “abnormally volatile global equity markets”. Biggest holding? 18.8 % cash because it needed cash to accommodate annual retractions of the Fund. The cash came from selling securities near year end, presumably at a loss. The 2009 distribution of \$0.42 was 100 % return of capital. The manager also states that the companies in which investments were made did not prove as defensive as expected. It’s pointed out that the leverage in the Partnership detracted from returns as it magnified losses as markets tanked. **The dealer is provided a 1.0 % service fee aka trailer commission from the assets of the fund as a reward for selling and keeping you invested in the Fund.** Whew. Thankfully, the Fund has just \$5.7 million in assets.



The MFRP didn't even have page numbers but the lousy performance was easy enough to locate. If you own this Fund, Best of luck for 2010-you'll need it.

Morgan Stanley sued over failed investments

Morgan Stanley has been sued by a Virgin Islands pension fund that accused the Wall Street bank of defrauding investors by marketing \$1.2 billion US of risky mortgage-related notes that it expected to fail. The lawsuit filed Dec. 24,2009 in Manhattan federal court said Morgan Stanley collaborated with credit rating agencies Moody's Investors Service and Standard & Poor's to obtain "triple-A" ratings for notes marketed in 2007 as part of a collateralized debt obligation (CDO) known as Libertas. According to the complaint, the CDO was backed by low-quality assets, including securities issued by subprime lenders New Century Financial Corp., which quickly went bankrupt, and Option One Mortgage Corp., then owned by H&R Block Inc. The complaint alleged Morgan Stanley knew the CDO's assets were far riskier than the ratings suggested, but was "highly motivated to defraud investors" with pristine ratings because it was simultaneously "shorting" almost all the assets. This was a bet that their value would fall, which they did in 2008.

The Dec. 24 complaint said Morgan Stanley knew securities in the Libertas CDO were suffering a dramatic rise in delinquencies, but provided a misleading "risk factor" in a prospectus that rising delinquencies "may" hurt values in the \$1 trillion residential mortgage-backed securities market. It called this representation *"analogous to Captain Smith's telling passengers of the Titanic that some ships have 'recently sunk' in the Atlantic and therefore 'our ship may sink,' without mentioning the facts that his ship struck an iceberg, had a hole in it, and was filling with water."* The lawsuit seeks class-action status, and also seeks compensatory and punitive damages, among other remedies. It was filed by Coughlin Stoia Geller Rudman & Robbins LLP, a law firm specializing in securities class-action lawsuits. <http://www.bnn.ca/news/14750.html>

Thoughts on Investment Time Horizons

Remember the good old days when the prime ingredient for measuring investor success was patience? The past decade shattered that trend. Back in the day when fund managers were strategic buy and hold investors, the returns of the asset classes that they owned in their portfolios were assumed to be a given, as long as they waited long enough for them to appear. Since the underlying theory suggested that markets were always efficiently priced, and since clients agreed that returns could and should only be measured over the "long-term," we could asset allocate our portfolios based on past returns /personal objectives. With the backing of the financial media and virtually all of industry pundits and thought leaders, everyone involved agreed that patience was the key to success.

Times have certainly changed .Today it's necessary to actively manage **portfolios** to take advantage of changes in asset class valuations, changes in the market cycle, and changes in market internals such as investor sentiment. The challenge of this strategy is that in today's markets the data comes fast and furious, terrorism, the environment and natural disasters are new

risk factors and the declining stature of the U.S. and rise of China make the future more uncertain. Financial markets can be influenced by the news in unforeseen and unpredictable ways thanks to hedge funds, day traders and complex derivatives. The inevitable result of such fluid market conditions is that the holding period for securities in the portfolio continues to shrink. The challenge is to navigate this minefield successfully. Easier said than done.

New Book: [Buy and Hold Is Dead \(Again\): The Case for Active Portfolio Management in Dangerous Markets](#) In a nutshell, "buy and hold" has said that no one can really out-think the stock market, and so the best thing that anyone can do when investing is to select the mix of stocks & bonds & other asset classes that fits the customer's risk tolerance, and then invest in that mix and sit on it forever. Well, that's not what fundcos say exactly but that's another topic. In the long run it's argued that the performance of that mix will revert to the historical mean performance (i.e. how much money you make and how much volatility you experience), so it's best to just sit tight and wait. In the current environment it's probably gone down the tubes according to the author. The "Buy and hold" advisors hold your hand and say, "Don't worry, it will all be OK in the long run". Of course, mutual fund "advisors" earn trailer commissions as you Buy, Hold and Pray. Note however what Upton Sinclair said, "It is difficult to get a man to understand something when his salary depends upon his not understanding it." - this caution applies to traders and brokers as well.

Ken Solow's book explains, rigorously and with reference to academic research, as well as drawing on his experience, why you can do better than that. There's some serious theoretical material in here, taken both from economics and statistics. Difficult concepts are explained with simplicity, clarity, and yet not oversimplified. Most advisors don't follow active portfolio management because it takes time, effort, resources and ideas to pursue. If your advisor's idea of "money management" is prospecting for new clients, then there is a reason why your portfolio is sub-optimized. In short, an important book, timely and an easy read. We all have to provide for our own retirement- Control your own destiny or someone else will. Read this book, decide for yourself whether Buy and Hold is still the way to go. Morgan James Publishing, NY, 322 pages, paperback, May, 2009; available from Amazon for less than \$20.00.

Wal-Mart to Face 401(k) Class-Action----Is Canada different ?

The Eighth U.S. Circuit Court of Appeals has reversed the dismissal of *Jeremy Braden v. Wal-Mart Inc. et al* by the District Court for the Western District of Missouri. The suit alleges that Wal-Mart's pension and 401(k) plan administrator breached its fiduciary duty by offering retail mutual funds rather than lower-cost institutional funds, which the company could have negotiated, being of such a large size. As a result, the suit alleges, investors lost tens of millions of dollars in retirement savings. The suit also says that 7 of the 10 funds in the plan also charge 12b-1 fees [similar to trailers], to the detriment of plan participants, and that the funds offered revenue-sharing incentives (aka kickbacks) to be included in the plan. Merrill Lynch, the plan's administrator, with Wal-Mart's blessing, was choosing mutual funds based on payments that the funds would make to Merrill Lynch according to allegations.

The case is significant because it serves more than one million participants, with nearly \$10 billion in investments. The district court had ruled in favor of Wal-Mart, which asked that the case be dismissed. But the Eight Circuit court reversed that decision in Nov., stating that Braden had made a sufficient claim proving a cause of action under the Employee Retirement Income Security Act (ERISA), sufficient proof of personal injury and sufficient time invested in the plan. The Eighth Circuit court said Braden raised a plausible claim that Wal-Mart's method of selecting funds for its 401(k) plan was "tainted by failure of effort, competence or loyalty." <http://www.erisafraud.com/Default.aspx?tabid=2315> Could Canadian Company employee Defined Contribution Pension Plans be suffering from the same ailment? See also <http://www.erisafraud.com/Default.aspx?tabid=1870> An initiative along the lines of Keith Ambachtsheer's Canada Supplementary Pension Plan proposal (CD Howe 2008) would ensure this kind of nasty thing would NOT happen in Canada.

ABCP suckers not limited to retail investors –sophisticated DundeeWealth got caught too

The company, like many unsuspecting investors large and small, was caught in the lurch by the unprecedented and unexpected seizing of the \$32-billion of non-bank ABCP market. It purchased the paper, which was considered an ultra-safe short-term investment, as a way to generate income to pay interest to depositors at its Dundee Bank unit. When the paper froze in August, 2007 and couldn't be sold, the firm needed a solution. DundeeWealth purchased all the ABCP from the bank and found a backer in Scotiabank, which bought the Dundee Bank unit and an 18 % stake in DundeeWealth for \$608-million. Since then, the company has focused on its main business of providing money management advice and products. It recently sold off a big chunk of its ABCP notes, likely at a significant loss. Ironically, IIROC recently fined Scotia Capital \$29.3 million because it continued to sell Coventree paper between July 25, 2007 and Aug. 10 even though it was privy to a July 24 email from Coventree warning of an impending crisis. Many retail investors (claim <\$1 million) who had purchased ABCP for personal accounts were bought out at full value by brokers after a long, frustrating process. Corporate buyers like DundeeWealth had to fend for themselves.

Some thoughts on the GST/ HST

Professor Carmillo Lento reminds us that the HST will apply to postage stamps, taxis, Internet services, haircuts, insurance premiums, ETF's and of course mutual funds. He ran some estimates using a 8 % pre-fee market return. For ease of calculation he applied the 8 % Ont. Tax onto the existing MER so it overstates the case slightly.

MER	Scenario 3 - Value of \$100,000 after 25 yrs	Scenario 4 - Value of \$100,000 after 25 yrs with HST on MER	Additional Taxes paid on MER
0.50%	424,786	421,831	\$2,954
1.00%	542,743	533,312	\$9,431
1.50%	482,770	470,181	\$12,589
2.00%	429,187	414,259	\$14,928
2.50%	381,339	364,752	\$16,587
3.00%	338,636	320,953	\$17,682
3.50%	300,543	282,228	\$18,316

The average represents the arithmetic average of the potential British Columbia and Ontario increases.

The impact on fund returns will be greater as each year cash is skimmed off to pay McGuinty. Of course the REAL problem is the high MER's upon which the HST is applied. Source: C. Lento, *The Impact of HST*, Canadian MoneySaver, Jan. , 2010 pg 36 You can [calculate how much HST you'll be paying](#) with this calculator on the National Citizens Coalition website.

“The mutual fund industry characterizes the HST on mutual fund fees as a tax on savings rather than a tax on their outrageous fees” – Hal Johnson, Vancouver

Carrick's Six rules of fund fees

1. Returns are always net of fees: What you see published is what investors actually made.
2. Almost all funds have fees that include a component to pay your investment adviser: A full percentage point of the average equity fund's management expense ratio is paid to an adviser and his or her firm on an annual basis.
3. Fees are always paid, regardless of performance: In a flat year for markets, your fund's returns could be negative after fees.
4. MERs don't represent all costs: Trading costs are extra.
5. Fee information is easily obtainable: Ask your adviser, or check a fund company's semi-annual report on fund performance (on your fundco's website, or through sedar.com).
6. Don't forget buy and sell, transfer and short-term trading fees: You may be asked to pay 1 or 2 per cent of your investment as a purchase commission, or be subject to redemption fees of up to 6 or 7 per cent if you sell early.

Source: <http://www.theglobeandmail.com/globe-investor/funds-and-etfs/funds/will-funds-cover-fees-caused-by-hst-as-if/article1400550/> **Ken's Addendum:** 7. Fees de-compound returns; 8. Fees assume reinvestment of distributions and are tax free; 9. Fees are the primary determinant of long-term fund returns 10. DSC early redemption penalties are paid even if you die and 11.investors do not achieve the reported returns due a buy high –sell low approach .

<http://www.canadianmoneyforum.com/> Interesting site covering investing, taxation, real estate and personal finance.

This CI Investment Inc.'s News Release on the HST shows chutzpah:

<http://www.newswire.ca/en/releases/archive/March2009/13/c8708.html> "This tax grab is the opposite of sensible public policy," Mr. MacPhail said. "Government should be encouraging people to save for their retirement and giving people incentives to invest in shares of Canadian companies to help them grow. People are reluctant to invest

today, which starves businesses of capital and hurts the economy and employment. We need to be reducing taxes on capital gains and dividends, not increasing taxes and making a difficult time even worse for businesses and investors." AND we need to be slashing mutfund MER's or setting up a low- cost Govt. run voluntary Pension Plan.[The average asset-weighted Canadian mutual fund costs investors about 1.9 % (190 basis points) per year in expenses; the HST will add 16 bps to it. Is the MER or the HST a bigger burden on investors?]

On January 1, 2010, changes to Ontario's civil justice system took effect. These changes should make it easier, faster and more affordable for people to access justice and use Ontario's civil courts to resolve disputes. These changes include:

- **Increasing the monetary limit of the Small Claims Court from \$10,000 to \$25,000**
- Increasing the monetary limit of Simplified or 'streamlined' Procedure from \$50,000 to \$100,000
- Limiting the pre-trial examination for discovery process where parties are questioned about their case to one day unless the parties agree or the court orders an extension
- Creating a general principle of proportionality in the Rules of Civil Procedure so the time and expense of each case reflects what is at stake.

Source: <http://www.attorneygeneral.jus.gov.on.ca/english/courts/scc/b4aClaim.asp> For many complaints, the new \$25,000 limit provides a viable alternative to OBSI. With the SCC:

- You can choose to have legal representation but it is not required
- Generally faster and less formal than the Superior Court of Justice
- Decisions are binding but may be appealed

New Research: *Financial Literacy and Financial Sophistication Among Older Americans*

This paper analyzes new data on financial literacy and financial sophistication from the 2008 U.S. Health and Retirement Study. The paper shows that financial literacy is lacking among older individuals and for the first time explore additional questions on financial sophistication which proves even scarcer. For this sample of older respondents over the age of 55, the researchers found that people lack even a rudimentary understanding of stock and bond prices, risk diversification, portfolio choice, and investment fees

“With respect to fees, less educated respondents were unlikely to be aware of the importance of fees, but there are no significant differences across educational grouping as to the difficulty of finding low-cost mutual funds. We take this to imply that knowledge of indexed funds is not widespread even among the educated, and/or that search and time costs are high for most groups”

In view of the fact that individuals are increasingly required to take on responsibility for their own retirement security, this lack of knowledge has serious policy, social and regulatory

implications. Authors: Annamaria Lusardi, Olivia Mitchell, and Vilsa Curto. December, 2009
www.aeaweb.org/aea/conference/program/retrieve.php?pdfid=292

Compensate for high fund fees, clip coupons Try <http://www.shopaneer.ca/>
Also couponclick.ca, SaveLand.ca, SmartCanucks.ca, RedFlagdeals.com and FrugalShopper.ca
These sites provide consumers online coupons and deals. It will help mitigate the MER's you're
paying on your actively-managed mutual funds.

The decades 10 worst fund disasters (U.S.) <http://www.usnews.com/money/blogs/Fund-Observer/2009/12/30/the-decades-10-worst-fund-disasters>

New mutfund fee impact calculator up and running

<http://www.getsmarteraboutmoney.ca/tools-and-calculators/mutual-funds/default.aspx> Calculator page is a little glitzier than older version. You can now tie to a specific fund via a drop down list. In some cases you'll need to extract data from the prospectus. The model assumptions are identified in some detail and a caution that results are approximate is provided. Time frame is limited to 25 years. We think users will have some difficulty with terminology- no page link to definitions is provided. For funds that revert from DSC to FEL after the redemption penalty period, the calculator will overstate expenses. There is no entry block for the TER but investors can simply add it to the MER and use that as the *Effective MER*. The calculator only provides pre-tax figures. There is no provision for dealing with periodic contributions – a lump sum initial investment is the only basis on which a fee impact is calculated. All in all, a basic calculator to demonstrate the adverse impact of fund fees. The results are printable but cannot be saved. Try comparing results to the calculator at <http://public.sheet.zoho.com/public/dsboglehead/effect-of-expenses>

The Australian Securities Commission funds calculator does permit annual contributions to be included which is a more realistic scenario for most investors

<http://www.fido.gov.au/fido/fido.nsf/byheadline/Managed+funds+calculator?openDocument>)

If you want to calculate your personal rate of return visit

<http://www.secondopinions.ca/showmethereurn/showmethereurn.html>

Portfolio MER calculator <http://www.squawkfox.com/2008/02/12/new-tool-portfolio-mer-calculator/> Use the Portfolio MER Calculator to:

- Tally how much you pay yearly (or dearly) for the total funds held in your portfolio.
- Tally how much you pay for each individual fund based on its percentage in your portfolio.
- Tally the average MER for your portfolio
- Run reports to see the BIG fee picture.

Another interesting calculator can be found at <http://www.ndir.com/cgi-bin/ETFsVsStocks.cgi> This calculator explores two options for long-term index investors with a focus on fees. The first option is to purchase an iShares exchange traded fund (or ETF). Here fees include a brokerage commission to buy the ETF and an annual fee (or MER)

that is charged by the ETF. The second option is to buy the index's stocks directly. In this case many more brokerage commissions are charged but there is no annual fee.

Get a FREE eBook: Frugal Food & Fitness! <http://www.squawkfox.com/2008/02/12/new-tool-portfolio-mer-calculator/comment-page-1/#comment-26805>

[5 Ways To Screw Your Credit Card Company](#) This site speaks for itself

[New to investing? Take a close look at e-funds](#) [Globe&Mail, 07Aug2009] "One of the all-around best products offered by the Canadian mutual fund industry is also one of its most invisible. The e-series of index funds offered by Toronto-Dominion Bank's fund arm are exceptionally cheap to own and usually among the better performers in their category. You pay nothing to buy or sell them, and they're widely accessible because they're sold online and available in amounts as little as \$100." Source: <http://www.bylo.org/>

Good explanation of return rate calculations

http://www.russell.com/ca/investor_services/personal_rate_of_return.asp

BeBee's Ten New Year's Resolutions for Investors

The first order of business for a New Year is to make some resolutions. Whether we keep them or not, I think that the process required to think them up is beneficial. I encourage readers to make their own New Year's resolutions. Here are ten investing-related resolutions to get you started. They are excerpted from an article I wrote for www.morningstar.ca where I recently signed on as a personal finance columnist.

1. Contribute to your tax-free savings account early in the year.
2. Assess your debt levels. If interest rates or your living expenses increased, could you keep up your loan or mortgage payments?
3. If you are a mortgage-holder and your mortgage is up for renewal in 2010, consider renewing for a fixed term.
4. Review the performance of your investment portfolio in 2009. Note for future reference what worked and what didn't work in a recessionary environment.
5. Evaluate your financial advisor's performance in 2009.
6. Read up on investments appropriate for an inflationary environment.
7. Consider shortening the duration of your bond portfolio.
8. Update your financial goals for the year ahead.
9. Make your RRSP and RESP contributions early in the year to maximize tax-deferred growth.
10. File your income tax return as soon as possible if you expect an income tax refund.

You can find the complete article [here](#). Source: GAIL BEBEE'S NO HYPE INVESTING E-LETTER, JANUARY 2010

ROC III not solid as a rock

While most Canadians are masters of mitigated speech, I am not among them. I tell things the way they are. ROC III Pref Corp (TSX:RPB.PR.A) was at best an ill-conceived money trap and at worst an outright scam; a scam that took about \$200 million out of older Canadians who were the primary market for this product. The reason for the success of the IPO was the reputation of its creator, Connor, Clark and Lunn Investment Management, its distributors, the major brokerage houses, and its benign appearance. ROC III was sold from a confidential 5 page sales sheet sent to brokers and not available to investors. There was initially no prospectus sent to brokers, not that it mattered. Brokers almost never read a prospectus and most would not have understood the ROC III prospectus anyway because it was specifically designed to be convoluted.

Since the preferred shares carried P-1 (Low) rating from S&P and only paid 4.4% (in 2005 this was about the same as a money market fund) no one raised the slightest concern. The highlights of the sales sheet pointed out all of the great benefits: “High quality preferred share; Tax efficient distribution; 100% return of capital; 75-85 basis points over comparably rated preferred shares; Active management by CC&L’s proven fixed income team... [Who] has never owned a bond that defaulted. It went on to say that ROC III was a “Unique investment alternative for high quality income portfolios”. Then as a grand finale it touted ROC III as first in its class: “Represents the only Canadian non-bank/insurance alternative rated P-1 (Low).” The sales sheet also told brokers that ROC III was “Based on the successful ROC Pref Corp and ROC II Corp offerings... which have made all scheduled distributions and maintained their P-1 (Low) ratings from S&P”. This was far less than totally correct. But who really cares when they stand to make a ton of money and the brokers will be handsomely rewarded?

What Connor, Clark & Lunn failed to disclose, until 2008, was that the shares of ROC III were not based on a basket of 125 corporate bonds, as one is led to believe from the sales sheet, but on a basket of high risk credit default swaps; no where on the 5 page sales sheet was there any mention of credit default swaps. This could have been easily stated in the sales sheet but was conveniently omitted and replaced with the positive statements in an embellished promotional/sales document. Warren Buffet referred to credit default swaps as “Weapons of financial mass destruction”. How unfortunate that investors were lured by their financial advisors into the trap of this money sink hole.

The vagaries of credit default swaps became grotesquely apparent in the fall of 2007 when the credit crunch began to hit global markets. Thus in 2008 when the situation got worse, ROC III imploded. Eventually it went from \$25 in 2005 to \$0.50 in 2008. So instead of returning the purchase price of \$25 at maturity as intended, CC&L was forced to fold ROC III in December of 2009, three years prior to its maturity date, and return about \$6 per share to investors after having not paid dividends for over 2 years. –Contributed and

<http://www2.macleans.ca/2008/11/06/surprise-you-invested-in-credit-swaps/>

Mutual Fund Taxation

If you are trying to make tax sense of the mutual fund distributions you received in 2009, here is a handy table which explains taxation of the five most common kinds of mutual fund distributions. Note that one fund may issue more than one kind of distribution and this chart applies to mutual funds held outside a registered account.

Type of Distribution	Description	Funds Typically Paying Distribution	Tax Treatment
Interest	Earned when fund invests in treasury bills, bonds, other fixed income	Money market, income	Fully taxable at your highest marginal tax rate
Dividend income	Paid if fund owns shares of Canadian public corporations that pay dividends	Canadian dividend	Subject to Canadian dividend tax credit which reduces tax paid
Capital gains	Realized when fund sells an investment for more than the purchase price	Any type of equity fund	50% of capital gain is taxed
Foreign non-business income	Dividends or interest earned from non-Canadian investments	International, global, U.S., European, Asian, emerging markets	Fully taxable your highest marginal tax rate
Return of capital	Part of your original investment is returned if fund profits are insufficient to cover regular distributions	Monthly income, managed payout, income trusts, real estate	Not taxable in year received, reduces the Adjusted Cost Base of your fund purchase, you pay a larger capital gain when you sell the fund

Source: GAIL BEBEE'S NO HYPE INVESTING E-LETTER, JANUARY 2010

Great Spreadsheet fund expense impact calculator

<http://public.sheet.zoho.com/public/dsboglehead/effect-of-expenses>

Investment scatteritis: A common disorder affecting roughly 50 % of the retail investing population. Symptoms include large piles of paper arriving at your door every month, severe anxiety attacks (particularly at tax time) and not having a clue how much your investments are actually worth. Simply put, too many accounts.

“I just don't understand why people go to brokers. I don't think it's hard to manage your own money. It's a lot easier than people make it out to be. I look at how much money

people spend on advice, and in my opinion, I'm sorry, but you're getting screwed. Two per cent on a fund or brokerage account over a lifetime is a hell of a lot of money.” - Luc Nocent, retail investor commenting on why he broke away from advisors Source: <http://www.theglobeandmail.com/globe-investor/investment-ideas/features/me-and-my-money/investing-with-a-diy-strategy/article1424216/>

OSC has revamped its website; OLD links don't work anymore! E.g. http://www.osc.gov.on.ca/Investor/Forum/TownHall/th_20050531_audiocast-transcript.pdf The page you have requested has moved or is no longer available Thanks for nothing OSC.

Mackenzie Investments fails to impress

An article by the Toronto Star's Ellen Roseman told us that Mackenzie Investments made an accounting mistake with one of its money market funds in 2009. The fund distributed a yield it did not earn As a result, many clients had to repay distributions they had received over a seven-month period. Investors in the Mackenzie Sentinel Cash Management Fund were shocked to find cash withdrawn from their accounts last November without their prior knowledge. It says it followed guidelines set by industry lobbyist, the Investment Funds Institute of Canada, and did not inform regulators. Unitholders were not thrilled. Example:

“Dennis Burgin parked his retirement savings in the Mackenzie Sentinel Cash Management Fund after the stock market crash. He was shocked to find \$1,909.99 withdrawn from his account last November without his knowledge. *"This amount represents 100 per cent of the distributions paid weekly to me from April 1 to Oct. 30. They had my money for seven months for free..."* <http://www.thestar.com/business/article/748429--roseman-response-to-error-a-breath-of-fresh-air> Mackenzie is the same firm that has generated controversial comments on active management and attacks on ETF's.

"When somebody says they can take risk in a questionnaire, is it because they can take risk, or is it because they are stupid enough to believe they have superior stock-picking abilities and are therefore overconfident? That can happen in periods of exuberance. Investors think they are geniuses, that there are no risks; what's to be averse to?" – Behavioural Finance guru Meir Statman Source: M. Noble, *Building a better risk profile*, Advisor.ca , March, 2009 [His first piece of advice to advisors is this: Realize most investors have a much lower risk tolerance than they may let on. Statman's research has determined that investor risk tolerance is, on average, extremely low]

Calculators: The Australian Securities Commission funds calculator permits annual contributions to be included which is a more realistic scenario for most investors <http://www.fido.gov.au/fido/fido.nsf/byheadline/Managed+funds+calculator?openDocument>) If you want to calculate your personal rate of return visit <http://www.secondopinions.ca/showmethereurn/showmethereurn.html>

Portfolio MER calculator <http://www.squawkfox.com/2008/02/12/new-tool-portfolio-mer-calculator/> Use the Portfolio MER Calculator to:

- Tally the average MER in your portfolio
- Tally how much you pay for each individual fund based on its percentage in your portfolio.
- Run reports to see the BIG fee picture.

Ten years of Results

# of years of superior fund performance	Probability of beating the benchmark index
0 (P=0/10)	0.00098
1	0.00977
2	0.04394
3	0.11719
4	0.20508
5	0.24608
6	0.20508
7	0.11719
8	0.04394
9	0.00977
10 (P=10/10)	0.00098

With this little table, you can make a quick assessment of the fund. Let's say the fund manager claims to beat the benchmark index seven times out of the last ten years. According to the table, there is a 11.72% probability of him doing this by pure chance i.e. no skills whatsoever. Research scientists, safety engineers, pollsters and market researchers typically use five percent or even one percent to distinguish randomness from causality. So on a scientific basis, a 12 percent probability would be sufficiently high to reject the hypothesis that his track record is due to his portfolio management skills. Nine out of 10 would bring us into the five % range which in many cases would be acceptable. The point of all this is to demonstrate how even a low 50/50 probability of being a "winner" can lead to some cases of tremendous success 8/10, 9/10 and

10/10 due strictly to randomness (luck).

Mackenzie's take on Trailer commissions:

Trailing Commissions

Mackenzie pays dealers a trailing commission at the end of each month or quarter as a percentage of the value of securities of the series of the class of the Fund in each account held by the dealer's clients as set out in the following table. Series A, B, C, G, I, J, J6, J8, T5, T6, T8, U, U5 and Investor Series trailing commissions are paid out of the management fees collected by Mackenzie. No trailing commissions are paid in respect of Series E, E8, F, F6, F8, GP, SP, O or B-Series securities. Investors may negotiate an advisor service fee with their financial advisor on behalf of the dealer in their Series O Account Agreement. Under that agreement, the investor may agree to allow Mackenzie to redeem securities of the Funds from their account for an amount equal to that fee and remit the proceeds to the dealer.

From page 36 of the Oct. 31, 2009 Mackenzie Simplified Prospectus. Makes you want to run out and buy an ETF.

CSA answers questions about new national registration regime

http://www.osc.gov.on.ca/en/SecuritiesLaw_csa_20091218_31-313_faq-31-103.htm The national registration search contains the names of all registrants (individuals and firms) in Canada, with the exception of those registered solely with the Ontario Securities Commission (OSC). OSC registration information is available on the [OSC Registrant List](#). Registration conditions for companies and individuals registered in Quebec are not available through the National Registration Search <http://www.securities-administrators.ca/nrs/nrsearch.aspx?id=850>

Investing; Riskier you might think <http://www.theglobeandmail.com/globe-investor/investment-ideas/features/lets-talk-investing/investing-riskier-than-you-might-think/article1323128/> Great interview on Risk with Gail BeBee.

In "[Bankruptcies and Employee claims- Nortel case](#)" Diane Urquhart pulls together quite a comprehensive set of data pertaining to the subject of bankruptcies and employee claims. She looks at a wide ranging list of issues, from the impact of modifying Canada's BIA to give some level of priority to underfunded pension claims on cost of credit (minimal) to differences in Nortel bond prices depending on which country the bondholders have a claim in (payout from American estate expected to be at close to double the level of that from Canadian estate), the impact of credit default swaps (CDSs) on bondholders' inclination to force liquidation rather than accommodate restructuring (devastating for workers and the economy in general). She has a table with countries with and without (or with low limit) priority protection in bankruptcy for employee claims (34 of the 53 countries listed give super-priority or preferred status to employee claims). She also has a list of countries which provide public pension benefit guarantee/insurance. Among 19 of 54 countries listed, the developed countries listed which have no bankruptcy protection (or have low limit protection) are Finland, Netherlands, Portugal, Canada, U.S. and England; of these developed countries Canada and Portugal are the only

countries which don't have a public pension guarantee! (Pretty amazing and it shows how out of step Canada is with the rest of the developed world!) Source: RetirementAction.com

Is dollar-cost averaging nearly infallible? <http://blog.canadianbusiness.com/is-dollar-cost-averaging-nearly-infallible/> If you have only a regular amount to invest each period, then DCA doesn't look unreasonable. But is it the best way to average in a position? There is also Value-Cost Averaging, which is described by Michael Edleson in [*Value Averaging: The Safe and Easy Strategy for Higher Investment Returns*](#). The basic idea is to adjust contributions to keep a targeted value constant. You acquire more units at low prices and fewer at high prices, compared to dollar-cost averaging. Read www.studyfinance.com/jfsd/pdf/v13n1/marshall.pdf comparing the 2 techniques.

Consolidate your accounts? A great article in the Globe and Mail by John Heinzl identified several benefits of account consolidation. These included; easier account tracking/rebalancing, lower fees, no more orphan accounts and the reduced paper effect on the environment. All good reasons. But be careful of exceeding any Account insurance limits (\$1 million per eligible IIROC or MFDA account). Also, some folks like a low cost online direct trading account just as a backup or to employ advice given by an embedded commission advisor and thus save on fees.

New IIROC complaint handling brochure Here is the link to the new IIROC "An Investor's Guide to Making a Complaint" brochure:
http://www.iiroc.ca/English/MemberResources/Brochures/Documents/InvestorProtectionBrochure_en.pdf Note that the "90 day decision rule" cited on page 4 does not explicitly state that after 90 days a complainant can take their case to OBSI.

OBSI will be implementing its new terms of reference on February 1st

The implementation of OBSI's new Terms of Reference (approved by OBSI's board in Oct. 2008) was deferred to coincide with the implementation of the new IIROC and MFDA rules so that similar procedures would apply to both investment and banking complaints as of the implementation date. New terms come into effect Feb. 1. Under the new Terms of Reference:

- financial consumers will be able to bring their complaint to OBSI for review 90 days* after the complaint is made to the participating firm (previously , response times were so long that provincial statute of limitations constraints came into play);
- OBSI can take actions in response to systemic issues uncovered during the course of a review of an individual consumer complaint (under the old terms ,OBSI was limited to case by case recommendations) and,
- participating firms will, where permitted by law, agree to suspend the limitations period for a complaint so that the time it takes to have OBSI review the complaint will not affect the consumer's ability to later bring legal action against the firm (Para. 16 (c)).

*OBSI can unilaterally extend this period if it is convinced needs more time to investigate the case.

Advocates have requested clarification that the limitations clock will remain stopped until the firm has confirmed that they accept OBSI's recommendation and actually make payment to settle the claim.

In Ontario, the Limitations Act says that the limitations clock will be suspended if two parties to a dispute agree to enter an alternative dispute resolution process. To our knowledge it has not yet been tested by the courts. It is OBSI's position that once the firm and client sign the Consent Letter, the limitations clock stops for Ontario residents. Other provinces do not have similar provisions in their limitations legislation. To address this, in accordance with section 16(c) of OBSI's new Terms of Reference, OBSI will be including a tolling agreement as part of their Consent Letter for clients in all provinces except Quebec, where tolling agreements are not permitted. Therefore, once the firm and client sign the Consent Letter, in all provinces except Quebec, the limitations clock will stop.

Additionally, OBSI's new Terms of Reference include a provision that even if a client has commenced legal action (for example, the client has filed a Notice of Action to stop the limitations clock) OBSI can still look at the complaint as long as the client agrees not to take steps to further their legal proceedings (the client does not have to abandon their legal proceedings, they just can't move forward). Under the old Terms of Reference, OBSI could only investigate a complaint where the client had commenced legal proceedings if the firm consented. Under the new Terms of Reference OBSI is no longer required to get the firm's consent. One of the effects of this new provision is that Quebec clients also have a way of stopping the limitations clock while their complaint is being investigated at OBSI.

New Terms of Reference at www.obsi.ca/UI/AboutUs/TermsofReference.aspx Next issue we will provide a full analysis and identify any defects. Despite progress, there's still a lot to be done to improve investor complaint handling in Canada.

Disciplined persons list at BCSC a useful tool. <http://www.bcsc.bc.ca/disciplined.asp> The list is alphabetical and easy to use. Wonder why other regulators don't make it this easy to check their advisor out.

MFDA appoints three ``Public`` directors -SRO Governance an issue: Not exactly reps for Main Street investors- big disappointment. Surprised BCSC and CSA let this pass. Mandate is investor protection so yet another missed opportunity to engage financial consumers.

Sample Investment Policy Statements:

<http://www.morningstar.ca/globalhome/industry/news.asp?articleid=ArticleID111920011621>

http://www.rightpathinvestments.com/pdf/published/0608_writingIPS_RPIFP.pdf

<http://www.investopedia.com/articles/stocks/07/investment-policy-statement.asp>

Thanks to Warren Mackenzie for these links. Your Investment Policy Statement outlines your goals, time horizon and investing milestones -- and it gives you a leg to stand on if your financial adviser lets you down. It should cover certain topics including:

- Asset allocation, or a desired mix of equities, bonds income, cash, or other investments.
- Risk tolerance and Loss capacity.
- Goals, such as capital preservation or growth.
- Investments to include - and avoid. An investor may wish to focus on dividend-growth stocks, for example, and avoid leveraged ETF's or DSC mutual funds.
- Income needs.
- Time horizon.
- Income Tax considerations.
- Benchmarks for assessing portfolio and advisor performance

Are Canadians really that dumb? Equity markets were red hot in 2009 but Canadians remain frozen in action and unaware of the market's dramatic recovery, according to a survey released Jan. 19th by Franklin Templeton Investments Corp. In Franklin Templeton's latest survey of Canadian investor sentiment, conducted this January by Angus Reid Public Opinion, 87 % report that they failed to invest in 2009. And there's no indication Canadians will be getting back into the markets any time soon. Fifty-eight per cent do not plan to make new investments in 2010 or do not know what to do. The News Release states that: "Few Canadians are knowledgeable when it comes to today's investment climate. The S&P/TSX Composite Index was up 30.7 % in value last year, its best annual return since 1979. However, 86 % of Canadians surveyed were unaware of the dramatic gain recorded by the country's leading stock index.". Source; <http://www.newswire.ca/en/releases/archive/January2010/19/c9929.html> Well, one thing they do know is that they lost a bundle in 2008. Maybe, they paid down credit card debt, reduced their mortgage, bought bonds, invested in real estate, put some money in gold bars or are just fed up with volatile markets, high MER mutual funds and their commissioned advisors. Just maybe.

Mental Accounting: An economic concept established by economist Richard Thaler, which contends that individuals divide their current and future assets into separate, non-transferable portions. The theory purports individuals assign different levels of utility to each asset group, which affects their consumption decisions and other behaviours. The importance of this theory is illustrated in its application towards the economic behaviour of individuals, and thus entire populations and markets. Rather than rationally viewing every dollar as identical, mental accounting helps explain why many investors designate some of their dollars as "safety" capital which they invest in low-risk investments, while at the same time treating their "risk capital" quite differently. Source: Investopedia.com . Good article at <http://www.washingtonpost.com/wp-dyn/content/article/2007/05/19/AR2007051900316.html>

Shocking TFSA report: A study by BMO Financial in 2009 found a whopping 94% of TFSA accounts are in savings accounts or term deposits. People seem unaware they can invest their TFSA contributions in stocks, bonds and other financial assets, as well as in short-term deposits and GICs. Consider that in 2009, the median one-year yield for Canadian money-market mutual funds was 0.3%, according to Morningstar Canada. That would mean you'd double your money in 232 years! Source; J. Chevreau, *Beware 696-year TFSA investments*, FP Jan. 23, 2009 pg FP10 Why doesn't the branch manager or financial advisor prevent this? Any ideas?

New RBC RRSP study revealing: As the aging of the Canadian population progresses over the next decade, RRSP contributions will likely continue to decline through 2020, according to an RBC Economics study based on RRSP contribution trends in Canada over the past 40 years. For three decades starting in the late 1960s, RRSP contributions grew steadily. Then they shifted downward in the late 1990s and continued to fall through to 2008 as boomers got older and contributed less. This downward trend doesn't necessarily mean Canadians aren't saving enough for retirement; but decreased savings can negatively impact the overall Canadian economy by making less funds available to finance investment activity.

The RBC report found that RRSP contributions, as a share of personal income, have declined over the past 11 years after steadily rising to a peak in 1997. The study concludes that the boomer "bulge" and distinctive savings patterns in each age group (34 and under, 35-44, 45-54 and 55 and over) can explain the majority of both the growth in RRSP contributions prior to 1997 and the drop off seen since. The savings pattern for various age groups is quite distinct with those aged 34 and under the least likely to make RRSP contributions. The biggest increase in contributions occurs when individuals move into the 35-44 age group followed by a smaller rise going into the 45-55 age bracket. Contributions start to move lower after age 55. The complete RBC Economics RRSP study is available online at <http://www.rbc.com/economics/market/pdf/RRSP.pdf>

The US economy is so bad that:

I got a pre-declined credit card in the mail.

I ordered a burger at McDonald's and the kid behind the counter asked, "Can you afford fries with that?"

CEO's are now playing miniature golf.

If the bank returns your check marked "Insufficient Funds," you call them and ask if they meant you or them.

Hot Wheels and Matchbox stocks are trading higher than GM.

McDonald's is selling the 1/4 ounce.

Parents in Beverly Hills fired their nannies and learned their children's names.

A truckload of Americans was caught sneaking into Mexico.

Dick Cheney took his stockbroker hunting.

Motel Six won't leave the light on anymore.

The Mafia is laying off judges.

Exxon-Mobil laid off 25 Congressmen.

Congress says they are looking into this Bernard Madoff scandal. Oh Great!! The guy who made \$50 Billion disappear is being investigated by the people who made \$1.5 Trillion disappear!

And, finally...

I was so depressed last night thinking about the implosion of my mutual fund portfolio , wars, jobs, my savings, Social Security, pension plans, etc., I called the Suicide Lifeline. I got a call center in Pakistan, and when I told them I was suicidal, they got all excited, and asked if I could drive a truck.

“I am outrageously frustrated with our regulatory system. When we were trying to negotiate a settlement, we got no help from the self-regulatory agency, and the RCMP simply referred our request back to IIROC and the OSC. So, us little guys were left to duke it out with the biggest financial institutions in Canada to try to get our money back.”- Michael Miles, Victoria-based chairman of the Retail ABCP Owners Committee
Source: *“ABCP FINES 'PITTANCE'*, Canwest News Service, Dec. 22, 2009
<http://www.kelowna.com/2009/12/22/abcp-fines-pittance-138-8m-levied-against-six-banks-brokers-in-32b-asset-scandal/>

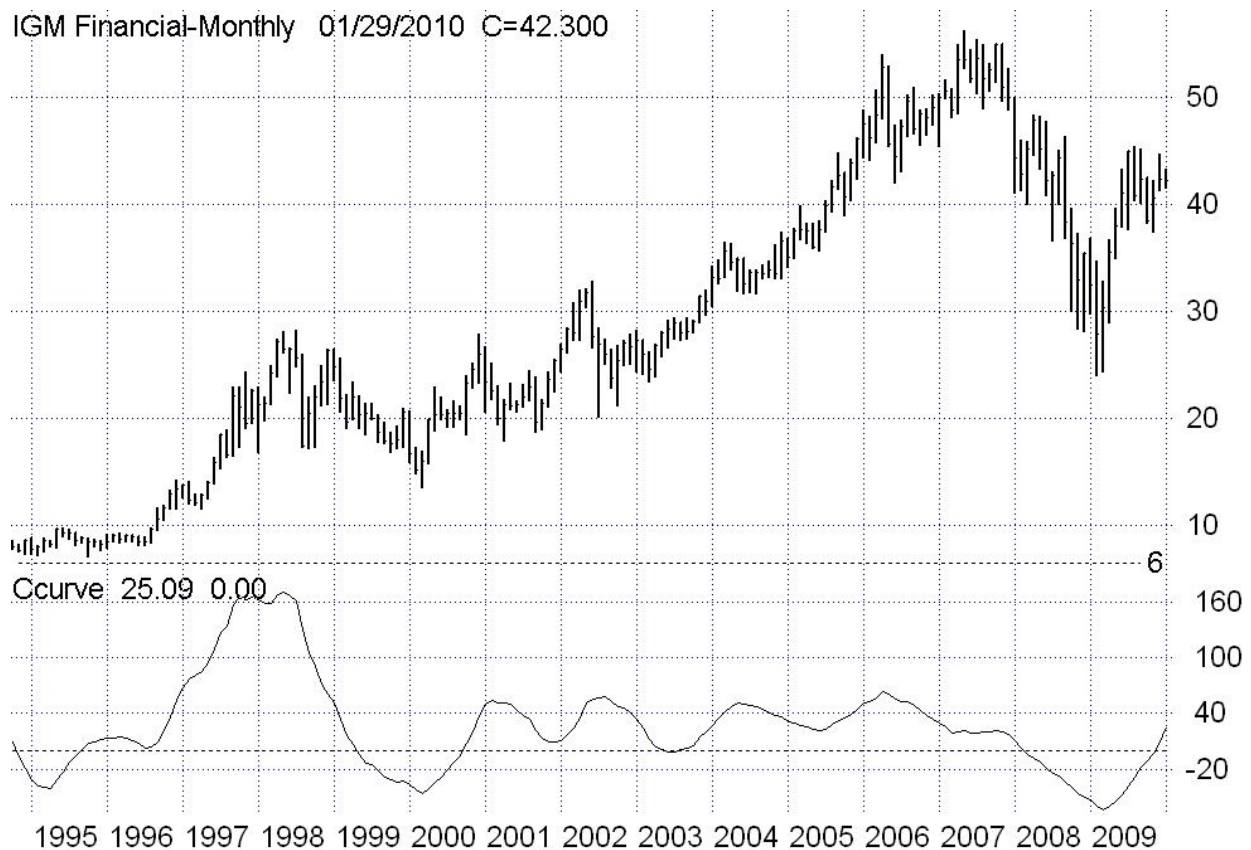
All about SEDAR: If one of your resolutions for the new year is to become a more informed investor, a great place to start is getting use to a website referred to as SEDAR www.sedar.com .
http://www.blocalnews.com/okanagan_similkameen/vernonmorningstar/business/81045897.html Lots of information on mutual funds.

Worst fund ever closing its doors. If you'd invested \$1,000 in Frontier Microcap (a U.S. based fund) 10 years ago, you'd have enough left over to order a pizza. But \$11.35 might not get you any toppings. And to make matters worse, more than half your money would have gone toward fees. Many analysts consider this fund the worst ever, based on long-term performance and costs. So it's a good thing the fund is closing down. It will soon return the \$53,157 it has left- down

from a peak of around \$1.6 million in its mid-90's heyday - to its 87 remaining investors. Since 1993, it made money in only two years — 1999 and 2009. The fund's owners, Freedom Investors Corp., even tried out a 20-year-old stock-picker in 2003. But its weak performance meant it was never really able to attract new investors. The fund's 36.8 % annual loss over the last ten years makes it the poorest performer over that period, even compared with microcap peers. Even with Canada's higher MER's no fund in Canada can match this American dog.
http://www.msnbc.msn.com/id/34943551/ns/business-personal_finance/

The CSA has a merged list of disciplined persons, <http://www.securities-administrators.ca/disciplinedpersons.aspx?id=74> The OSC isn't there yet but hopes to be soon.

Carrigan says financial services is not a creator of wealth Bill Carrigan's Jan. 23rd column in the Toronto Star poked some fun at the financial services industry. Bill cautions us to be wary because it's RRSP hunting season and we're the hunted. He provided his own set of recommendations. He's positive on home ownership, says cash is trash at today's interest rates and says *don't get divorced*-it's got a -50 % return. He suggests taking a look at Fundco IGM Financial (TSX: IGM) pointing out that its average annual return since 1991 excluding dividends is about 15 %. Dividends now run about 4.6 %. Source: B. Carrigan, *Don't expect financial planners to make you rich*, Toronto Star, Jan. 23rd, 2009 pg B6



Jason Zweig (like many others in the past couple of years) in the WSJ's ["Inefficient markets are still hard to beat"](#) challenges the Efficient Market Theory. He quotes Benjamin Graham's view that stock prices have two components: (expected cash flow based) "investment value" and (sentiment and emotion based) "speculative element". However he warns that you should keep in mind the following: "Consider a fund manager who outperforms the averages by 2.5 percentage points annually, before expenses; that's a spectacular return. But his trading costs and management fees are likely to eat up at least 2.5 percentage points, leaving his clients no better off than if they had bought an index fund that simply mimics the returns of the overall market....The market may be inefficient, but it remains close to invincible." Source: RetirementAction.com

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