The Beep Brief

A response to the CSA CONSULTATION PAPER 81-408
regarding the discontinuation of Embedded Commissions.

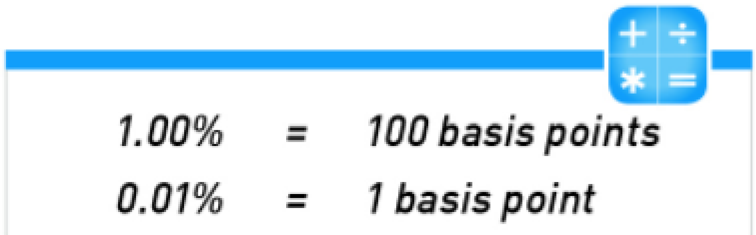
Gerry Gabon
Founder and President
Trusted Wealth Professionals
TWP TRUSTED WEALTH PROFESSIONALS

Submitted
June 9th 2017

Beeps

Definition of 'Beep'

'Beep' is financial industry jargon for basis point, which is 1/100 of a percentage point in the context of interest rates, bond yields and other debt instruments. The term came into popular usage as an easier way of referring to the basis points as bps. Because basis points express percentages of change, not dollars, they have limited use in quoting stock prices.
http://www.investopedia.com/terms/b/beep.asp



'Beep' Usage

Investment professionals regularly refer to 'basis points' when discussing things like bond yields and mutual funds.

Why does this seemingly tiny unit of measure—one basis point is equal to one one-hundredth of a percentage point—get so much attention? It's pretty simple: Basis points can add up to a lot of money for both individual investors and institutions.
https://www.wsj.com/articles/what-is-a-basis-point-and-why-is-it-so-important-1378324917

Table of Contents

Beeps 2
Table of Contents 3
Executive Overview 4
Introduction 7
Thought Leadership re: Beeps 10
Point # 1 – First Half – “commission-based scheme” 14
Point # 1 – Second Half – ”semi-liquid asset class” 23
Point # 2 – Commission Laundering 26
BONUS Point – DSC Month 32
Summary (before Solutions are presented) 33
Solutions – Before the Crystal Ball 39
The Crystal Ball -- An Epilogue and Foreshadowing 59
Addendum 1: The ‘Bad Advisor’ Blog may start 67
Addendum 2: Fee & Advice After-thoughts 68
Addendum 3: Musings regarding Mutual Funds Commission-based Scheme 70
Back Matter 71
Thanks and Apologies 72

Executive Overview

"The only aspect of investing, that investors' can control, is their Fees"

And what you can't control will erode your Nest-Egg. At present the majority of Canadians' get paid 2 times per month. Yet they pay their mutual fund fees daily; approximately 20 times per month. And they don't know their Total of Embedded Mutual Fund Fees. Nor their Embedded Commissions they are paying as well.

With the rise of low-fee ETFs, CRM2 sharing Fees & Performance (I've coined CRM2 to be CRM ½, explained later), the proliferation of low-fee Robo-Advisors, an overall decline of DB pension plans, upcoming regulations regarding financial industry Titles & Licensing, etc … the 'Billing System' of the Canadian Wealth Industry is being addressed through CSA 81-408 – CONSULTATION ON THE OPTION OF DISCONTINUING EMBEDDED COMMISSIONS.

The most lucrative aspect of the Billing System is Basis Points (a.k.a. Beeps); all sales people want Beeps. But Canadian Investors; including seniors and millennials, really want and need Liquidity and Advice. They aren't receiving this, thus, the following 3 statements:

Mutual Funds are a commission-based scheme masquerading as a semi-liquid asset class.
The Mutual Fund Industry is guilty of Commission Laundering
In 2017, DSC Month, and/or re-DSC Month, will be October.

Within the Beep Brief, you'll find **Solutions** to the Embedded Commission Billing System; including The Beep Ban (Solution2). And proposed Government actions (Solution1).

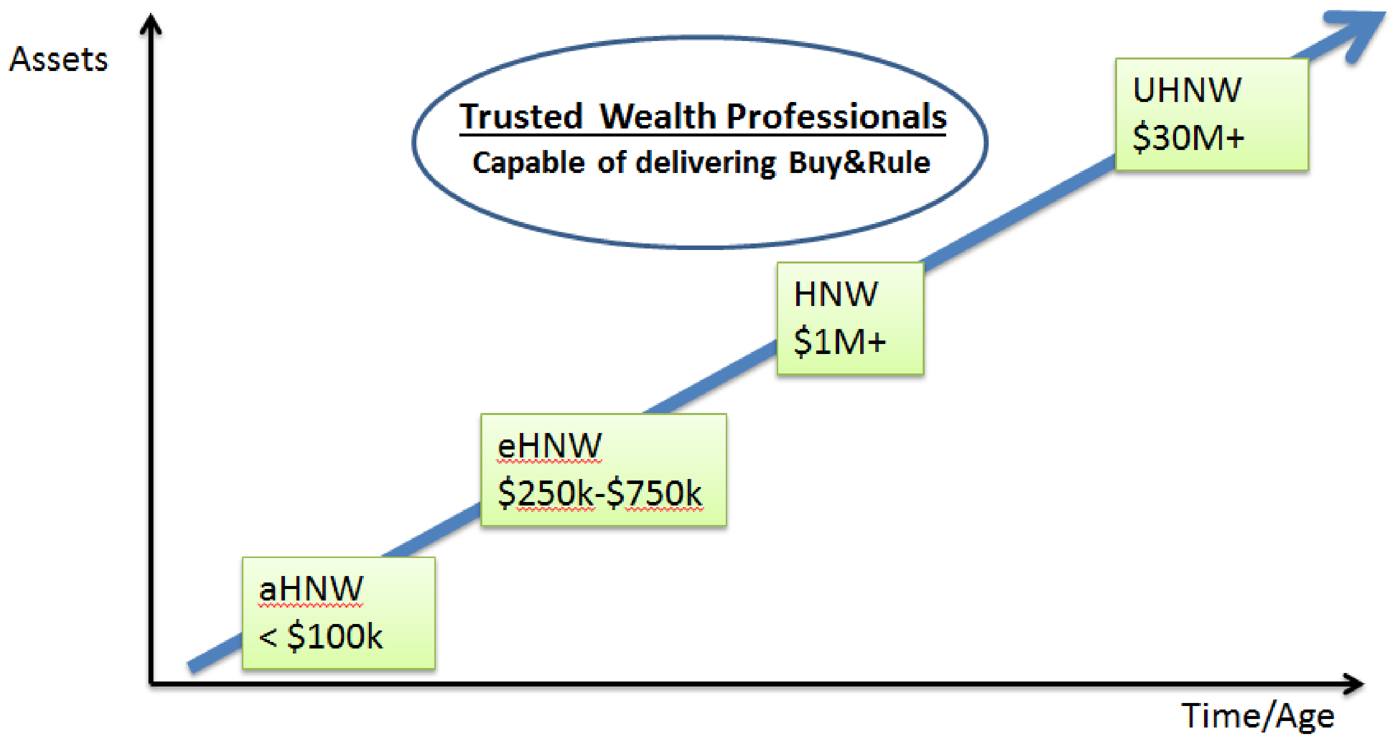
The Beep Brief also provides a look through the **Crystal Ball**; addressing the 'Advice Gap' for aHNW and eHNW. It is expected Robo-Advisors will 'take' the aHNW marketplace. IIROC

Advisors will dominate the eHNW and HNW marketplaces. And the UHNW may chose to move a portion of their assets to Buy&Rule ® as well.

The image below defines:

- aHNW; aspiring High Net Worth
- eHNW; emerging High Net Worth
- HNW; High Net Worth, and
- UHNW; Ultra High Net Worth

The Asset amount delineations are arbitrary, but quite close to actual High Net Worth 'practices' in place today by the Wealth Industry.



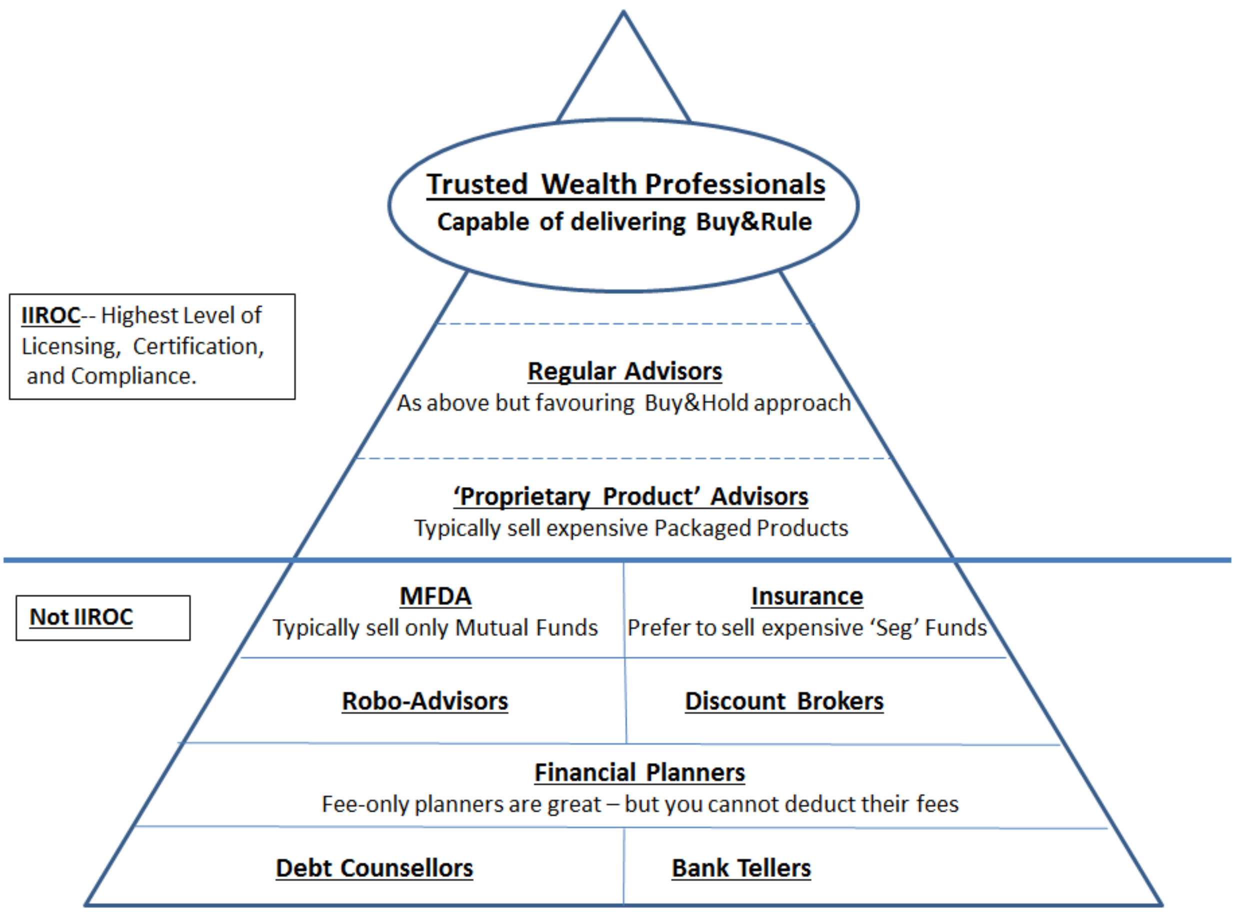
The overall theme of the Beep Brief is that Liquidity provides the Best Outcome, removing Embedded Fees will provide Liquidity to Canadians' and the opportunity to prosper.

Financial Literacy is only part of the solution; Regulators must provide Leadership such that the un-regulated marketing 'spin' of captive assets does not lead to Lesser Outcomes. Removing Embedded Commissions providers the Leadership necessary for overall Canadians' Wealth prosperity.

And there are other actions that Regulators can take; please see the 21 Solutions in the Beep Brief.

But it all boils down to Choice; where can I obtain access to ALL the Investment Styles (ie. Buy&Rule ®), ALL the Investment Products & Fees and ALL the Investment-related Services.

Choice = Liquidity



And IIROC advisors can provide the Choice.

Introduction

To the:

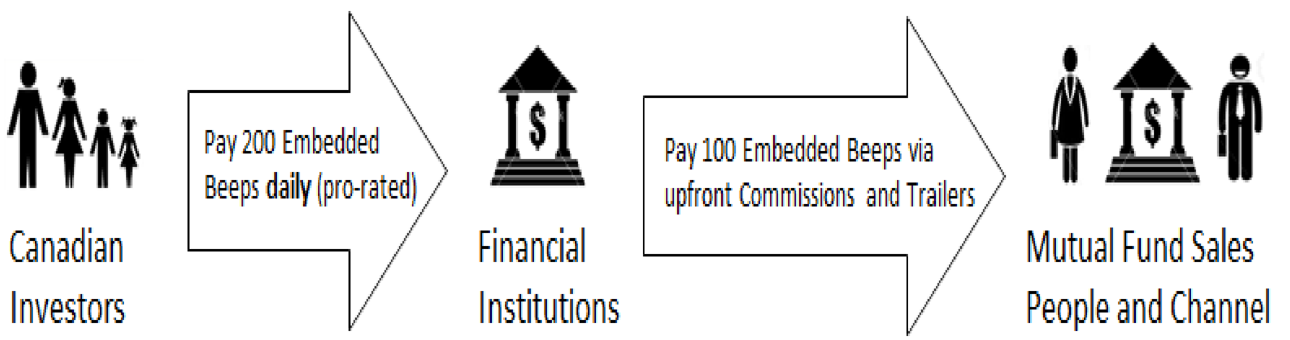
- British Columbia Securities Commission
- Alberta Securities Commission
- Financial and Consumer Affairs Authority of Saskatchewan
- Manitoba Securities Commission
- Ontario Securities Commission
- Autorité des marchés financiers
- Financial and Consumer Services Commission, New Brunswick
- Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
- Nova Scotia Securities Commission
- Securities Commission of Newfoundland and Labrador
- Superintendent of Securities, Northwest Territories
- Superintendent of Securities, Yukon
- Superintendent of Securities, Nunavut

My name is Gerry Gabon and I recently founded an innovative educational platform named Trusted Wealth Professionals. I am a software engineer (UofT - EngSci 8T5) with an MBA specializing in Finance (York - 1991). I have over 30 years of investing experience (direct trading, mutual funds, proprietary product sellers, discount brokers and two different full-service IIROC firms) and several pioneering roles with WealthTech solution providers (IBM, Financial Models, Certicom, SYMCOR, etc …). At Financial Models I sold PAGES; a Financially Intelligent Statement Generation software solution for the HNW Investment Counsellors. At IBM I deployed Broker Workstations for the Brokerage community while also porting Trading Systems. I also recently toured extensively the 'Individual Pension Plan' marketplace for Business Owners and met 100's of Advisors.

I am extremely passionate about connecting the Canadian investors with the trusted professionals they need to maximize their personal Wealth outcomes. And to that end, that is why I founded Trusted Wealth Professionals (www.TrustedWealthProfessionals.com) and why it will become the Trusted Voice of Canadians' Wealth. The Canadian Investors' Source (CIC Course) is on the website, but that is only the first step. Canadians' need to trust their wealth professionals and that mandate is quite too often fraught with many self-serving agendas; namely KYC – Know Your Commissions.

In our current economic environment, Baby-Boomers are aging, markets are experiencing an extended Bull period (with no hint of a Bear), ETFs are rising in AUM, CRM2 is half delivered (my own term is CRM ½), FinTech and Robo's are emerging, regulations and RegTech is evolving rapidly, etc … and it has become apparent that Profiteering is abundant within the Wealth+Financial Services Sector. The Beep Party is raging. Everyone wants Beeps.

Embedded Commissions, is just another form of Beep Sharing. For example, a 2% MER on a Mutual Fund is generally 'split' into two 1% halves. One half, 1%, or 100 basis points, is kept by the Mutual Fund Manufacturer (ie. Financial Institution) and the second half, the other 1%, or 100 basis points, is given to the Seller (the Channel and Sales People). So "100 Beeps for you and 100 Beeps for me". This is the 'Beep Party' a.k.a. Embedded Commissions.



This timely response serves to support the CSA's position that Embedded Commissions can have a negative impact on overall Canadians' Wealth. This submission will include a few diagrams, a couple of new colloquial expressions, and will introduce the following Points:

Mutual Funds are a commission-based scheme masquerading as a semi-liquid asset class.

The Mutual Fund Industry is guilty of Commission Laundering

The underlying preposition of the Beep Brief is that of Liquidity; best understood as non-Liquidity, or Illiquidity. If you are denied Liquidity, because of the underlying instrument, or the Sales Channel, your Outcome is lessened.

The Embedded Commissions within the Mutual Funds fee structure, and similar other Beep-based fees structures, from any/all Wealth industry participants, deny Liquidity to Canadian Investors. And when Liquidity is denied, sub-optimal Outcomes can be achieved. Please note this is only 99% proven via recent ETF vs. MF comparisons and summarizations of HNW clientele's investing approaches, but if you ask Canadians to choose from the Grid below, you'll see the informal results below.

Canadians' Choice for Products & Fees

Products & Fees	Embedded Commissions	Appropriate Transparent Fee for Advice + Service
Illiquid Products	🚫	🚫
Financial Securities with Liquidity	🚫	

The reason is that you cannot trust self-serving surveys, if you were to explain to Canadians' the truth about their Choices, they choose the Green CheckMark above.
Please note that this submission to the CSA may not be your typical response. But in a professional manner, it is designed to be memorable, and in a free-format manner. And where possible, I provide **Solutions**, to Canadian Investors, Regulators and Industry Participants because I am purposefully not licensed to sell a financial security and that allows me to provide trusted and impactful Leadership.

Of note, I will probably term Banks' Advisors via the term 'Tellers', Mutual Funds sales people, and proprietary product sales people (ie. from Investors Group), interchangeably, as recipients of Embedded Commissions. And I'll probably touch upon why:

In 2017, DSC Month, and/or re-DSC Month, will be October.

Please enjoy the Beep Brief and if you have any questions feel free to contact me. Thank you again for your time and consideration.

Gerry Gabon
Founder and President
Trusted Wealth Professionals
AskGerry@TrustedWealthProfessionals.com
Cell: 416-566-2213

Thought Leadership re: Beeps

As a Canadian, and cognizant of commercial ongoings in North America overall, you are probably well aware that 'Everything is a Billing System'. Not only from my startup efforts and software engineering successes, but from my own personal consumption, nothing is more apparent than '<u>How are they going to charge me?</u>' I can belabor this point, but it is wickedly emphasized that during the Dot-Com Dot-Bomb period of 2000-02, when software companies that 'did nothing' except allow internet providers the ability to customize their billing systems, they were acquired for billions of dollars. Think now to your current cellphone carrier and the myriad of data plan options. Or consider your cable TV plan (if you still have one); look at the bundling and un-bundling options you have. We live in the world of Billing Systems.

And the financial services sector is no different, except the 'Billing System' is generally hidden; especially if you are invested in Mutual Funds. Ask yourself, "How many Beeps did I pay today?", "Did you get my Beeps today?", or "Did you correctly charge me the appropriate Beeps?" Maybe they gave you this T-Shirt as a form of reassurance.

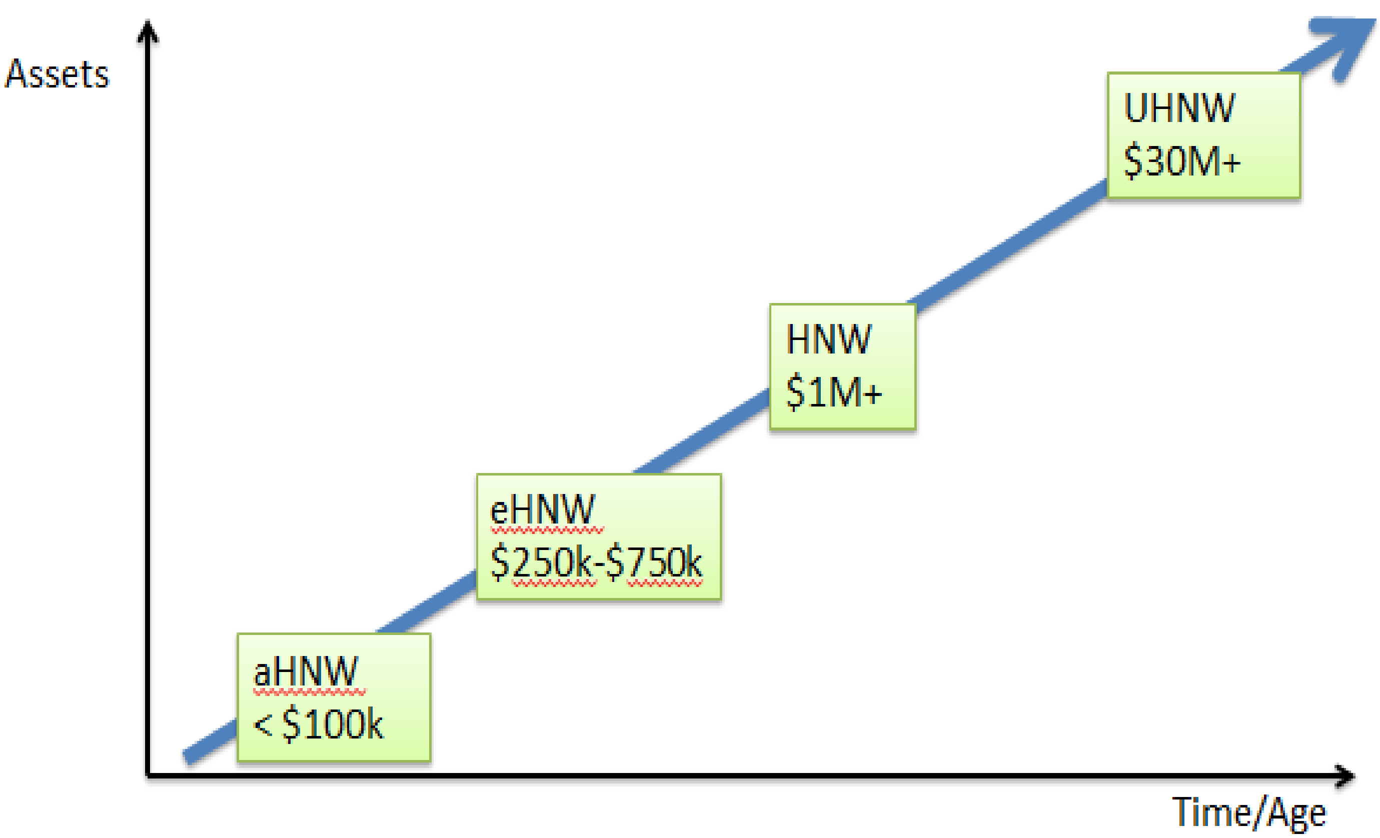
Front

Back

So I honestly can't recall if I learned about the Embedded Commissions response from a colleague, or the OSC's GetSmarterAboutMoney (website or newsletter). But, in either case I felt it was important to dovetail this initiative into the mandate of Trusted Wealth Professionals. Thus, I obtained the 169 page PDF, CSA CONSULTATION PAPER 81-408, starting reading and making notes, and I participated in the associated Webinar. And then I started re-reading, and making more notes, and really appreciating the effort the CSA undertook to produce 81-408.

But as I started to respond, I realized the evidenced-based approach undertaken by the CSA was quite complete, and I don't have the time+resources to commission new studies based on my own unique prepositions. What stuck in my mind was the comment made on the OSC's webinar is that they, the OSC, are seeking 'Something New'. And when that thought process was woven together with the Embedded Commission Point & Counter-Point that was played out in the media, the Beep Brief was conceived. This is the opportunity to provide Thought Leadership to Canadians.

The starting point is understanding one of my favourite sayings "How Big Is Your Stack?". It's an analogy from the game of Poker that forces the card holder to 'compare'. And that is critical, the word 'compare'. If you compare yourself to the HNW figure below, a categorization and tiering of High-Net Worth people, you'll see where you stand. The lowercase 'a' is for Aspiring and the 'e' is for Emerging. The capital 'U' has been interchangeably termed 'Ultra' or 'Unicorn'. The start-point and end-point of the individual tiers were chosen by me and purposefully left with gaps such that it is known that 'gapping up' is a discrete step. The 'gaps' set higher targets such that when you have $800k you can say to yourself "I'm not a High Net Worth person yet until I reach $1M". HNW is defined as $1M in net assets, outside of principal residence/home.



It should also be noted that aHNW are just one college/university degree, or one wedding, etc … away from having to start Saving over again. And the tiers I have chosen also tend to coincide with chosen net asset levels by the highest licensed investment professionals; namely the full-service IIROC advisor.

Notwithstanding the stereo-typical objectives of the HNW community, you could express the investing needs of the HNW as per the grid below:

Tiers & Needs	Growth	Growth + Income	Income
aHNW	✓		
eHNW	✓		
HNW		✓	
UHNW			✓

The Financial Services industry is best served by providing advice + counsel via:

1. Fee Transparency; not via Embedded Commissions and certainly not via the initial convoluted CRM ½
2. Liquidity; not constrained by a Billing System, an 'at loss' Commissioned Sales Person or an after-hours settlement process.

Let's now take a closer look at the 2 main points I stated earlier.

Mutual Funds are a commission-based scheme masquerading as a semi-liquid asset class.

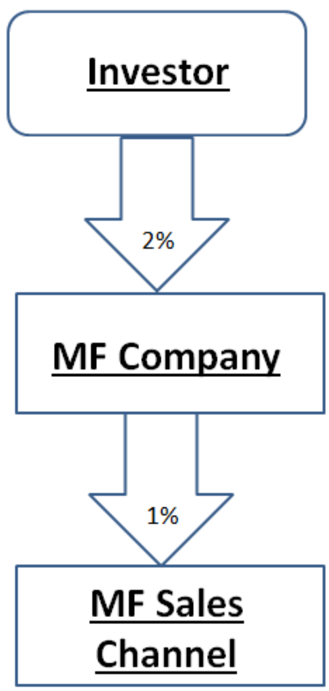
The Mutual Fund Industry is guilty of Commission Laundering

And we'll also consider this bonus point as well

In 2017, DSC Month, or re-DSC Month, will be October

It should also be noted, that just as 'Everything is a Billing System', the sales channel should not be ignored. The 'Sales Channel is Very Powerful' and should always be considered when innovation or disruption is contemplated.

The concept of the Sales Channel that I'll general refer to in the Beep Brief is illustrated below. I've used a few MER percentages, just as examples, but this is in my opinion a high-level view of the CSA's starting point to discontinue Embedded Commissions.



Point # 1 – First Half – "commission-based scheme"

Mutual Funds are a commission-based scheme masquerading as a semi-liquid asset class.

There are 2 halves to this statement about Mutual Funds

commission-based scheme
semi-liquid asset class

And the connector is the word **masquerade**.

Whether you consider, from an overall perspective Point #1 to be a harsh statement, or an illuminating statement, its origins are actually re-purposed from a similar statement about Hedge Funds. And there is a lot within the 14 words, so let's tackle the 3 main components in order.

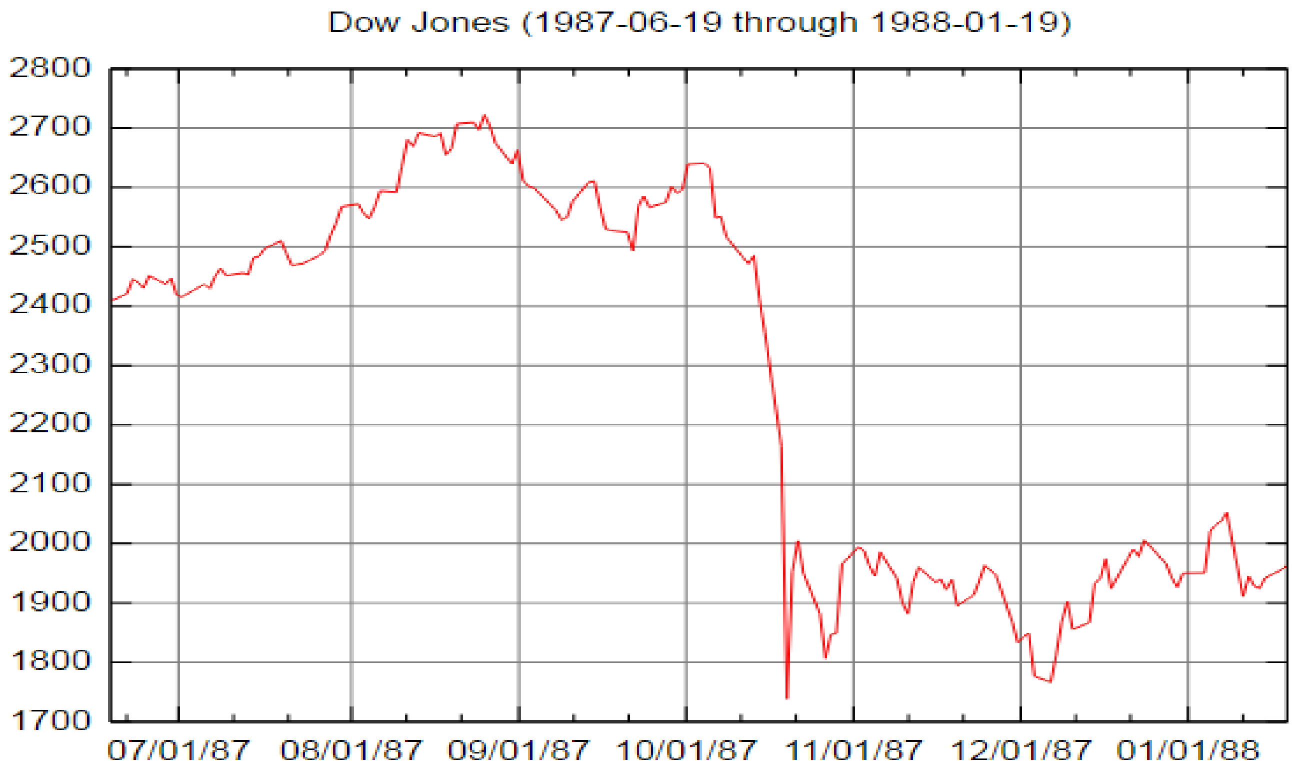
"Commission-based scheme"
Quick Background; and everyone has their own version of these details+facts.

In September 1987, MacKenize Financial brought a new compensation scheme North of the border, DSC's (Deferred Sales Charges); and introduced the DSC's through a new Mutual Fund called Horizons. Mutual Funds were typically sold with a 1-time upfront sales charge. Thus the 'hook' to keep investors buying the new Horizons Mutual Fund products was to pay the Sales Channel the upfront DSC fee, but lock-in the Investor with 5-7 year clause that made them liable for the Sale Channel Fee. So, a double-win was achieved, an easier lucrative sale for the Mutual Fund Sales Channel, and a guarantee to the Mutual Fund manufacturer that they had a recourse against any commission shortfalls (if the investor redeemed their funds).

All the subsequent Billing System terminology such as Front-End loading, no Load, Trailer Fees, etc … are just schemes to incent the Sales Channel to keep selling Mutual Funds.

Now MacKenzie was very fortunate as the Horizon product did not 'sell out' in September 1987, and later, in October of 1987 there was Black Monday, a decline of 22% on the S&P 500.

Afterwards it was a great buying opportunity and Horizons eventually became a flagship offering by MacKenzie. Black Monday is shown in the image below.



But without going into the euphoria of retail investors, many of whom had not seen a crash or a correction, and were struggling with mortgage rates of 14% (or higher), the DSC became the 'juice', the 'drug', the 'pill', for the Mutual Fund sales channel.

This translated into Buy&Hold, the absence of Advice, and made the Mutual Fund manufacturers increasingly more desperate/competitive to maintain+grow their marketshare. So commissions to the MF sales channel became the battle-ground. And the Billing System for Mutual Funds became paramount and the Beep Party started. The 'Scheme' was in full swing.

Plus the entry point into the Beep Party was joining the MFL; Minimal Financial Licensing, in other words, your Mutual Fund Sales Licence. Of note, in the coming months, the MFL will be explained in detail at www.TrustedWealthProfessionals.com.

As a side note, I had the opportunity, while at SYMCOR, to work with the CoreLan founders who built FundServ (no 'e' in FundServ), one of the first (and still in use today I believe) Mutual Fund settlement systems (circa late 1990's). This system essentially takes the daily NAV (Net Asset Value), from another system at 4:01pm (or later) each day, after the market has closed, and ensures the Mutual Fund Buys & Sells are properly administrated. The daily NAV is calculated by the Mutual Fund company first by siphoning their pro-rata amount of the MER before deciding how much is left, per unit, for the Mutual Fund investors.

So I pay daily my mutual fund fees, and we are back to the phrase '**commission-based scheme';** which begs the question "If it isn't a commission, what am I actually getting?" And "Why am I paying daily?" Of note, with a full-service IIROC investment advisor, you pay every 30 or 90 days, in arrears, the average AUM, for the period, and you can pay externally, not from cash within your account or by liquidating holdings. Please note, this external payment rule is changing slightly in 2018 for RRSP and TFSA (Registered plans) but will still remain the same for Taxable or Investment accounts (non-Registered). But it is key to note, that in a Fee-Based account, with an IIROC firm, you are paying once, in arrears, every 30-90 days, versus the possible 60 daily Mutual Fund fee (in a given quarter).

The question still remains, "What is my 100 Beeps to the MF sales channel getting me?" I'll claim it is not advice, because investing advice has two components; namely a Buy and a Sell. You can have a 'Paper Profit', but it is not realized until you sell. And if you Sell, your MF Sales Channel loses Beeps, there is no longer a commission for them (Embedded or otherwise). Do you ever sell a Seg Fund? Or a Target-Date Fund? Probably not, you Hold, so there is no Advice. Again, of interest, with a full-service IIROC investment advisor, you can Sell, and make a real profit. It is a commission to the investment advisor, if you are in a commissioned account, (these accounts are less than 10% of the accounts today). But in a Fee-Based account (more than 90% of the accounts today), you probably have 100, or 150 free trades (maybe more), and the advisor is still compensated if you are sitting in Cash/E (my own term for Cash and/or Equivalents).

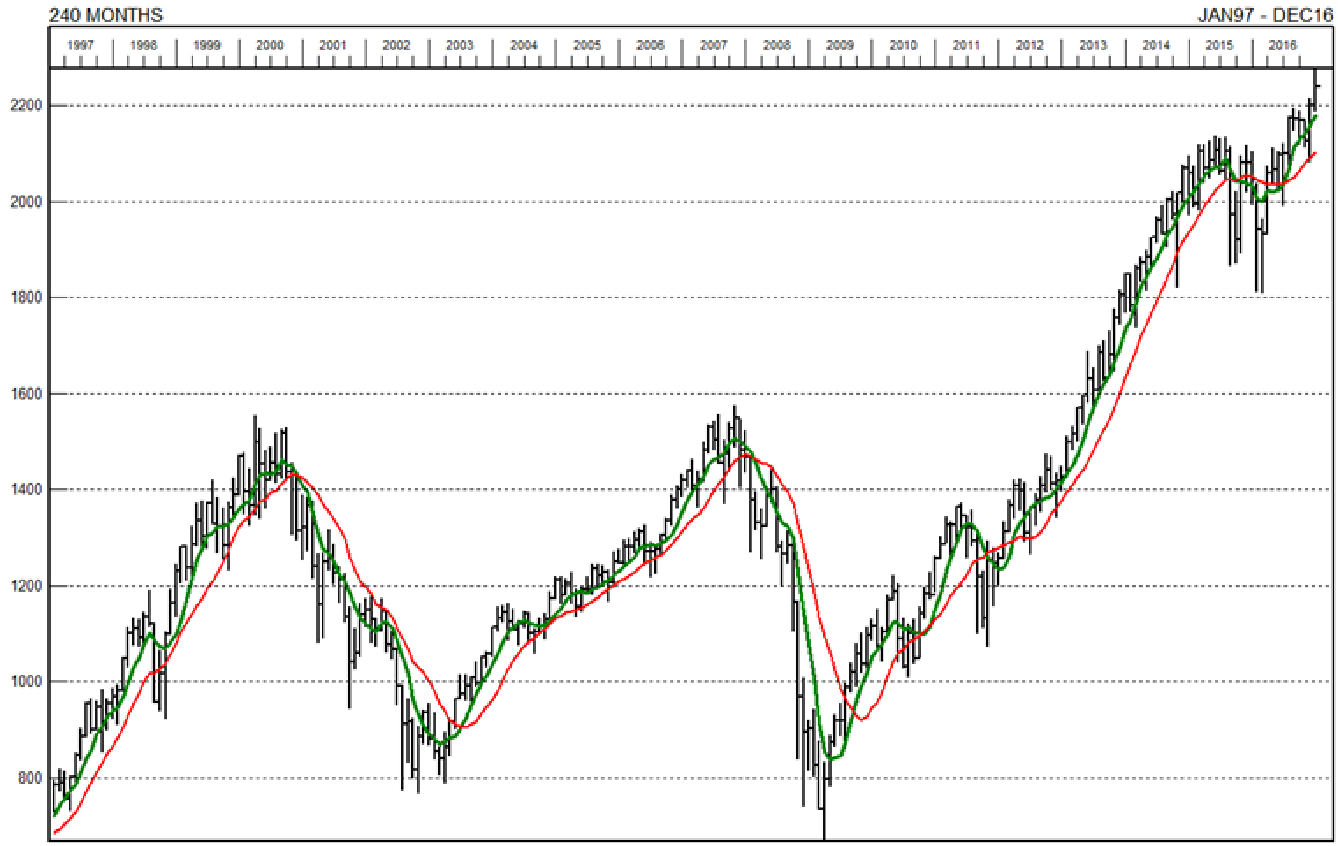
In 2016, there may have been a couple of times to sit in Cash/E. Brexit occurred in Summer of 2016 and in the Fall there was a USA election. And a pertinent FBI investigation. Then there wasn't an FBI investigation. Then the story continues into 2017. There was a FBI investigation. Then then FBI director got fired. Then there was a new FBI investigation. And on Thursday June 8th, we had ex-FBI testimont, and a British Election. All while 5 year Canadian GICs are yielding less than 2% and 'Trade Wars' are coming (ie. autos, lumber, dairy, etc …). Everyone has forgotten Chinese GDP, oil prices, real earnings, etc … but the point is that there may have been a reason to change Mutual Funds, if not Sell outright.

The 5 trading days surrounding Brexit are illustrated below. The market dropped for 2 days, about 900 points and then recovered in the next 3 days. No-one knew that in advance. You could have sat on the sidelines and slept at night. You may have wanted to Sell.

The USA election + Trump's victory was quite similar as well (but more pronounced), there was an overnight low but then an intra-day high that lead to the "march to 20,000" for the DJIA. But the Mutual Fund sales channel does not get compensated if you Sell and chose to stay in Cash/E; they lose Beeps. If you buy a GIC they lose Beeps as well.

If you look at the chart below, the last 20 years of the S&P 500, from 1997 to 2016, there may have been a couple of times to Sell. The last drawn-down, a Bear market between 2007-09, was 54% and took almost 5 years to recover. "Do you want to lose 54% or your current pay cheque?" If not, why lose (potentially) 54% of your retirement pay cheque. But wait, that can't happen now. So then don't look at the earlier drawdown of 2000-02 (a 49% decline I believe).

HNW investors can sleep at night because they have Liquidity. And professional Advice from the highest licensed advisors.. They can Exit & Enter the market, without impacting their Advisor Fee-Based compensation. Mutual Fund investors, aHNW and eHNW cannot achive this Liquidity.



John Grisham's first book, A Time to Sell, I changed the title a bit to make the point, illustrates that if probably better to Buy&Rule ®, more on this at www.TrustedWealthProfessionals.com in the coming months as well, than to Buy&Keep-Paying-the-Mutual-Fund-Sales-Channel-A-Commission.

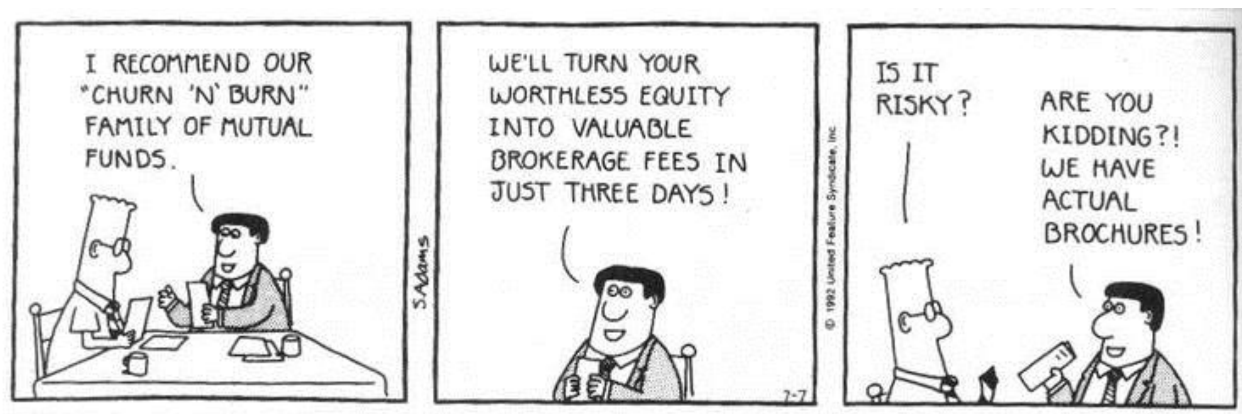
Sidenote: The Beep Brief was coined from another of John Grisham's books, The Pelican Brief.

And before I'm accused of turning the Beep Brief into a personal commercial, or hate-mongering against the Mutual Funds industry, let's concentrate on the topic of this subsection. You might need to be an industry participant, or sophisticated investor, to appreciate some of these thoughts, but here is why Mutual Funds are a 'Commission Based Scheme':

1. You don't Sell if and when the professional Rules indicate to do so. What if the market was down 50% and headed down 49% more tomorrow, would you sell? Would you Sell if the market was up 300% and everyone in the world (Jimmy and Warren Buffet included) were screaming "Over-Valued … Get Out Now"?
2. DSC's prevent you from selling (5-7 year contract). And in fairness to the much maligned Investors Group (and others) it appears that they are easing their DSC and re-DSC policies, but the wording in their latest press release (September 2016) implies if we've DSC-ed you before, we'll keep DSC-ing you again. Known as the re-DSC. Maybe I'm wrong, but I have a friend with a total of $800k at Investors Group and his RRSP holdings

span over 50 separate Mutual Funds, each with a balance of ranging between $6,000 to $28,000. 50 Different Funds? Really? 50 Different Funds? How did this happen? Well, when the 5-7 year DSC clock started expiring on the Mutual Funds, the Investors Group Mutual Fund sales person kept shoving the now commission-free funds into a new Mutual Fund that paid the upfront DSC commission (this is the known as the DSC 'drug', 'pill', or 'juice'; pick your 'poison' for the correct term).

3. Seg funds encourage you to hold for 10 years. Why? They virtually never pay out (the insurance). And if you need Growth, you don't need to annually pay 300 Beeps (or more). And yes I know that some Seg Funds charge less; just ask the 27 year girl who got hustled into a Seg Fund by her company's Benefits provider. She doesn't need any of the Seg Fund insurance benefits when she has 38 more years to go before age 65.
4. Target Date Funds encourage you to hold 'forever'. Why? What do the 100 Beeps for the Sales Channel provide for, Advice? I say NOT.
5. ETF's have no commissions and overall lower product fees, but your MFDA or MFL (Minimal Financial Licensing) sales person cannot sell them to you. And there is no Commission for selling an ETF. Please remember that a MFDA licensed sales person is one of the lowest forms of licensing for financial products sales people; and I'll reiterate, I term this licensing MFL.

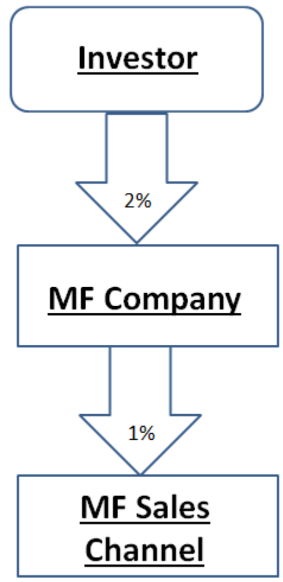


6. And Mutual Funds comprised of ETFs is just another way to keep paying Beeps (this is offered mainly via your bank). I'm astounded that Canadians' pay Beeps for this Fund-of-ETFs scheme. Quite astounded. Please see Solution 15.
7. Did you know your bank keeps an overwhelming proportion of the 100 Beeps typically paid to the Mutual Fund Sales Channel? So the Banks keeps the first 100 Beeps as the Mutual Fund manufacturer, and then the lion's share of the second 100 Beeps (no disrespect to the bank with the Lion-in-their-Logo; all Banks and medium to large Financial Institutions do this). It's known as Beep Hoarding. And it is quite profitable for the banks. That's why their Mutual Fund people turnover every 8 months, they want to sell Mutual Funds to you and get a full Beep Commission.

8. You paid for Beeps today to your mutual fund company when the NAV was calculated, but you don't know how much. You may have purchased the Mutual Fund through a Bank Teller, Mutual Fund Sales person, Insurance Sales Person or perhaps a Discount Broker, it doesn't matter, if the stock market was open today, you paid Mutual Fund Fees today and you don't know how much.
9. Discount Brokers, they prefer to be called Online Brokers, offer A-class, D-class and sometime F-class mutual funds. This may be changing (quite soon) and perhaps it will be enacted one day that D-class funds are not more expensive than F-class funds (sometimes). Better still, there's probably an ETF for your investing needs, that doesn't 'game' you in the highest Beep level; an 'A' class fund looks better to you then an 'F' class fund; think of school 'letter grading' to convince you why an 'A' is better than an 'F' and why this is part of a Scheme.
10. And there is always the nominal total amount of Beeps. Not Beeps a percentage but Beeps as a total dollar amount. CRM ½ only showed me half my Fees. The second half of CRM ½ (on track for 2018) will show me total fees; what the Beeps mean to my overall Wealth. I can't eat a Beep. Or spend a Beep. Everything has to translate back to dollars&cents. And this is a trick that was taught to me by an insurance sales person, human beings are bad at math, especially percentages. You can sell more to them when they don't understand the comparison to a big screen TV, a mortgage payment or a weekly grocery bill. If an investor is about to place $500,000 in a Mutual Fund with a 2% MER, tell them there are paying $10,000/year in total fees (not a 2% MER). Investors know if sales tax goes from 13% to 14% in Ontario, that the increase is 'not good' but they don't understand what difference a MER of 1.8% is versus a MER of 2.2% means; and this is amplified when the equivalent 'Indexing' ETFs is 0.07% to 0.25%. A Scheme is not portraying the Total Fees upfront, when buying the Mutual Funds, you have to wait for an End-of-Year-statement and CRM ½ + CRM ½ to understand what you really paid in total Mutual Fund Fees.
11. Over 30+ years of falling interest rates might mean that old ratios might not hold true in this period of sideways/rising rates (ie. Target Date Funds with Tactical Asset Allocation). The Scheme being that "Say Anything" and introduce new products at the top of a Bull market to keep the Beeps coming. Especially products like Seg Funds and Target Date Funds that lock clients into paying Beeps. Or DSC/re-DSC them at the top of the market. One day there might be a 'cooling off period' for Financial Services product purchases, but until then, Sell Anything will accompany Say Anything.
12. I don't understand why TERs, Trading Expense Ratios, appear to be uncapped. My gut feel says Bond Fund managers are going to have to 'trade' more frequently if interest rates keep rising. This seems to be an area where a blank cheque is issued to the fund manager. TERs = Beeps, but that's kept secret/unknown. The temporal update to this is that the USA mid to long bonds are not rising while Janet Yellen appears to be raising

USA interest rates in June. Possible inverted yield curve? End result, more Bond trading and higher TERs? Uncapped and unknown ETRs.

13. But the perhaps #1 reason why Mutual Funds are really part of a **Commission-Based Scheme**, think of this image below.



Where else in your life do you pay the manufacturer first? What item -- food, hydro, property tax, cellphone, gasoline, insurance, etc – do you pay the Manufacturer first? And then they pay the Sales Channel afterwards? This Scheme infuriates me; where else do you pay the Manufacturer who then pays the Channel (for consumer and commonplace products)?

Think about this. The Mutual Fund sales company has no bad debts, no accounts receivable, no collection agency, no invoices to their clientele, etc … It's all part of an Embedded Scheme. And Commissions are buried within this Embedded Scheme. And they pay themselves daily. Did you get paid today? Do you get paid 238 times a year? That's 250 working days minus a few statutory holidays.

There are 3 Known's in the Investing World:

1. There are Guaranteed Investments (think T-Bills, not Home Capital GICs)
2. There are **non**-Guaranteed Investments; pretty much everything else.
3. But, there are Guaranteed Mutual Fund Fees/Commissions. So much so 'Guaranteed' they're perceived as a form of Entitlement. A Right. If it is a Monday, Tuesday, Wednesday, Thursday or Friday, but not a market-closing holiday, you paid your mutual fund company today. But chances are you get paid bi-weekly, once every 10 business days. Albeit small payments, but you are paying daily your pro-rated Beeps/MER.

That's why it is a Scheme.

Point # 1 – Second Half – ”semi-liquid asset class”

Mutual Funds are a commission-based scheme masquerading as a semi-liquid asset class.

If you have purchased a Labour Sponsored Fund, for the upfront tax break, you might have found that there are only 2 very short windows per year to sell your investment (it is possible the window is only open for a few minutes, I'm not joking). <u>Illiquid</u>.

You might have purchased a top-off-the-market exotic Structured Note, fully well knowing that you need a few phones calls, and possibly a few days, to sell in a Secondary market (probably below market value). <u>Illiquid</u>.

And you've got any stock, bond, or ETF in the world, and the local stock market is open, and you can sell (or even buy more). <u>Liquid</u>.

Those are the definitions of Illiquid vs. full-liquidity. But Mutual Funds are semi-liquid. You can Sell or Buy at 4:01pm EST, after the TSE or NYSE has closed (we're using the common exchanges for reference). You can't Buy or Sell during the trading day, but you don't need to wait Days to transact. <u>Semi-Liquid</u>.

So as I type the Beep Brief, I occasionally glance at the clock, it's 11:33am and then 2:28pm, I just heard that Bombardier is receiving consideration from the Canadian Government. My belief is that there are 10 more years of growth in Bombardier and I can buy the individual shares (BBD.B) or an ETF holding the shares. Right now. <u>Liquid</u>.

But not with a mutual fund. I have to wait until to 4:01pm to get 'filled' (and only then will I know the final price). But that's only the case if place the order online. It's the same scenario if I want to sell BBD.B as well (or the ETF holding BBD.B). I just want to sleep at night. I don't want to even buy GOLD (that's Randgold Resources Limited). Same goes for Nike, TransAlta, Amazon, CIBC, etc … if there's news, or if I have idea that is percolating in my brain, I can buy or sell individual shares, or ETFs, when the market is open, <u>but with a mutual fund I transact when the market is closed</u> (seems 'weird', almost counter-intuitive to the word 'investing'). <u>Semi-Liquid</u>.

And if I'm not online with my Mutual Fund company, if I deal personally with the mutual fund sales person, or her/his company, then I need to pick up the telephone. I want to Sell my Mutual Funds. Let's assume that interest rates are rising and are now at 18% as they were in the mid 1980's and I want to sit in GICs. All my friends are doing this now. Or even more plausible, I just want to have 6% a year as a rate of return, net of fees; pension style investing.

And I want to sleep at night. I've met my objectives for the year, I'm good with stepping out of the market (there is a lot of turmoil at present). So if you want to Sell your mutual funds, the sales process has now reversed, you are going to have to be really persuasive because there is a Loss that is going to occur. A Beep Loss. To the Mutual Fund Sales person. And a Beep Loss Prevention Mechanism now kicks in. You're essentially replacing a non-Guaranteed investment return with yourself (you are the investor) and taking a Guaranteed Commission away from a Sales Person. There is going to be a 'fight' to keep the Mutual Fund Sales Person's Beeps.

But aside from the human interaction, convincing the person who Beeped you, to unBeep you, is an effort that the retail investor is not well enough armed enough to undertake as the Beep Loss Prevention Manual possessed by the Mutual Fund Sales Person is quite extensive.

The bottom line is that Liquidity matters; if the underlying systems don't allow you to transact when you want to, or the Mutual Fund Sales Person doesn't want you to transact (ie. Sell) when you want to, you've been denied liquidity and by then it is too late. Bad Outcomes prevail.

Note1: I have taken it upon myself not to convey portions of the Beep Loss Prevention Manual, other than to say, the best counter starts with Liquidity Paper from yourself. Perhaps a 'play' on Liquid Paper, but your Liquidity Paper starts with a T2033/T2151 for different types of Registered money, or an Account Transfer Form from your new institution (they'll handle it for you). Allow 2-4 weeks and there might be small fees ($150 –ish) along the way. Either way, your investments are not permanently held at any Financial Institution; so your TFSA, RRSP, Pension, Taxable/Investment, RESP, etc … accounts can be moved where necessary. REPEAT – The Beep Loss Prevention Manual is where the Conflict of Interest arises; the Advisor will not prudently 'raise' Cash/E because she/he doesn't get a commission cheque (possibly a Clawback as well; it depends upon the Commission Scheme and Billing System deployed).

Note1 Caveat: You'll soon find out if you have Proprietary products, Deferred Sales Charges (DSC's) or other exorbitant fees within your account holdings+investments. Try to determine if you have 'Fee Creep' when moving your assets as well; that is unknown and increasing Fees that keep Creeping/Popping-Up when you're moving assets. And I've been asked a few times already, "Should I move from Investors Group to a full-service IIROC life-licensed investment advisor, without knowing what my DSC fees will be?" And my answer is that assuming you have a worst case 250 Beep DSC Holdback, you might find that Fee-based full-service IIROC life-licensed investment advisor actually costs you less over a 5 year investment time period, thus justifying the Fees. I won't use Fear to make this point, that Buy&Hold-ing through a 54% market is minor compared to 250 Beep DSC Holdback. Nor the point that full access to all investment Products, Services and Styles trumps the restrictive proprietary offerings. But I'll go out on a limb to that say that if we know 50% of marriages end in divorce, mainly based financial issues, then 50% of financial relationships end because of non-financial emotional issues (ie. Trust or Betrayal; I saw this on Oprah a few years ago). Anyways, you'll know when to issue your Liquidity Papers. Your new Wealth Institution can help you in this regard.

I'm not saying you need to stay invested, or exit the market, or rotate holdings through your portfolio, but if the Embedded Commissions Scheme are affecting your liquidity, either monetarily, procedurally, or psychologically, through word-of-mouth with your Advisor, or not, it ultimately affects Liquidity.

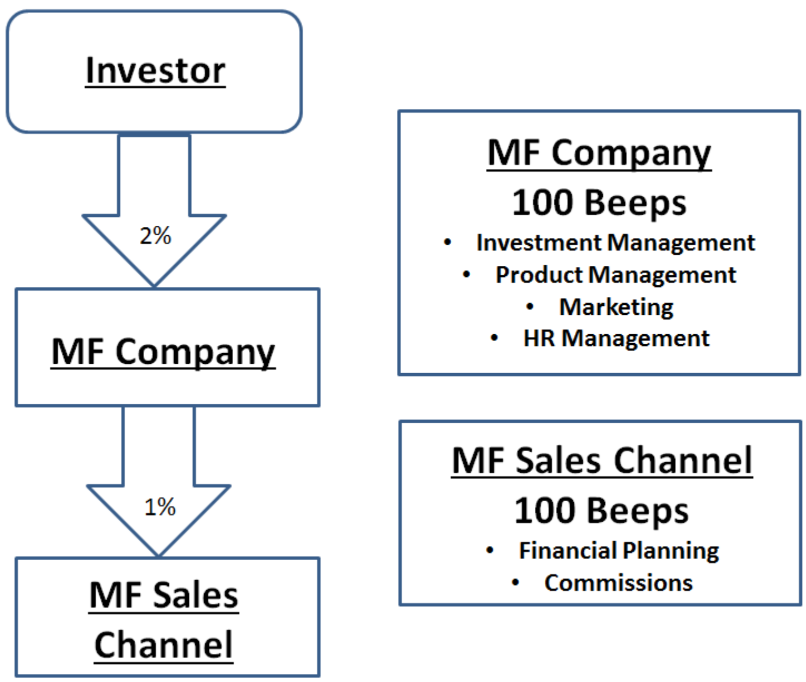
And lack of Liquidity is not good for Investors' Outcomes.

Point # 2 – Commission Laundering

The Mutual Fund Industry is guilty of Commission Laundering

Phew. I came to this conclusion, rightly or wrongly, by Googling and chatting with a variety of financial professionals. There are great articles on the Globe and Mail's website and Advisor.ca that deal with 'deductibility investment management fees'. If you Google that 'string', they will be the first few hits, and feel free to avail yourself of them. But I do think I'm correct in this regard, so here goes.

The background to the Laundering claim is that the entire MER, 200 Beeps, is deductible because it isn't a Commission and it isn't Financial Planning (both non-deductible by the CRA). Thus the entire MER is viewed as Investment Management Fee or Product-related fees. The 100 Beeps for the Mutual Fund company is clearly not Commission, as it is Investment/Product management fees. OK, I hear you, but I don't buy it. So let's look at the Beep Flow.



My thinking is that I have explained in Point 1 that there is no Advice nor Service within the Mutual Fund Sales Channel so the second half of the 200 Beeps paid by the investor, 100 Beeps, should not be deductible. It's a Commission only (and why you would keep paying it annually is criminal).

I know this is upsetting. And I have seen the IFIC breakdown on where the 200 Beeps are spent. And I'm not even concerned about why an ETF can deliver the same 'portfolio' for 4-7 Beeps, but we'll use 30 Beeps as an average (thanks CETFA for this fact).

MF Company

100 Beeps

- **Investment Management**
- **Product Management**
- **Marketing**
- **HR Management**

ETF Company

30 Beeps

- **Investment Management**
- **Product Management**

MF Sales Channel

100 Beeps

- **Financial Planning**
- **Commissions**

I haven't exhaustively surfed every Mutual Fund company's website, just a 'chosen' few, and I've read advertisements in the Globe and Mail (32 years and onward of continued daily reading), but I have noticed the word 'Commissions' with every description of Mutual Fund fees. That alone doesn't make the second 100 Beeps non-deductible; especially if I'm on the Mutual Fund company's website and it is the Sales Channel I'm concerned about.

And it doesn't matter that there is 'wordplay' regarding the words 'Advice' and 'Service'; it seems Commissions are the new 'Service'. Please ignore the spin.

Also, the presence of Mutual Fund Sales Persons T4 slip , or really the T4A, perhaps T5, but mainly T4A, for Commission Income isn't proof enough that the second 100 Beeps are really a Commission.

It boils downs to the fact, that beyond the Financial Planning, Licensing matters. Selling a Mutual Fund, with a Buy&Hold approach, DSC-ed or not, with an accompanying Trailer Fee, is a Commission. Because your Advice is always not to Sell; the second half of investing (Buy-ing first and then Sell-ing second). And that is non-Advice. And also not 'good' Advice.

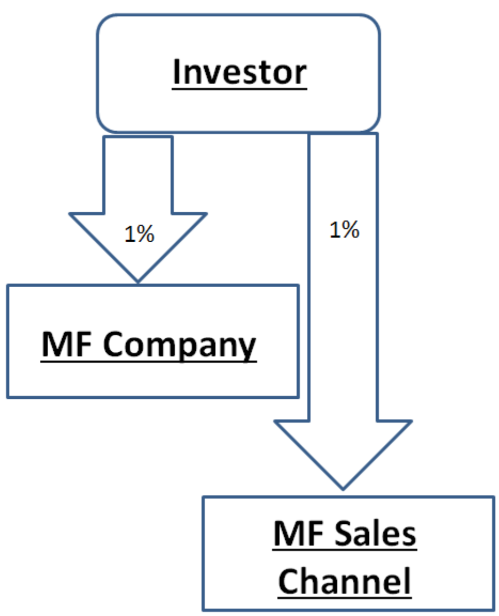
A Full-Service Life-Licensed IIROC advisor, hopefully one who practices Buy&Rule ®, and doesn't suffer from Financial Decidophobia (fear of making financial decisions), actually makes Buy&Sell decisions daily. This includes Portfoliio re-balancing via Buying and Selling, profit-taking by Selling, Buying new issues, Buying and Selling for Tactical Asset Allocation purpose based on KYC's and IPS's. Whether it be within a Discretionary account or not. In a Fee-Based account, this is not Commissions. This is Advice. This is Service. Deserving of Beeps. The full-service IIROC advisor does this daily, it's part of the work they do work clients. Mutual Fund Sales People do none of this, they aren't licensed to do so, they don't do any of this Buying and Selling advice. Sure they perform minimal KYC and IPS efforts, but not deserving of Beeps. Yes they perform some FinPlan work (I'm not sure of their licensing in this regard), but that's non-deductible work anyways.

If you don't have the Licensing, with corresponding Education, where the daily practice of evaluating Buying&Selling decisions exist because it is your job, then the second 100 Beeps is non-deductible. It's a Commission.

And it is Commission Laundering because if the same 100 Beep fee was payable directly the Mutual Fund Sales Channel it would be only Commission.

Buying&Holding a Mutual Fund, let's say 7 years until the DSC wears off, is not Advice; this is ignoring that there could be a 'Time to Sell'. Sending me a statement quarterly telling me the value of my holdings is not Service; it's a necessity, perhaps just to get into the Wealth Industry 'game'. Trying to make the argument that Commissions = Advice = Service because the MER is paid to the Mutual Fund Company, doesn't mean that a Commission is not a Commission.

In the following picture, if the second 100 Beep fee was payable directly the Mutual Fund Sales Channel, the payment would be recorded as a Sale; possibly deserving of a commission.



And if the compensation to the Sales Person was 100% variable, they had no base pay, and was based on Beeps, it would be a Commission for sure.

In the case of the Banks, where they sell their own proprietary Mutual Funds, through their branches, the Banks 'Beep Hoard' and the Teller (they were called Front Line Advisors in a recent CBC investigation), only receives a Bonus. A small bonus what I've learned; the bank Beeps Hoards the majority of the second 100 Beeps. That is why there is incredible turnover at the banks with respect to who is managing your account. The good Tellers get their CSC licence, join an IIROC firm and encourage Follow-Me-Beeps (while referring back to the replacement Teller, who soon has a depleted 'book'). The disgruntled and perhaps OK Tellers get their MFDA/CLU license and cherry pick their 'bank book' by High-Beeping (migrating their HNW clientele and possibly locking them in with Seg Funds or Target-Date-Funds). But all of this is reality only because a Commission, evidence by a Beep payout and lack of Licensing/Advice, is really a Commission. Laundered or not.

Of note, if you can't go to Cash/E because of the Sales Channel compensation scheme, please start completing your Liquidity Papers (transfer to another Wealth firm, perhaps via a Trusted Wealth Professional).

Consider this Compensation grid below. Based on the person serving you (so you can't skirt the rules and have one IIROC person, in a province far far far away, that is the defacto or totem IIROC person in your firm).

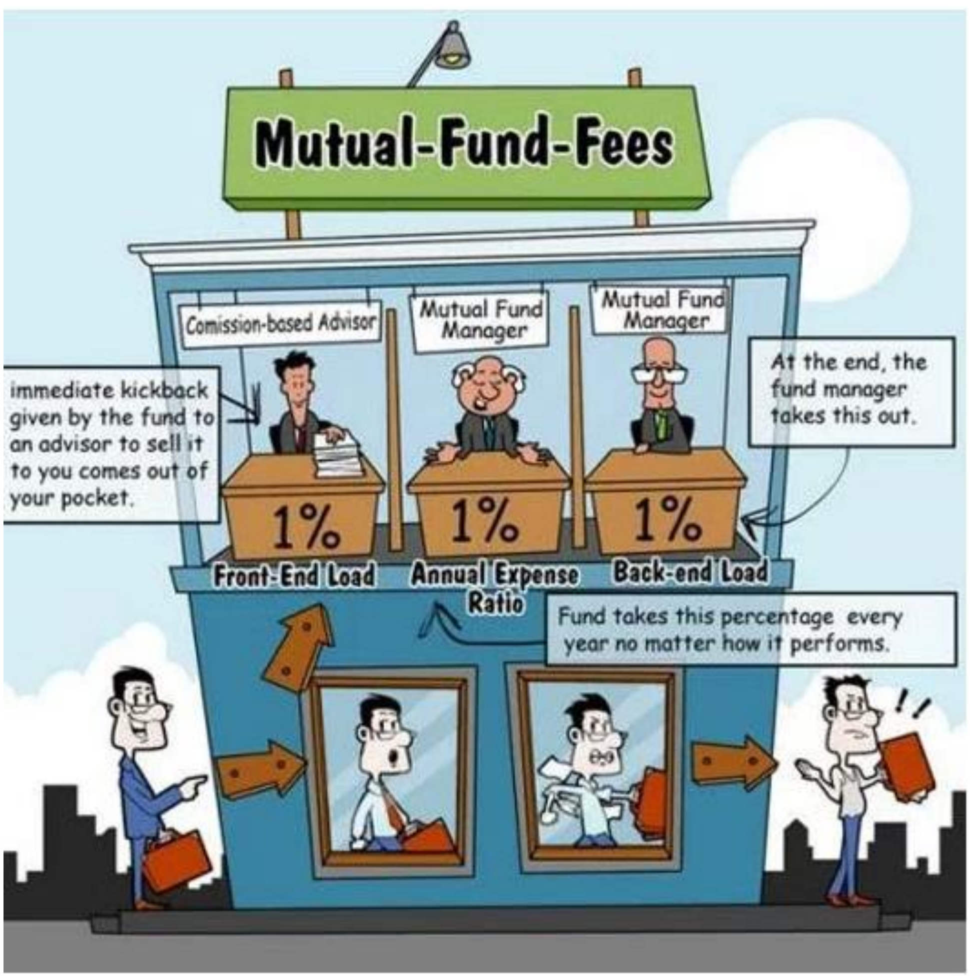
Licensing & Compensation	**Non-IIROC-Licensed** Ie. MFDA, CLU, other	**IIROC Licensed**
Compensation Alternatives	Flat bonus or tiered structured (can't look like a Beep). Can't be Laundered via creativity.	Beeps or other. All options available

There is more to share in the **Solutions** section of the Beep Brief (see Beep Ban; Solution #2), but my viewpoint is that if/when the CSA discontinues Embedded Commissions, the Mutual Fund Manufacturers and Sales Channel will have to get very innovative as they've had the good Beep life for 30+ years. Uber-like disruptive solutions and Robo inspired innovative FinTech platforms are coming; until a Bear market surfaces.

Nothing moves in a straight line. Bulls and Bears are conjoined.   And the lack of Advice in a Bear market will be catastrophic as more and more Boomer have invested in the Equity market, and interest rates up/down will affect the Bond market. Canadian's need Advice, and they are not receiving it at present, because if they were, the Asset Mix of Mutual Fund investors would look more and more like that of the HNW at IIROC based firms; where capital preservation is a concern.

But no Mutual Fund Advice means Commissions only, and Commissions Laundering, as the 2nd 100 Beeps would not be deductible if the Mutual Fund Sales Channel had Commission based accounts (vs. Embedded Commission today). Or if you paid the Mutual Fund sales person directly, it then be a Commission.

After-thought. The 'Advice Gap' has been bantered about in the press as a 'hole' where upscaling the Mutual Fund Sales Channel would leave small investors without Advice. Robo's will address this marketplace.   The real point is that there won't be free Beeps to the MFDA-licenced Mutual Fund Sales People any more. The small investor (aHNW) will probably be 'moving up' with respect to Advice + Service when they deal with a Robo as there is a Portfolio Manager and Discretionary component to this Beep-based channel as well.



Quick Summary (from an email I typed to a friend), regarding Advice

Oxymoron: Mutual Fund Advice

3Points

Point1. IMHO 'Advice' has to include 'Sell'. If you're not Selling, and only Buying, as in Buy&Hold, then that's a SalesPerson. It's the new KYC – Know Your Commission. Plus 'Selling', perhaps through Rules-Based-Investing (ie. Buy&Rule ®), allows you to take profits and minimize losses. That's why Investing is Buying&Selling. Just Saving, approximated buy Buy&Hold is a Sales-effort, from a Sales-person (proprietary offering or not).

Point2. What is Advice? The definition of Advice? It cannot be FinPlan because we know that is not deductible. So if you had to contrast Advice vs. FinPlan (from a Mutual Fund or Bank Teller's standpoint), I'd think you see that everything is FinPlan or a Sale. Holding a Balanced or Conservative or a Diversified or a Seg Fund or a Target-Date Fund, based on a Pie-Chart, is not Advice. It might be that the Mutual Fund industry is terming 'un-licensed FinPlan advice' as Advice. But it is still non-deductible by the CRA; if it is a FinPlan then it is a FinPlan (whether you have MFDA or CFP designations).

Point3. Licencing matters. We might as well say there is no Advice unless you're CSC-ed and IIROC-ed. Therefore investors via MFDA and other Proprietary Product sellers (ie. Insurance, Bank Tellers, Investor's Group, MD Management, etc …) are getting no Advice unless the person in front of them is CSC and/or IIROC. And the counter-point is that there are IIROC-licensed individuals who are dumbing down their offering, becoming relationship managers, and just acting like MFDA or FinPlan folks. That's a shame as well; 'Bad' IIROC Advisors.

No Advice means Commissions and thus that is Commission Laundering. Sure, the eHNW, HNW and UHNW, who are still in Mutual Funds might feel as if they are getting paid special attention because of their AUM, but it is still not Advice. Perhaps the challenge is to assume everything related to an Embedded Commission is not Advice, and let it be proven otherwise.

Or perhaps unless you can sell all the products, ie. ETFs. Stocks, Bonds, etc … your offering is termed a Commission (that gets Laundered in the current system).

BONUS Point – DSC Month

In 2017, DSC Month, or re-DSC Month, will be October

Usually every month of the year is DSC month. But this October will be extra special as the Mutual Fund managers who feel threatened by the upcoming second half of CRM ½, and a lot of great new Regulations, will be under sales pressure when 3Q17 has completed. So, 270 days will have passed in the 2017 calendar year, sales figures will be calculated, and year end projections plus plus commissions (via T4A) and bonuses will be closer to being envisioned within a Mutual Fund Sales Person's personal bank account.

Or perhaps it will be DSC Month, just for the purpose of keeping your job.

The Mutual Fund sales people will be passing this message along to their Sales Teams. We may have started to return-to-the-norm in the markets, the press will remind us of October's market performance in an odd-numbered year, the Black Swan could be Donald's wife leaving him, USA GDP may be tracking above 3% or below 1%, and European elections in Germany and Italy will be closer (if not passed already). Italian elections might be the next Brexit.

So why will this October will DSC Month, or re-DSC Month? There will be a Social Explosion far worse than French's ketchup being un-shelved. It may not play out in the press, but the sales pressure to lock-in customers will go through a 'last hurrah'.

I'll present a few diagrams of possible industry turmoil and changes in the **Solutions** and the **Crystal Ball** sections of The Beep Brief. But the last chance to get mega Beeps, the biggest commission cheques possible, for the Mutual Fund Sales People (Managers and Teams) will be October (the sales cycle could close in November or December, but it will start in October). Decent weather, a mindset that isn't on Santa Claus, CRM3 possibly to be enacted in the Insurance Industry in early 2018, all will drive the frenzy. The weak Sales Person performers, and the lowest 1 or 2 quartile performers, may find themselves selling Real Estate.

Summer will be slow, but in September the marketing campaigns will start in earnest. ETF fees will be shining a light on Mutual Fund Marketing (and associated HR staff). And door-to- door tactics will be employed; the ability to 'Say Anything' to get Beeps will surface. Insurance has already moved online and underwriting below 55 is no longer required. Lots of multi-channel competition with Robo-Advisors, all based on 3Q17 performance numbers and knowing that 2018's RRSP season is right around the corner.

The Beep Battle will be on center stage. This might be the last year of Easy Beeps. 'Say Anything' to 'Sell Anything' and lock-in Beeps will be the marching orders. And DSC's offer the best payout Commission payout (to the chagrin of the Canadian Investor).

"I'M HAVING TROUBLE SLEEPING, ROB. DO YOU THINK YOU COULD EXPLAIN, ONE MORE TIME, HOW YOU PICKED OUR MUTUAL FUNDS?"

Summary (before Solutions are presented)

Stop the Construction.

It's actually Destruction … to Canadians Wealth.

Ending Embedded Commissions will reduce Titles and move assets to Robo-advisors. Please see the **Crystal Ball** section after **Solutions**. You still solve a ton of problems in the industry including Best Interests and Titles. And Seniors can still have Commissioned based accounts, make 5 trades/year, and get GICs, T-Bills, Rate-Reset Preferred Shares, etc … from IIROC-based advisors.

The investment Style practiced by the Mutual Fund industry is Buy&Hold. But this is really Buy&Keep-paying-me-my-Commissions. Investing is about Buying and Selling, Buying good quality assets when they are undervalued and Selling them when they are overvalued (in general). But in the Mutual Fund arena there is no Selling and it isn't their limited licensing (MFL – Minimal Financial Licensing) that encourages them to turn a blind eye to Selling, or their lack of product availability/choice, it's their Commission plan, the Beeps, that encourages Mutual Fund Sales People to sell the Most Expensive Fund with the Highest Margin (proprietary products) with the Highest Commission. Embedded Beeps, with DSC's, rule the day.

'Say Anything' to 'Sell Anything' with High Beeps is the mantra.But the overall thesis of the Beep Brief is these 2 main Points:

Mutual Funds are a commission-based scheme masquerading as a semi-liquid asset class.

The Mutual Fund Industry is guilty of Commission Laundering

And this Bonus Point

In 2017, DSC Month, or re-DSC Month, will be October

I applaud the CSA for this undertaking regarding discontinuing of Embedded Commissions. They have done their home in CONSULTATION PAPER 81-408. There are many facts and a ton of details in the 169 page document.

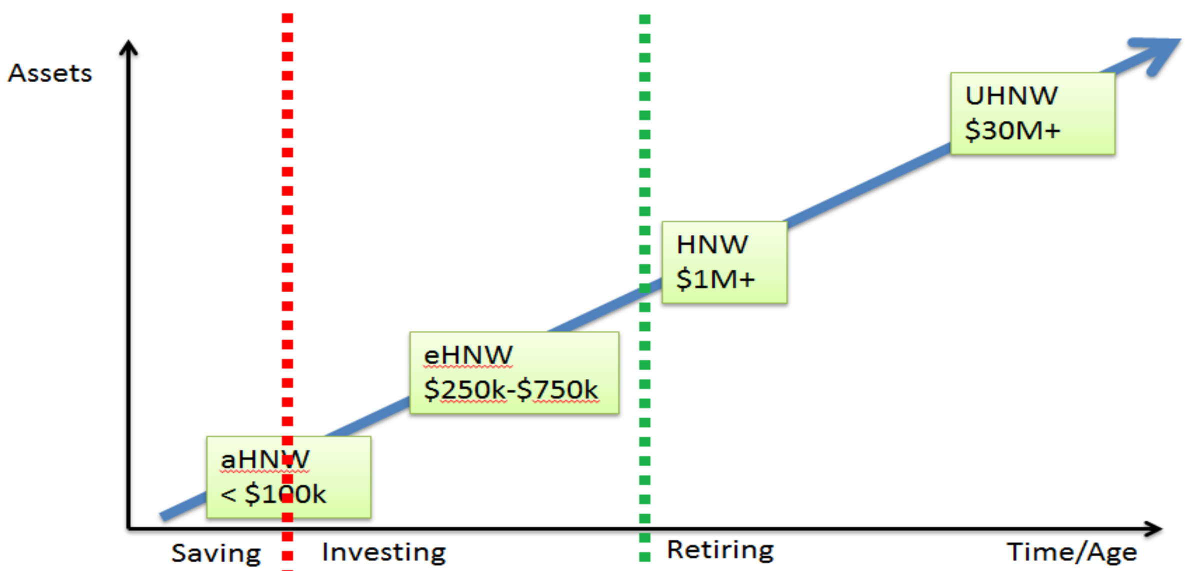
Removing of Embedded Commission enhances the Canadian Investors' Liquidity. And Liquidity is good for Best Outcomes.

I know it is scary for the Mutual Fund industry to accept the removal of Embedded Commissions, change always is.

And that reminds me of this visual.

Do you know what this chart is? To me, it looks like nothing moves in a straight line and within the up-sloping Trendline there are Ups & Downs along the way. I'll give you a hint, it's almost a 20 year period, of an Index, that is near and dear to Canadians' hearts ♥. It shows there are times to Buy and times to Sell, and there was also a 10 year flat period as well. And this is on the Home Page of www.TrustedWealthProfessionals.com as well. Do you know the Index?

There have been ill-advised wording changes recently by the Mutual Fund industry, one of them is 'Investment Funds' replacing 'Mutual Funds' (it really means Beep-generating Funds). It reminds me of conversations I've had in the Pension marketplace about people who will 'Say Anything' to get Beeps for AUM (Assets Under Management). At some point Canadian's will transition from Saving to Investing. And then at a later point, they'll move from Investing to Retiring. As they traverse these 3 stages, they'll need Growth, Growth+Income and finally Income from their assets. I've arbitrarily depicted this below, in the HNW Spectrum graph I portrayed earlier in The Beep Brief.



And Canadians' can't keep losing Beeps to the Sales Channel. Beep Preservation is paramount as Canadians will need to keep in mind these 2 emerging facts:

1. The Government cannot look after you, to your current standard of living.
2. You'll need more money/assets than you think. Whether it is because you're living longer, or inflation, or whatever. You'll need more money/assets.

So the opportunity exists now to Rule Your Wealth.

And I don't agree in its entirety with the argument that Canadians need to become savvier with respect to their financial choices. <u>The Wealth industry has to be presented to Canadian Investors in such a way that the correct Choices, and Best Outcomes, are the default settings</u>.

If you consider a food supermarket, any one of the larger chains will do. You walk in with cash (or a debit card) but no credit card, and in any aisle there are all the products side-by-side, with Nutrition labels (albeit still confusing). Your health choices have now been narrowed down for you. So have your spending limitations. Gasoline prices are generally 'displayed' so as to be seen from a distance. Store flyers, online or in a newspaper, are everywhere; there are specials, there are sales. But in the Financial Services sector, the overall Wealth industry, there still is mystery, hidden costs/fees, a non-transparent Embeddedness, that does not serve the Canadian consumer/investor. This leads to Beep Profiteering. And it creates sub-optimal outcomes for Canadians overall.

Canadians' need Investing Liquidity. They need Fair Choice. They can't deal with all the Schemes and Billing Systems. They need Advice, real proper Advice. Without Conflicts of Interest. At present, en mass, Canadians have the Wild Wild West of Products & Fees, with no real Service or Advice defined. The last I heard was 23,000 Advisors, with over 20,000 securities, creates a mind boggling array of investing Permutations and Combinations. Note: I just saw 120,000 'Advisors' mentioned in a CBC article on Sales Practices at Big Banks.

Ironically, the CSA has an opportunity to provide Leadership to this plethora of Choice + Customization by making the default option the Best Possible Outcome (see Solution #1).

But as an industry-whole, the Mutual Fund Fees can be formulized to be:

  No investment Advice
+ Various levels of Service/Statements
+ Embedded Fees/Commissions
+ None-to-Great levels of FinPlan (Financial Planning)
<u>+ MFL (Minimal Financial Licensing)</u>
= Commissions Scheme

Don’t let the Advice BS (Big Story) fool you, Embedded Commissions, in the overall Wealth Industry, Financial Industry, the Insurance Industry, etc … are not in the Canadian investor’s best interest. Embedded Commissions affect Liquidity, and the denial of Liquidity affects overall Best Outcomes; evidenced by Wealth/Asset performance. Embedded Commissions does not equate to Advice.

Thank you again for your time and consideration when reading this Beep Brief. I do have enough material for the second phase of the Beep Brief, but that is for another day.

I’ll get on to the Solutions now.

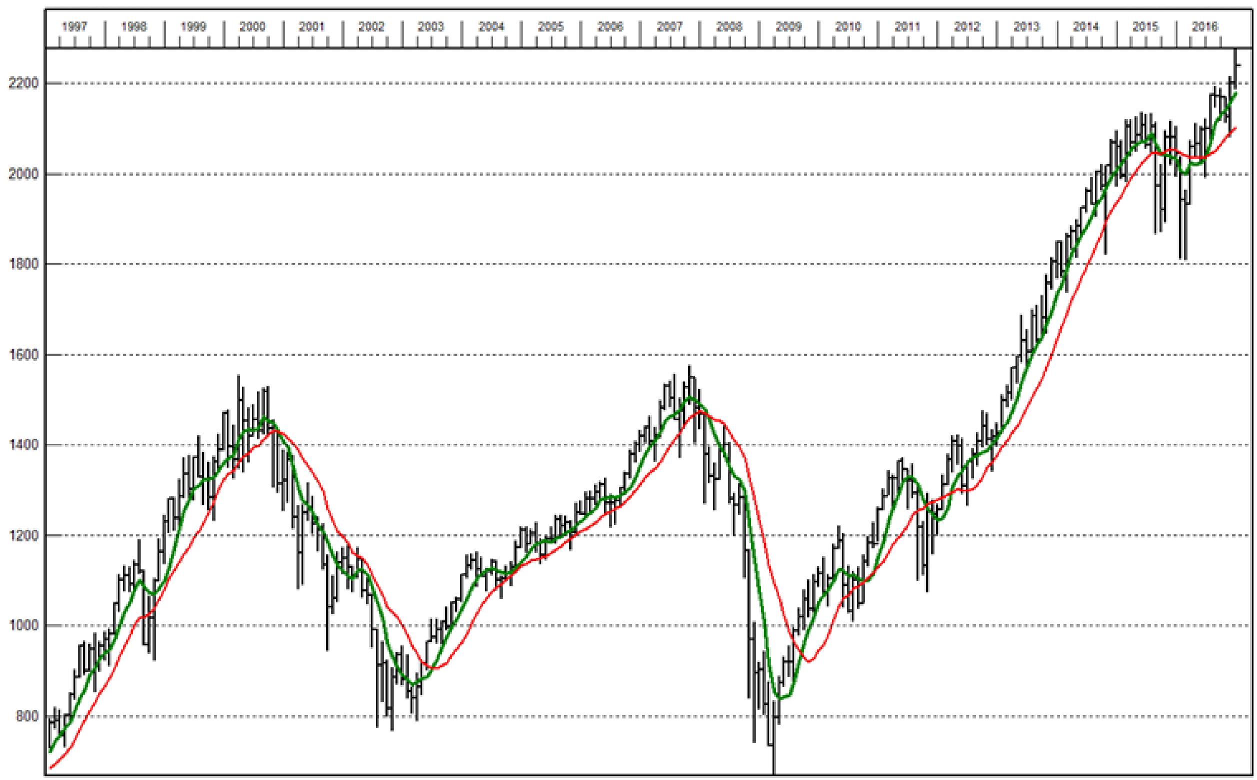
And thank you again for your time.

Solutions – Before the Crystal Ball

Solution 1 – Must see IIROC Advisor in order to receive CPP and/or OAS

One Bear market, will diminish Canadians Wealth drastically. And stress all levels of Government. The quasi-Bear market could be a return to the 'norm' slowly over the next 5-10 years; that's stagflation. And again, stress levels of Government.

Was the Mutual Funds Sales Person's Advice, or Mutual Fund company's Advice, ever to get out of the market? Do they really want Canadians to participate fully in a 54% decline; last evidenced between 2007-09? Or a Dot-Com rise into a decline of 49% during the Dot-Bomb?

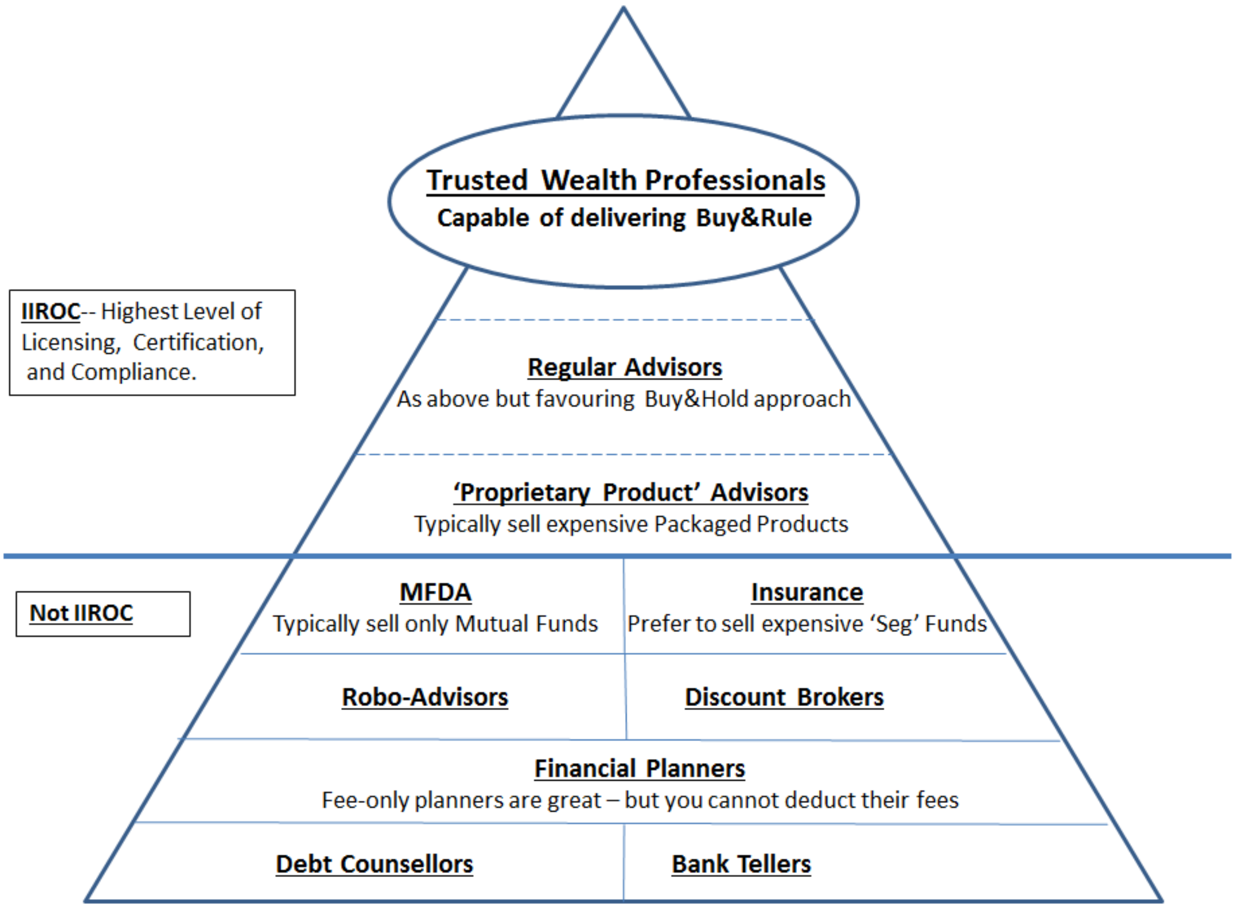


I'm not fear mongering, I'm just illustrating history. In the chart above, over the last 20 years, there have been two major Bear markets. The market moves in Bulls and Bears. It goes up and down. It doesn't move in straight lines.

A new law/regulation is coming. Mandated by the Government.

If you're entitled, and you want your CPP, and OAS, you must go see a full-service IIROC life-licenced non-proprietary investment advisor. Every 2 years. Starting at age 55, maybe age 45, or when your investible assets (across all accounts), surpasses $100,000.

Note: Average 'book' for an IIROC advisor is $150M across 150 'families', so $1M per account. This is the type of advice/service that we want to connect with Canadian investors.



Note: TWP Triangle explained in Solution2

OK, bold and new and innovative thinking, Yes. Scary to a lot of industry participants at present, YES. But if you have an emissions check on your car every 2 years, and a principal residence designation now on your tax return, etc ... it's an easy extension. The government, so that is Justin, Bill and Stephen on a Federal level and Kathleen plus Charles on the Ontario Provincial level, mandate that you must signoff on a bonafide visit/consultation with someone that can open your eyes to all the investment products and services. And perhaps all the investment styles. And Fees aussi.

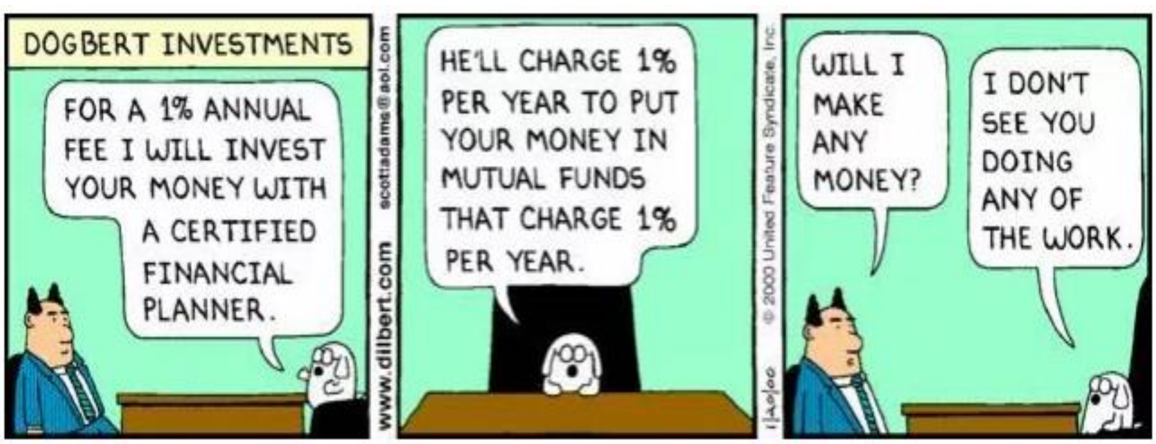
Re-Cap: If you want/need your CPP + OAS go see a Trusted Wealth Professional (TWP). A full-service IIROC life-licensed investment advisor. Not MFDA. Not insurance. Not a Financial planner. Not a Debt Counsellor. And not anyone from your bank (ie. Teller).. And not a wannabe 'bad' Full-Service advisor (who jiggles or trades on Mutual Funds based on the sway of a free lunch from a Mutual Fund company). But rather a true TWP who can practice capital preservation and understands the usage of Tactical Asset Allocation. A true TWP who can go 100% cash (or equivalents, termed 'Cash/E') if the investments + market dictate so. I can sit in

100% cash/E in my accounts – can you? The next best option is to slide to the safety-end of your IPS ranges (ie. 10% equity if the range is 10% to 60%). An Investment style of Buy&Rule ® inherently includes the needed 'flexibility' and appropriate Licensing.

Why? We are increasingly every day so much more dependent upon the government to look after us. It's astounding. And despite a few great ideas I have to change this dependency, I can't cut this umbilical cord. But the Government, at all levels, needs to make sure that we Canadians grow up and can look after ourselves. And we can't do it ourselves with the Up-Selling, Cross-Selling, Locked-In Products (proprietary or not), and Beep-based schemes within the overall Wealth/Financial sectors.

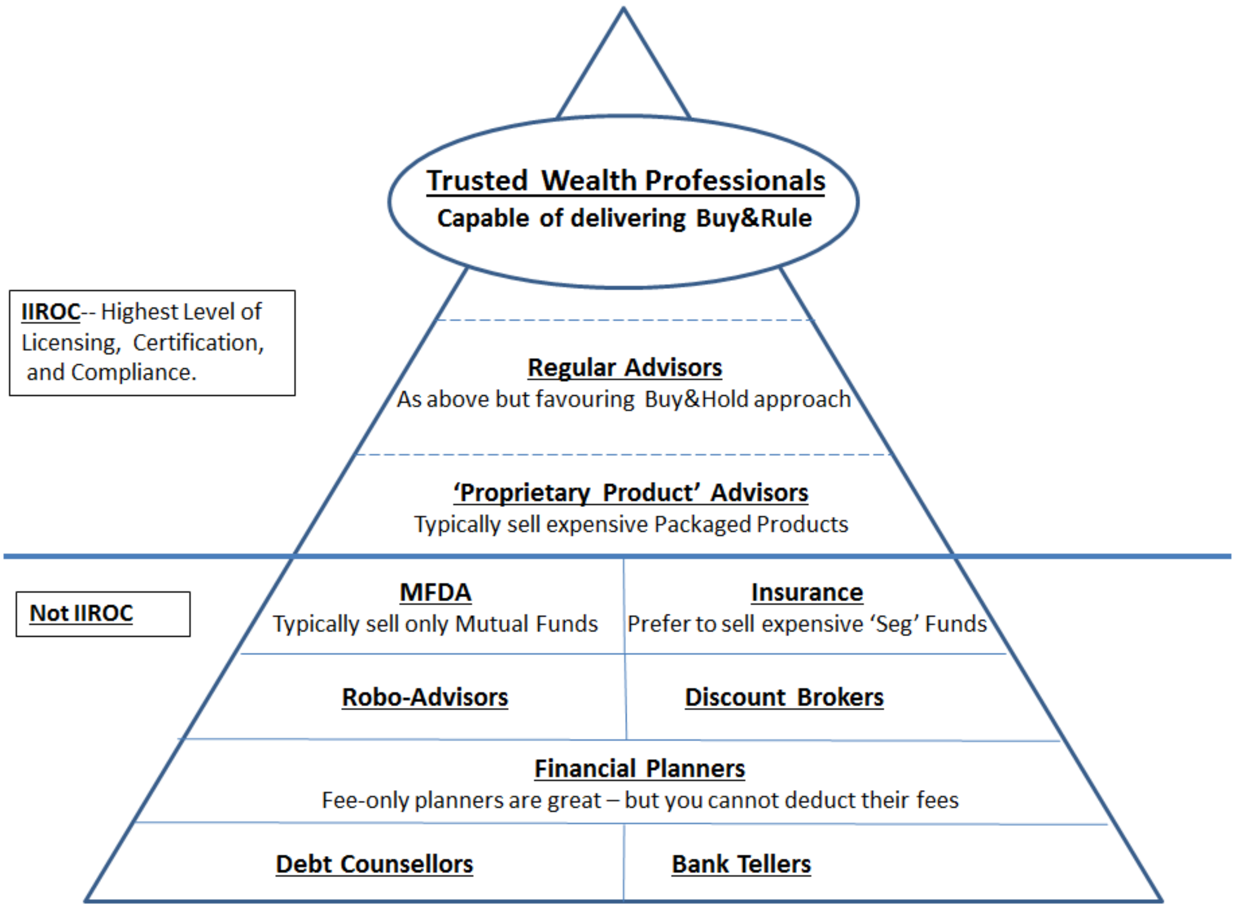
If a bank owns a full service brokerage firm, then minimums should be set for mandatory in-house referrals; from the banks themselves, their insurance arms, bank-owned discount brokers, Robo's they own, etc … to full-service brokerage IIROC-licensed firm they own. As an aside, I've been told by the smaller IIROC firms, that this is where they 'pick off' the majority of their clients/assets. Banks with Tellers are far from well versed to deal with a small independent IIROC professional firm. Holding AUM at the bank branch is a short-term asset-grab as the bank will lose the AUM to their small IIROC firm competition (eventually).

<u>Solution1a</u>: if you don't meet the criteria for Solution 1 above, then you probably should visit with a Debt Counsellor, if appropriate, and also stop financial institutions from growing the Canadian individual's debt levels as well. Why give a new credit card, or HELOC, to someone who already can't make monthly payments, or is within $200/month from declaring bankruptcy.



Solution2 – Beep Ban

Just in case your eyes move towards the diagram below, I'll say it again, ban Beeps for non-IIROC licensed Sales Channels (or similar regulations). And this is a direct Sales Person connection, not one IIROC licensed person in your firm, in a city far far away, and/or a non-IIROC Sales Person dealing with the Canadian investor.



The diagram above is self-serving for Trusted Wealth Professionals. I know there are many other categorizations of 'Advisors', but from the Canadian investors standpoint, from those that have $10,000 (aHNW, aspiring High Net Worth), and through to the $250,000 level (eHNW, emerging High Net Worth), this is a sufficient distinction. The HNW already know who a trusted wealth professional is.

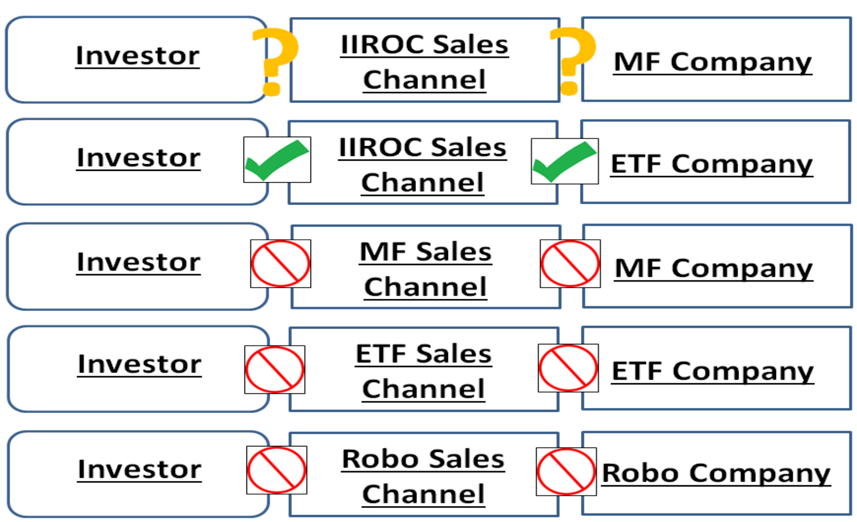
And perhaps with an admittance of the overuse of the word 'Beep' in the Beep Brief, I'll admit that, but the Embedded Beep Scheme has led to greater scrutiny of the Mutual Fund Sales Practices.

So, what would a Beep Ban look like? Essentially, you can't share Beeps amongst multiple parties and you need to do 'work' for your Beeps. You can term 'work' as Advice or Service, but I'll re-mention that your 'work' must be that of an IIROC advisors. And yes, there are IIROC advisors who only do the 'work' of the MFDA Mutual Fund-licensed Sales Person (but I can't provide that detail in this Beep Brief, but it is sad that there are 'Bad' IIROC Advisors).

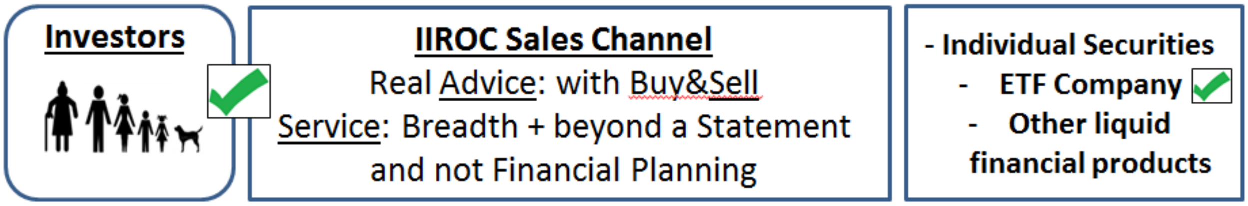
Beep Ban

1. Don't allow Beep pricing for non-IIROC advisors. Ban Beeps for the MFL; Minimal Financial Licensing (ie. MFDA, Insurance, etc …).
2. Don't allow Beep pricing for Insurance wrapped investments.
3. Don't allow Beep pricing for any entity/advisor that doesn't Buy&Sell themselves. If they are just a middle-person, flat bonus compensation systems will suffice.
4. Ban Beeps for any type of Sales Channel and Ban Beeps for WealthCo's where Accountants, Actuaries, Lawyers, Fee-Only Planners, etc … try and receive Beeps from the HNW clientele. There will be emerging Wealth Companies (WealthCo's) that will create pricing structures to extract the most amount of money from their clientele, and some of this will avoid the Fee scrutiny of CRM ½ . The first instance of this is Financial Planners (including Fee-Only) and Accountants, referring HNW clients to mutual fund firms and participating in the Mutual Fund Beeps. And this is starting to emerge in the Robo marketplace as well. The same referral arrangement exists in the Insurance marketplace (but you need certain licensing for legitimate referrals).
5. Only 1 Beep-biller per aHNW, eHNW, HNW and UHNW unless you have the requisite Licensing/Service/Advice. And any Beep sharing must be disclosed in writing (Beep referrals, Beep splits, etc …) and additional waivers signed showcasing the nominal and percentage amounts per annum.

Just a simple way of illustrating the Beep Ban is portrayed below. But let's not forget about the Canadian investor and the Investments + Liquidity.



It might be better to look at 'OK Beeps' with this diagram



Advisors who flip Mutual Funds, or Advisors who charge more mutual funds in a Fee-based account, should would be excluded from receiving Beeps. Please see Addendum 1; the beginnings of a Bad Advisor Blog.

"The weakest kind of referral, of course, is the lead capture"

You shouldn't be receiving Beeps for passing along someone's name. Or a similar weak effort.

Solution3 – No Insurance + Investment mixing/wrapping

Don't allow the mixing of Insurance with Investments (ie. Seg funds). Don't allow insurance 'wrappers' around Robo's offerings or offerings from other investment companies (for the purpose of minimizing regulation). Or delaying the removal of Embedded Fees until the second half of CRM ½, or CRM3 for the insurance industry in 2018-19, is delivered.

Solution3a – Seg Fund's have an 'advantage' as Investments bypass Probate tax. If the CRA and related interested parties (Justin, Bill, Stephen, Kathleen, Charles) care about tax revenue, they'll address the arbitrage advantage of Seg Funds, and the $15 tax per $1000 assets (please do not use 1.5%, people can't do 'percentage' math). Take away the Advantage, so you can't wrap Investments with insurance, and purposely avoid paying tax. This could be a great revenue source for the CRA. Keep in mind that Canadians are living longer, so more fees are generated by these Seg Funds and greater Nest-Egg's are accumulated. Why allow an Investment to bypass Probate?

Solution3b – Make Seg Funds, for those Canadian investors' that really need them, based on ETFs only (no manager turnover, cheaper, etc …). So you'd have Seg ETFs. Possibly look at Target-Date ETFs as well (no holding underlying mutual funds).

It might be easier to discontinue Seg Funds.

Solution4 – Benefit Plans
Corporate Benefit Plans ie. For example, your employer matches your 3% with 3% of their own. No more Mutual Funds; need go to ETFs. Separate the investing via RRSP/Retirement-Plan, from your Dental/Vision plan (generally offered by an Insurance Company). And provide Liquidity by being able to transfer (perhaps 1x/year, or 2x/year, automatic (?), to a Full-Service IIROC, Discount, or Robo). Make it easy for this to happen, perhaps mandatory.

Solution5 – Define Advice (in a clear and differentiated manner)
This is a joke I thought of:

KNOCK KNOCK
"Who's there?"
"Mutual Fund Sales Person"
"I thought you guys only KNOCKed once a year… when it was RRSP season?

The sad thing is that most Mutual Fund Sales People only call 1x/year, about mid-February timeframe, to ask for more RRSP dollars. And they call this Service/Advice. ☹

The opportunity exits to define Advice. And Advice Tiering. Plus define Service. Advice is not a Financial Plan. There has to be an aspect of a 'Sell' (IMHO; in my humble opinion). And transacted themselves by the 'Advisor'. Buy&Hold is not Advice, nor Service. And this needs to be Standardized across the entire industry. Plus approved by the CSA/OSC and the CRA. It may be that non-IIROC companies/Advisors will never be providing Advice.

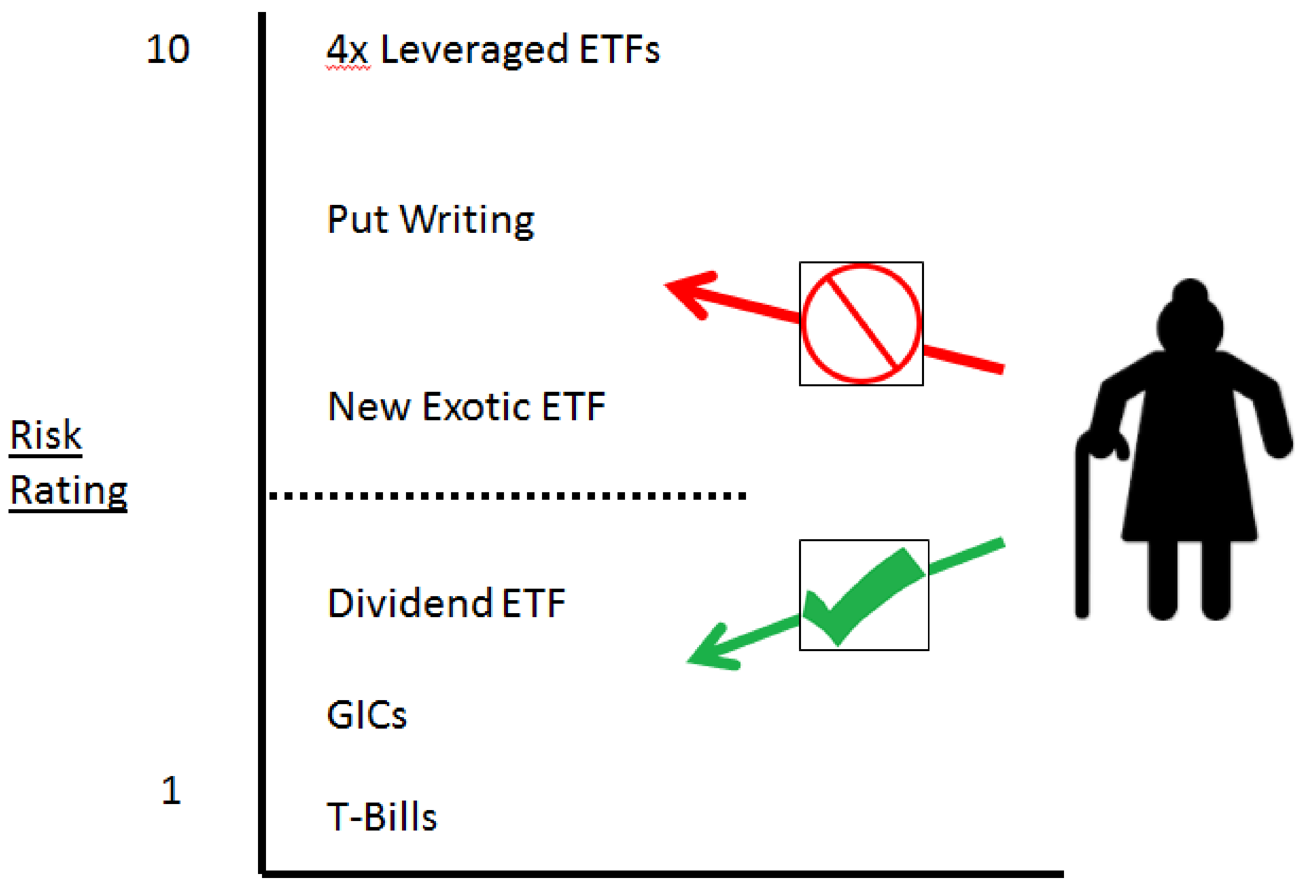
	FinPlan$ & Description (nondeduct)	Commission$ & Description (nondeduct)	Service$ & Description (CSA apprv.)	Advice$ & Description (CSA apprv.)	Other$& Description (CSA apprv.)
$0 to $10,000					
$10,001 to $50,000					
$50,001 to $100,000					
$100,001 to $250,000					
$250,001 to $500,000					
$500,000 to $1,000,000					

Solution6 – Security/Product Risk Ratings

There should be Tiered Risk Ratings for Products. And for Tiered Risk ratings for Seniors, you can't cross the line (see image below). And if you can't BackTest the product through an entire market cycle (so Mid-2007 was last Peak), and if it didn't exist through this time period either, then it is too risky (high risk rating or non-rated; sign an additional waiver if you want this).

If the Mutual Fund doesn't create an 'S' class fund for Seniors, and an 'M' class for Millennials, then they might as well be in invested in ETFs. Actually I don't think either of these will occur (maybe I'm wrong), so perhaps you should just invest in ETFs regardless.

But I read a good point that Seniors that shouldn't be in Mutual Funds because they've already paid high fees their entire investing life. So, if no 'S'-class Mutual Funds, go to ETFs.



If you happen to examine the Judgements from the Complaint process, that are in the press, you'll often understand that Canadian Investors' being placed into an inappropriate/risky product is prevalent more than 50% of the time.

Solution7 – Standardized AUM Grid

Need standardized industry-wide GRID for AUM-levels – so, $0-$250k, $251k-$500k, etc … Or whatever levels are chosen to discern smaller accounts and then larger accounts. This is just an example below. Every financial institution has to use the exact same ranges.

$0 to $10,000
$10,001 to $50,000
$50,001 to $100,000
$100,001 to $250,000
$250,001 to $500,000
$500,000 to $1,000,000

Solution8 – Standardized Investor Fee Interface

I don't think the Regulators should get into the 'bedroom' of Sales Management. Me: I've been on the Sales side of Hi-Tech solutions for 30+ years. I've been a quota-bearing sales representative for over 10 years and also consulted in this regard for the last 15 years. The complexity within the compensation plans at major hi-tech firms (e. Nortel, Oracle, Microsoft, etc ...) would astound you. Especially with their compensation plans for their different channel structures. Complicated and convoluted. I think the Regulators should stay out of this area, but please keep in mind that everything the Canadian investor sees as a Billing System means that there is a synonymous Compensation System for the Sales Person/Channel. This gives rise to KYCP; Know Your Comp Plan (aka. “Where do my Beeps come from”?).

But there should be an IFI, IPI or ICI – Investor Fee Interface, Investor Pricing Interface or Investor Commission Interface, just like a GUI (graphical users interface) or UI (User Interface) or UX (User Xperience). Focus here, not inside the company, but external between the Investor and the Company. Just like 13% HST in Ontario, your cost is known, it is clear and it is

1-time. And it is standardized across all retailers. What is and what isn't taxed (necessities) is known, the Mutual Fund industry thrives on the 'not known' (ie. Embedded Beeps).

Solution8a
Need consumer acceptance of **ALL** new pricing schemes; through public + industry consultation.

Solution8b
Need consumer acceptance of **ALL** new products; again through public + industry consultation. It's too difficult for the Investor to learn KYP; Know Your Product. Or, KTPWJMU; Know The Product We Just Made Up.

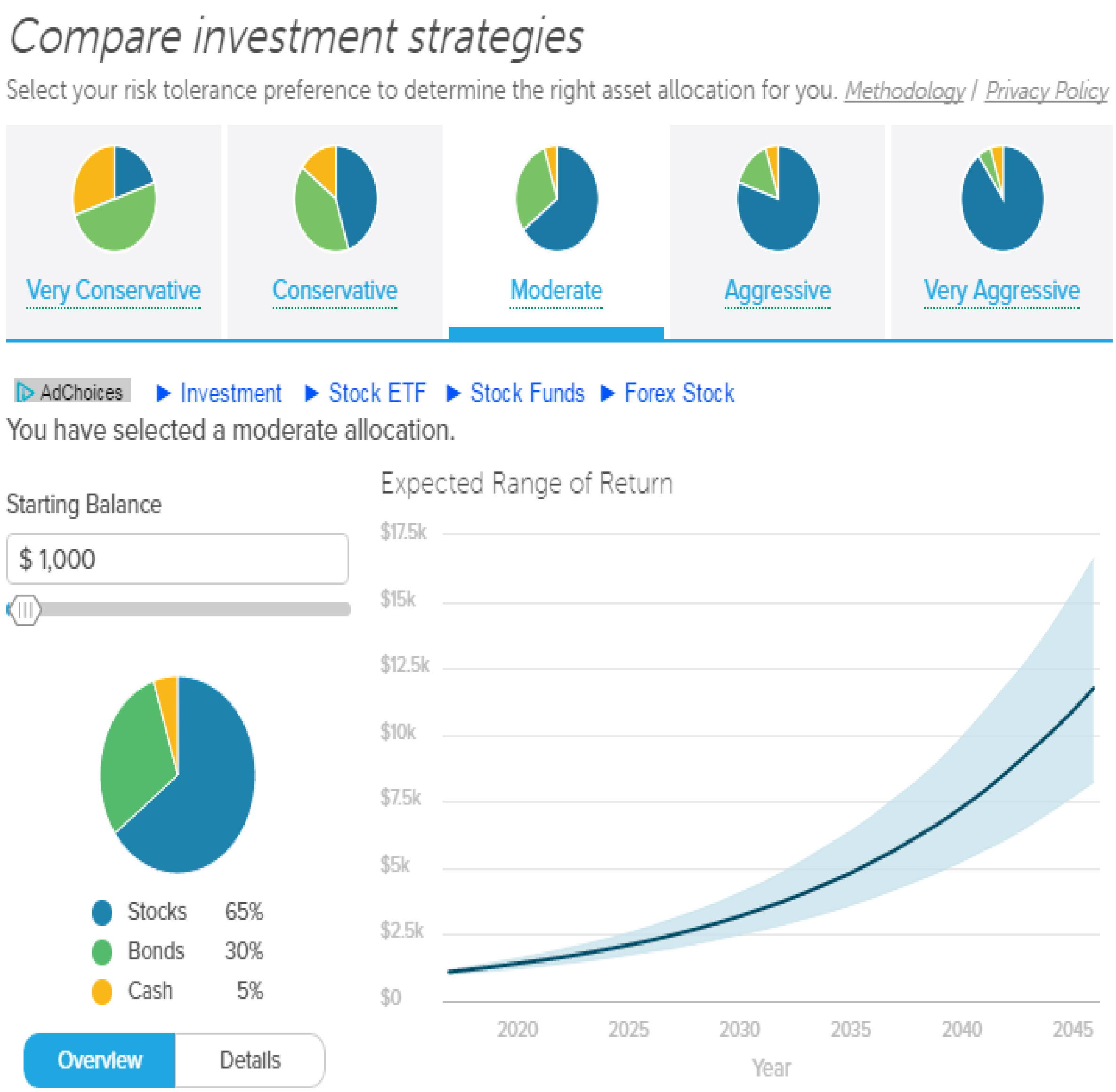
Solution9 – Lower Price is the Law
Test annually (or semi-annually) the total cost of Fee-Based vs. Commission accounts. If lower in Commission accounts, possibly move Investor to a Commission account. Or sign waiver (and state 'Why' you aren't switching). There are Pro's and Con's to this as different IIROC Advisors may not be capable of managing Commission based accounts (ie. the 'Bad' Advisor).

Solution10 – Can I have a graph please of my Asset's Performance
My personal #1 priority is the industry need graphs in statements; visuals. Robo's are winning in this regard. Ironically at Financial Models, 17 years ago, we could show a pie-chart, or any chart type, of your assets, holdings, etc … The software was Financially Intelligent. This should become mandatory as 85% (or more) of the population processes visually.

Solution11 – Risk Profiling needs a complete overall

Risk Profiling in KYC's and IPS's is horrendous IMHO (in my humble opinion). There is a great need to have actual market examples. And proposed securities/investments as well in the Risk Profiling. The KYC and IPS is done in absentia of investing ☹. And please use standardized terms.

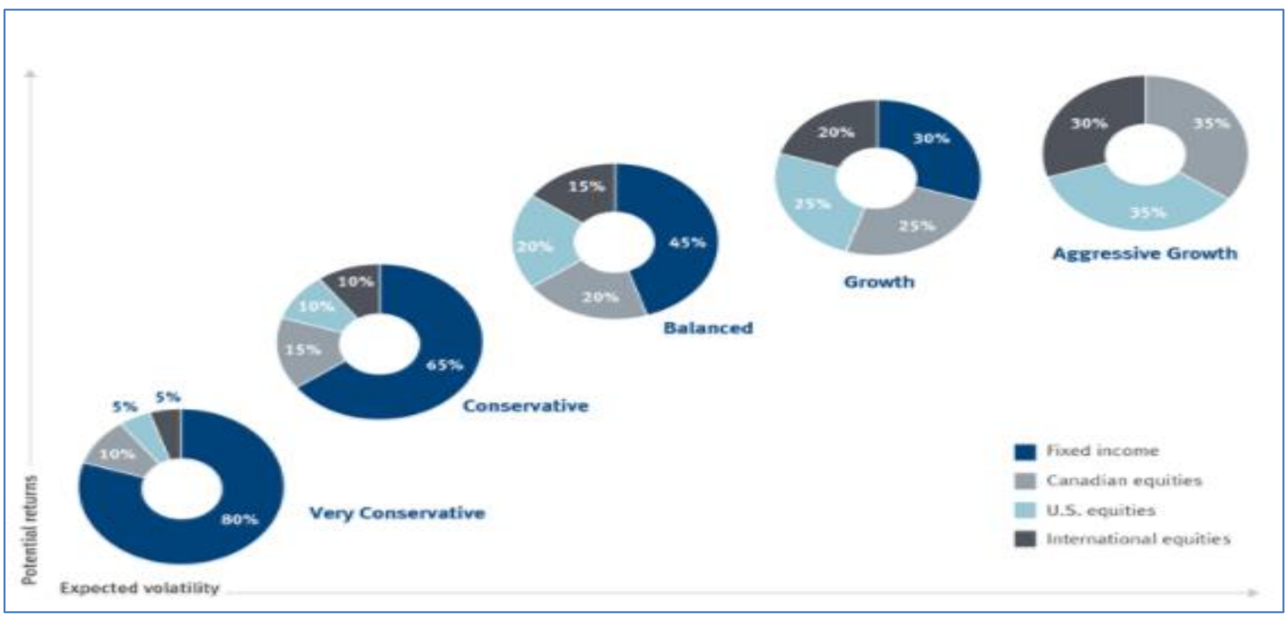
Did I tell you about my own Mystery Shopping experience? I planned on booking 'investment' conversations with 5 of the major banks. The idea, just walk into a bank branch and tell them I want to invest. I literally said that I was investing directly already but wanted to see how the branches programs with portray me and classify me with respect to 'risk'; I was after the proverbial pie-chart. I wanted to go through their Risk Profiling questionnaire.

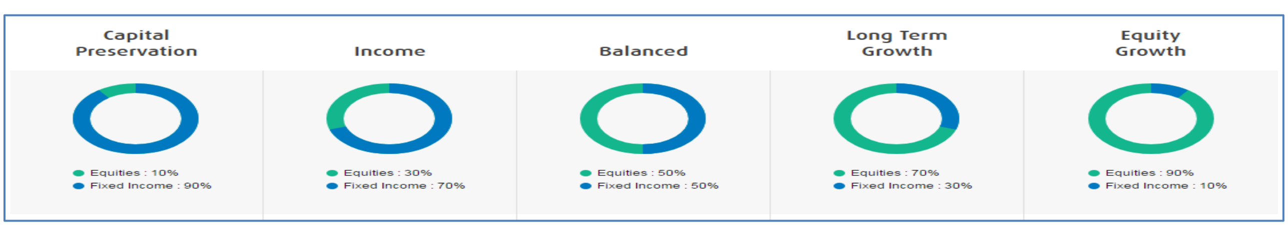


I only actually went to 2 of banks. Both turned out to be ‘product sales’. I’m OK with that, I actually expected that. The ‘sadness’ of the experience was that at one of the banks, their ‘top’ Teller, a salesperson, with a planner designation (CFP I think), asked me two times to change my ‘risk answers’, and actually did present to me the option that she was quite familiar with (the one question where she wanted me to change my answer). I was honestly flabbergasted, the lady tried to have me change my answer, and it made me think she didn’t know the talk track to the other options. It was the question somewhat worded “If you invested $100,000 and it dropped to $90,000, what do you do?” Then there were 4 multiple choice options; A, B, C and D.   I picked option C but she only knew the answer to option B ☹

<u>Solution11a</u>

The Pie-Charts need to be standardized for Canadian retail investors. There are three Pie-Chart series presented below; all with different order and naming conventions.





And actual market investment 'visuals' matter. The Primer below is an example of poorly communicating 'risk' and 'reward'; borrowed from a CIBC website. Read the words.

A Primer to Market Downturns

Be the first to write a review

All market slumps are not the same. Here is how to recognize different types, and what they mean.

If you're like many Canadians, you've been getting nervous about your investments because of the rapid up-and-down swings of the stock markets. To help you understand and cope with these market swings, let's take a look at the different types of downturns.

Declines

A decline - usually lasting a few weeks to a few months - is a short-lived sell-off by investors in reaction to some unexpected bad news. An example was the 554-point drop (a 7.2% decline) in the Dow Jones Industrial Average, one of the most closely watched indexes, in October 1997. Fears about how the weak Asian economies would affect earnings expectations in North America resulted in significant "knee-jerk" selling. Soon, however, the Dow adjusted itself, and it ended the year higher than it had started.

Corrections

When a decline approaches the 10% level over a short period of time, such as a few days, it's usually considered a correction. Corrections can be caused by significant increases in interest rates, reductions in overall economic activity, or perceived overvaluations of stocks. A severe correction can occur as a result of a particularly negative political event. For instance, the Dow fell 21.2% over a three-month period after Iraq invaded Kuwait in August 1990. Interestingly, in a study of the Dow's movement since 1900, Ned Davis Research, a financial research company, found that severe corrections are followed by "bear" markets 58% of the time.

Bear markets

A bear market is a prolonged period of declining stock values that can last a year or longer. The market is considered "bear" when stock prices fall about 20% or more and stay down. Broad economic factors, such as unfavourable interest rates and an economic slowdown, trigger a self-perpetuating spiral of selling. This is in contrast to a "bull" market, which is a prolonged period of rising stock value.

Crashes

Much less common than the above is a crash, when stock prices drop more than 10% in one or two days, resulting in severe sell-offs by scared investors. Only two crashes occurred in the last century: The first was on October 29, 1929, and the second on October 19, 1987. Usually, a crash is caused by a dramatic reversal of basic market assumptions. Although not a "crash," the financial crisis of 2008 caused the Dow's worst-ever week: Starting October 6 of that year, the index fell 18.1%.

Whether it's a brief decline or an extended bear market, you can use some simple strategies to see a downturn through. A long-term focus, combined with a well-diversified portfolio, will ensure that the bumps along the way don't derail your plan.

Read the 'spin' in the Primer above. Contrast the longevity terms; days, weeks, months, etc … Read the actual numbers and 'example' numbers. And keep in mind that 85% of people process visually.

As unfair as this will seem, but do any of the Marketing personnel have degrees/certification in financial services. Better still, are they Licensed? And I'll go one step further and say that the Compliance department approved this. ☹

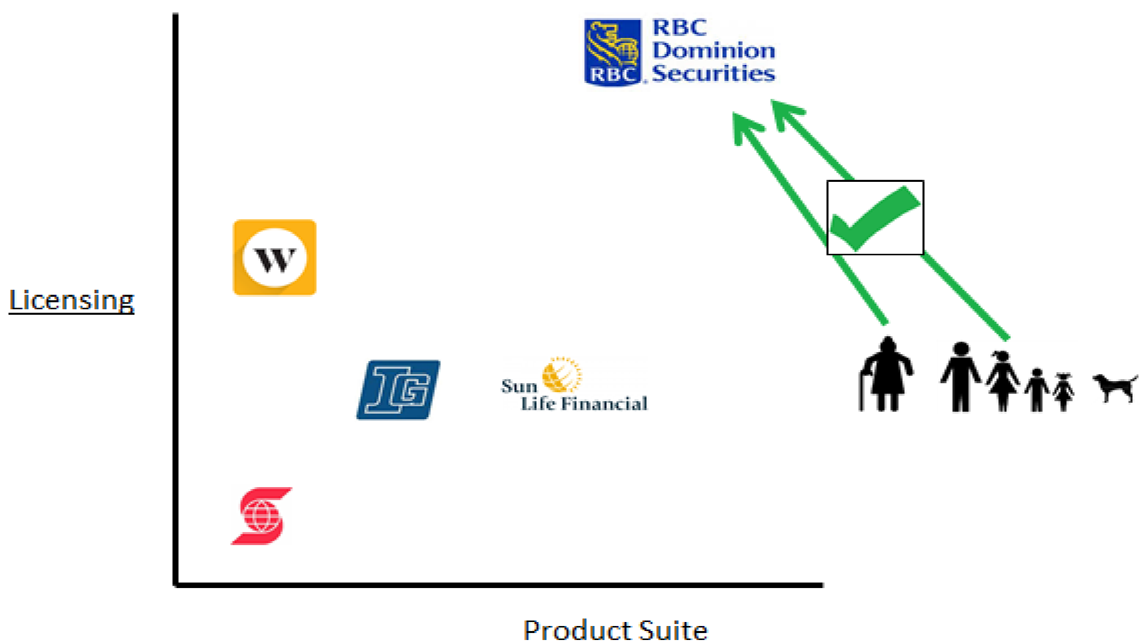
Solution12 – Make the default case the correct case.
Discount brokers selling Mutual Funds; A-Class and F-class. Possibly limit to D-class or just remove Mutual Funds from their offerings. Curtail their Product Suite offering to only ETFs. I think Discount Brokers will start branding themselves now as Ethical Compensation brokers; at present they are not doing themselves a service by collecting A-class or other Trailer fees

Solution13 – Rate the Advisors
Advisors should have a Risk Rating. 100% Yes. My Advisor makes a difference, does yours? Investment Style matters as well. Just off the top of my head:

- Your tenure in the business, in years, or your Mentor team's tenure in the Investment busines? Note: Investors Group, 4 years of experience is not 'Senior' advisor.
- Have you experienced a complete market cycle? Started pre-2007. Have you seen a period of rising interest rates. Started pre-1985?
- Can you handle a Commission based Account? Really? Even if it means less compensation to you?
- **Licensing matters**, where are you on the Licensing Ladder, at the bottom? Are you part of the MFL?

And there are a few other 'choice' questions I have to determine if an Advisor can be Trusted or not. But the Investor should also sign off on the fact that they've seen the Advisor's Report (on IIROC's website, or any other official Regulatory website).

Solution14 – Industry GRID
Should be an industry product GRID that distinguishes limited product sellers and proprietary product sellers. And it will be Cross-referenced with licensing. The starting point will be Product Suite vs. Licensing. Investor's must signoff on this.



This will show who has Minimal Financial Licensed (MFL) representatives (ie. major Canadian banks). You could also explicitly show Cross-Referencing of Licensing with Proprietary Products. Maybe there should be an Open 'Book Look' to see what Products the Wealth Companies are actually selling; in other words, make it easy for the public to identify you as a Proprietary Product Seller. It be great also to cross reference this with performance over a complete market cycle. Hmmmm.

True Story – I actually heard my bank branch representative tell a client that the Brokerage firm "charges commissions". It was delivered in a Do-Not-Visit-Them tone. Sad ☹.

Sessions 8 and 9 of the Canadian Investors' Course on the Trusted Wealth Professionals website are as impartial and fact-based as can possible be. But it may be that Canadians need a bit of Leadership. And yes, this will come across as extremely self-serving, but in today's society where we are so enamoured by the Wealthy Celebrity, sports player, music artist, etc … why not showcase the Advisors that serve the wealthy?

See **Crystal Ball** in the following section on how this can be addressed.

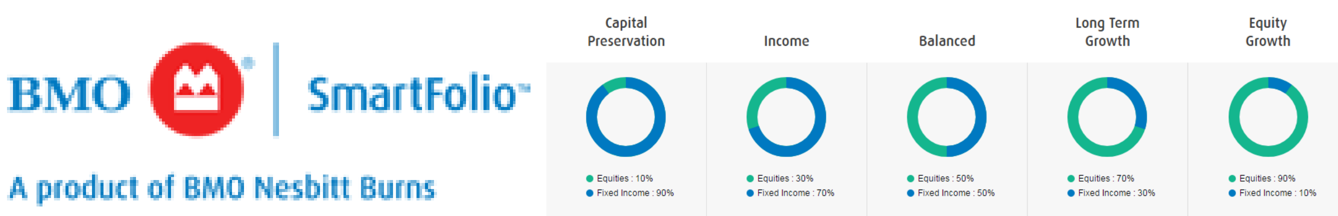
Solution14a
There should be a Menu of Products, for any particular category, a product GRID per se. This GRID would show all products with their total cost (total cost, not partial cost like CRM ½ or how the Banks are portraying their Services these – see Solution 15). Like a restaurant menu; you should see low priced entrees, medium priced entrees and the most expensive entrees. And/Or it should be signed-off on by the firm's management. Note: the GRID could look a paint-chip-strip as well.

<u>Maybe 3 Investment Options always need to be presented</u>; Low, Medium and High Priced.

Why? There are almost 3000 stocks on the NYSE, and 22,000 mutual funds (OK, there are a lot of duplicates, with A-Class, F-Class, D-Class, etc ..)

Horizons S&P/TSX 60 Index ETF charges 0.03% at present; 0.07% after September. Vanguard and Blackrock have similar priced ETF products that equate to Closet-Indexed Canadian Equity Funds (which charge a lot more). The Globe&Mail's website indicates there are over 1000 securities to participate in the Canadian Equity marketplace (way too many IMHO); 1237 to be exact at the date of me generating the following image.

Solution15 – Funds of ETF is not the same as buying ETFs
Please disallow Mutual Funds, primarily holding ETF's, and sold as 'ETFs.'; mainly by bank branches. These are really Mutual Funds, generally proprietary, with a new fee structure, the 2-Fee-Structure ☹. Innovative yes, I'm OK with that.   But no-one at the bank branch has an IIROC license. Packaging 'securities', so they can be sold by Minimal Financially Licensed 'Tellers' is not in the Best Interest of Canadians.



And you need to do math + calculations to put MER + Advisory-Fee together.

*"All ETFs have management fees and expenses (calculated as management expense ratio - MER) which are in addition to the **annual advisory fee**. The MER is embedded within the pricing of the ETFs themselves and will not appear as an expense item on your account statement(s). The MER of the ETFs held within your portfolio are anticipated to be a weighted average of 0.20% to 0.35% of the value of your SmartFolio account."*

Note: Advisory-Fee does not mean Advice.

Our fees explained

Our commitment to you
Our goal is to provide clients with full disclosure with respect to the fees and interest rates they pay for certain accounts and transactions. This page outlines the range of charges you may incur, depending on the types of accounts you hold and the transactions that occur within these accounts. Any fees charged to your accounts will be detailed on your client statements. If you require any additional information regarding your fees, please contact one of our dedicated representatives at 1-844-895-3721

In general

- Fees are charged per account unless otherwise stated
- Accounts can be grouped by household to benefit from lower pricing at higher asset balances
- Fees are subject to change
- You will receive 60 days' notice for any new or amended fee
- No commissions charges on trades

BMO SmartFolio advisory fee:
Pay one advisory fee which is calculated as a percentage of your total assets in your BMO SmartFolio account(s). The advisory fee is charged quarterly in arrears and is based on average total assets in your BMO SmartFolio account(s) during the calendar quarter.

The advisory fee covers:
- Professional portfolio management including monitoring and rebalancing
- Support from a team of dedicated representatives as you need it

The advisory fee follows a tiered-pricing schedule based on the value of your BMO SmartFolio account(s).

Minimum Quarterly Advisory Fee $15

Asset value	Annual Rate
First $100,000	0.70%
Next $150,000	0.60%
Next $250,000	0.50%
Above $500,000	0.40%

The minimum quarterly advisory fee of $15 will be waived if you deposit $250 or greater in your account during that calendar quarter. If the minimum fee is waived, the tiered advisory fee schedule above will apply.

All ETFs have management fees and expenses (calculated as management expense ratio - MER) which are in addition to the annual advisory fee.

The MER is embedded within the pricing of the ETFs themselves and will not appear as an expense item on your account statement(s). The MER of the ETFs held within your portfolio are anticipated to be a weighted average of 0.20% to 0.35% of the value of your SmartFolio account.

For more information about the management fees paid by the ETFs in each ETF portfolio, please speak to one of our representatives at 1-844-895-3721.

Other account fees
Other fees apply for the administrative requests detailed below:

- Transfer-out of a Non-Registered or Registered Account, Full and partial: $135 per account
- Partial withdrawal of a Registered Account (excluding TFSA): $25 per request
- Full Deregistration of a Registered Account (excluding TFSA): $100 per account
- Cheque requests: $10 per request
- Paper statement requests: $5 per statement

Interest rates
Interest on a credit balance in your account is subject to change without notice, may vary according to the size of the balance and may be subject to minimums, as described more fully in the BMO SmartFolio Investment Management Agreement. Interest is not paid if the amount accrued is less than $5 per month. BMO Nesbitt Burns may earn revenue from the use of cash credit balances.

Foreign currency conversion
BMO Nesbitt Burns will act as principal for foreign currency conversions in your account unless otherwise disclosed. When a transaction requires the conversion of currency, BMO Nesbitt Burns will convert the currency at rates established or determined by BMO Nesbitt Burns or related parties. Exchange rates are subject to change without notice and may vary according to the market, type of currency in which the trade is transacted, and the value of the gross amount of the trade. In addition to the commission or other fees applicable to the transaction, BMO SmartFolio or parties related to us will earn spread revenue up to 1.5% from a foreign currency conversion.

Closing fees
You will be required to pay any accrued unpaid advisory fees up to the date of closing. These fees are subject to GST, QST, and/or HST where applicable.

You will be charged for any sales, use, goods and services, harmonized sales, value added, and transaction taxes which are incurred by or that may be charged to either you, BMO Nesbitt Burns or both (whether jointly or severally) by any governmental authority in any jurisdiction as a result of transactions in your account.

Try and add these two Fees together

The MER of the ETFs held within your portfolio are anticipated to be a weighted average of 0.20% to 0.35% of the value of your SmartFolio account."

Asset value	Annual Rate
First $100,000	0.70%
Next $150,000	0.60%
Next $250,000	0.50%
Above $500,000	0.40%

I know the Jeopardy champions can't do it; have you noticed they always 'miss' the math questions?

Solution16 – Transparency

Transparency of MF's/ETF's. Maybe not so much ETFs, but what are Mutual Fund's holding for 89 days before they 'window dress' their portfolios at quarter? Are they holding Valeant for 89 days to see if it pops? If we're dealing with Embedded Commissions, I think we'll soon be dealing with Embedded Securities and Positions. It might be high TERs (Trading Expense Ratios) that shines light on this 'dark' area.

Solution16a

There should be a 'PP' designation on Proprietary Funds/ETFs/Products. Meaning that the investor understands this may ultimately deny liquidity; or hurt returns if sold/transferred. But I know this will get 'spun' into a 'positive', that's OK. In essence, start disclosing the reason 'why' proprietary products are more appropriate to the client's objectives, constraints, risk profile than products from other third parties (available from the advisor). Or ensure the investor has 3 or 4 choices (across a price range and possibly Proprietary).

Solution17 – Wealth Industry Marketing

Limited Financial Services + Wealth Marketing. I read an article once, that described it was useless for banks to market as the 5-6% churn was unavoidable, and inevitable, and the only new business was immigrants. It was a study, as part of an advertisement, from a Big Consulting firm (could have been Deloitte or Accenture or KPMG or IBM), published in the Globe&Mail or National Post. It might have been a Big Data story. I just can't find it now (and I've tried) but I fullly acknowledge that the other side of the coin is that FinTech startups are the real threat, so 'Big Bank' and 'Big Insurance' Marketing, as bloated as it seems, might actually be effective to holding churn at 5-6%. But if we experience a Bear market, watch out for Regulation in this area. Wealth Industry marketing will start to track that of the Cigarette industry; Embedded Commissions are bad for Your Health. And too much Wealth Marketing will be scrutinized.

Solution19 – Mutual Fund Fees

Personally I'd love to see an indepth review of Mutual Fund fees; specifically, are they correct? Are they shown in conjunction with the TERs? Perhaps reported more frequently (daily on a website, maybe detailing the NAV calculation). I could be wrong, but the multiplicative and accumulative aspects of withdrawing 1/250th of a fee daily still makes me wonder if Mutual Fund investors are paying too much (ie. Is the Mutual Fund industry displaying linear math … but Mutual Fund investors are paying accumulative math?!?!).

Afterall, you don't get a receipt when the MER is deducted from your Investments everyday ☹.

Note: This may be a repeat, but with my trusted wealth professional, full-service IIROC, I pay every 90 days for my Taxable, RRSP and TFSA accounts. It is based on average asset value and this is the last calendar year I'll be able to pay for my TFSA and RRSP externally. But I pay every 90 days. In arrears. And I get a statement. And I can see my accounts online and I can talk to someone about it (my Trusted Wealth Professional).

<u>Solution20 – 'Lower Fees Should be the Law'</u>
(A quasi Repeat of Solution 9). Fee-Based Accounts with IIROC advisors shouldn't be higher than if you invested in Mutual Funds directly, so the Total Account Fee, that includes an F-Class fund should be examined in context of the A-class Mutual Fund fee. If you're paying more in Total overall Fees, although it could be for an exotic Mutual Fund, you should signoff on a separate waiver. Or just get an ETF. Better still, buy the individual securities. There are multiple ways to expose your portfolio to International and Emerging markets as well as new/niche sectors. Many many ways. Or maybe get a Trusted Wealth Professional.

<u>Solution21 – Account Fees</u>
My Trusted Wealth Professional has 2 different types of Fee-Based accounts; one for Growth and one primarily geared towards Income. The Income account has a restriction on Equities. This might be pervasive across the IIROC industry, I'm not sure. But there is merit here.

<u>Solution21a – Volume Discounts</u>
As your assets increase in value, at an IIROC-based firm, the Total overall Fee decreases. Every firm has their own discount schedule, but I'm in favour of standardization across the industry.

<u>Solution Summary</u>
Basically I'm advocating that the Advisor demonstrate their value; through Licensing, Service and Advice. Earn your Beeps. Do work for your clients, real Work. Stop fooling unknowledgeable Canadian Investors. I'd start with the Beep Ban and hope there isn't a social Fee revolt during the next Bear market. The Government can't afford to maintain our current lifestyle because we paid too much in Fees, or in Embedded Commissions.

The Crystal Ball -- An Epilogue and Foreshadowing

The Mutual Fund industry as a whole should look at adding new services and offerings, based on increasing their licensing and technology. I'd personally love to see a graph in my monthly statement, and access a graph online as well. And I'm OK if there are 100-1000 new IIROC firms.

But let's come back to the cries of 'Advice Gap' by the Mutual Fund industry; this is their own problem (IMHO). MFL (Minimal Financial Licensing), limited+proprietary products, and an Embedded Commissions first sales approach have created an 'Advice Gap' already. The Mutual fund industry is literally stating that, at present, they don't deliver Advice to their clientele.

Oxymoron: Mutual Fund Advice

Like Hidden/Embedded Commissions, Hidden/Embedded Advice is really Non-Existent Advice. Transparency of Advice and Service does not exist as there is no Advice + Service. See thoughts in the preceding Point #2

As in every sales based culture, the Mutual Fund Sales Channel is 'Whale Hunting', they are looking for a Mega Beeps client.

Yes, if you have $1M or $2M AUM, you're getting good/great Service and maybe Advice, but I always wonder what will happen if the market declines by 54% again. Even a 20% decline, or an average Bear market decline of 38%, will not be welcome by anyone in the Boomer age group. You can't re-gain Time, that is why you need to look at Buy&Rule ® as a method of capital preservation.

It is time for the MF industry to grow up. Their 'gravy train', a.k.a. Embedded Commissions only serves them, not their clients.

There are lots of '5 Forces' methods, Michael Porter's 5 methdology, of looking at the future of Mutual Fund industry.

1. Mutual Funds could be 'dissolved' entirely, unless Specialty Funds, otherwise Canadian Investor's will gravitate towards Robo's/Discount-Brokers and buy/utilize ETFs
2. Mutual Fund Manufacturers acquire Mutual Fund Channel (ie. GWL just bought FHG)
3. Mutual Fund Channel(s) acquire Mutual Fund Manufacturer(s); not likely
4. Investor pays directly to the Channel a full 2%; not likely to happen.

But my gut feel is that structurally, nothing will change, it is too difficult to transact M&A, but the Manufacturers' have already thrown the Sales Channel under the proverbial bus when CRM ½ required the Mutual Fund Channel's fees be shown first (while hiding their own portion of the MER for another year).

The Mutual Fund Channel is going to 'lose' in the present regulatory + consumer environment, so it needs to re-invent itself with Licensing, their own Robo's, and Service (ie. Graphs on statement). They need to go into full Beep Protection model. As there is quite a bit of 'direct' selling these days as well.

Note: I submitted a letter today to Liberal MP Wayne Easter, Chair of the Finance Committee, regarding the Hearings into the Sales practices of Canada's Big Banks. Sales Practices Canada-wide are going to be examine closely in the coming years; Insurance and Real Estate will be examined as well, anywhere the Beep Hunt is prevalent, there will be scrutiny and regulation.

And if the industry is already bloated with Sales Channel headcount (compared to UK + AUS), then not to worry; rightsizing will be welcome.

Fees, in the absence of definable Advice + Service will continually find a lower and lower point for the Sales Channel.

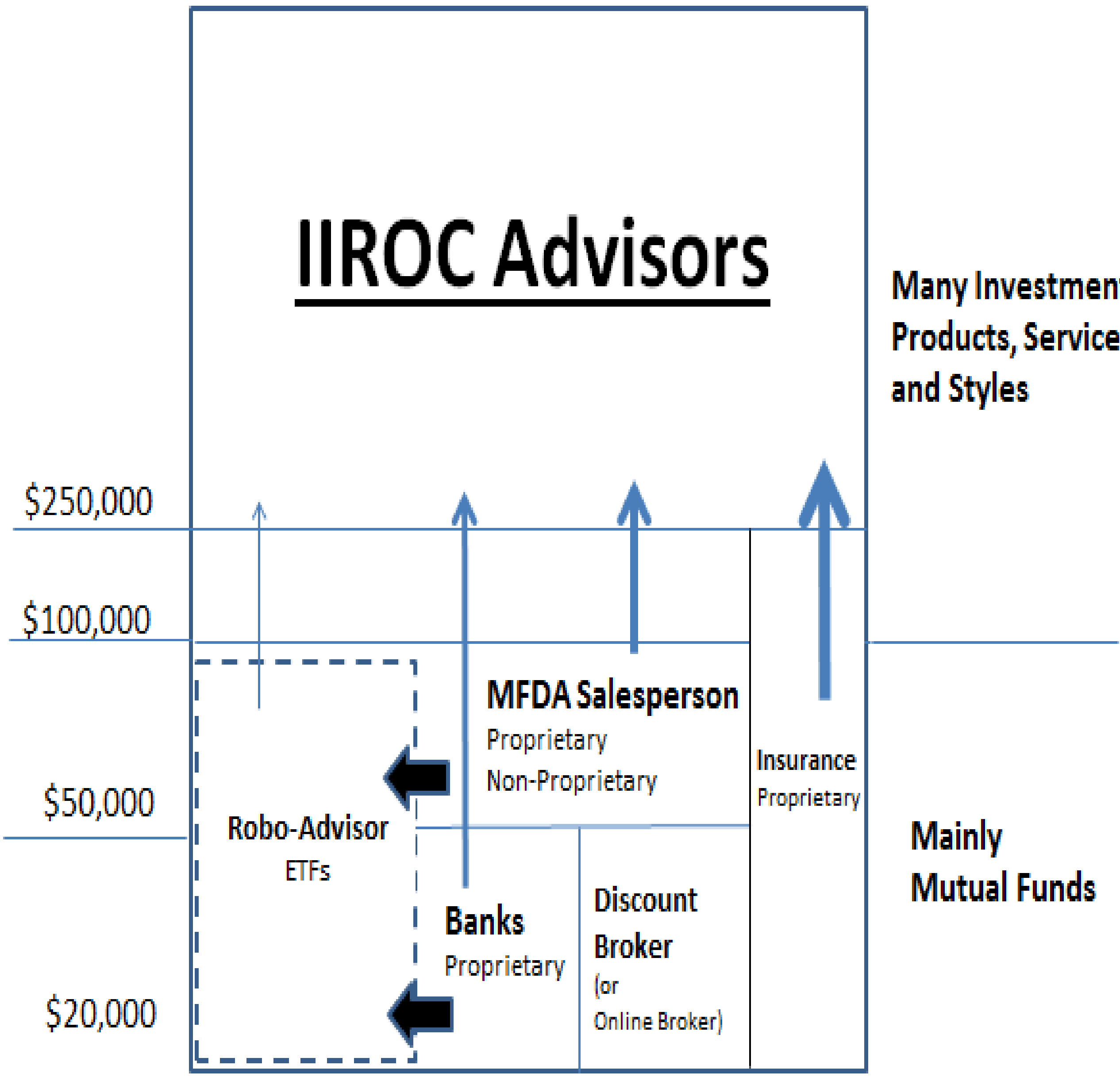
So thinking about:

1. CRM2, Fee and Performance disclosure.
2. the rise of cheaper ETFs,
3. discontinuation of Embedded Commissions,

there is a grim picture painted for the Mutual Fund industry.

And if that jab-hook-jab combination doesn't knockout the weak providers, then a Bear market will be the uppercut that finishes the job.

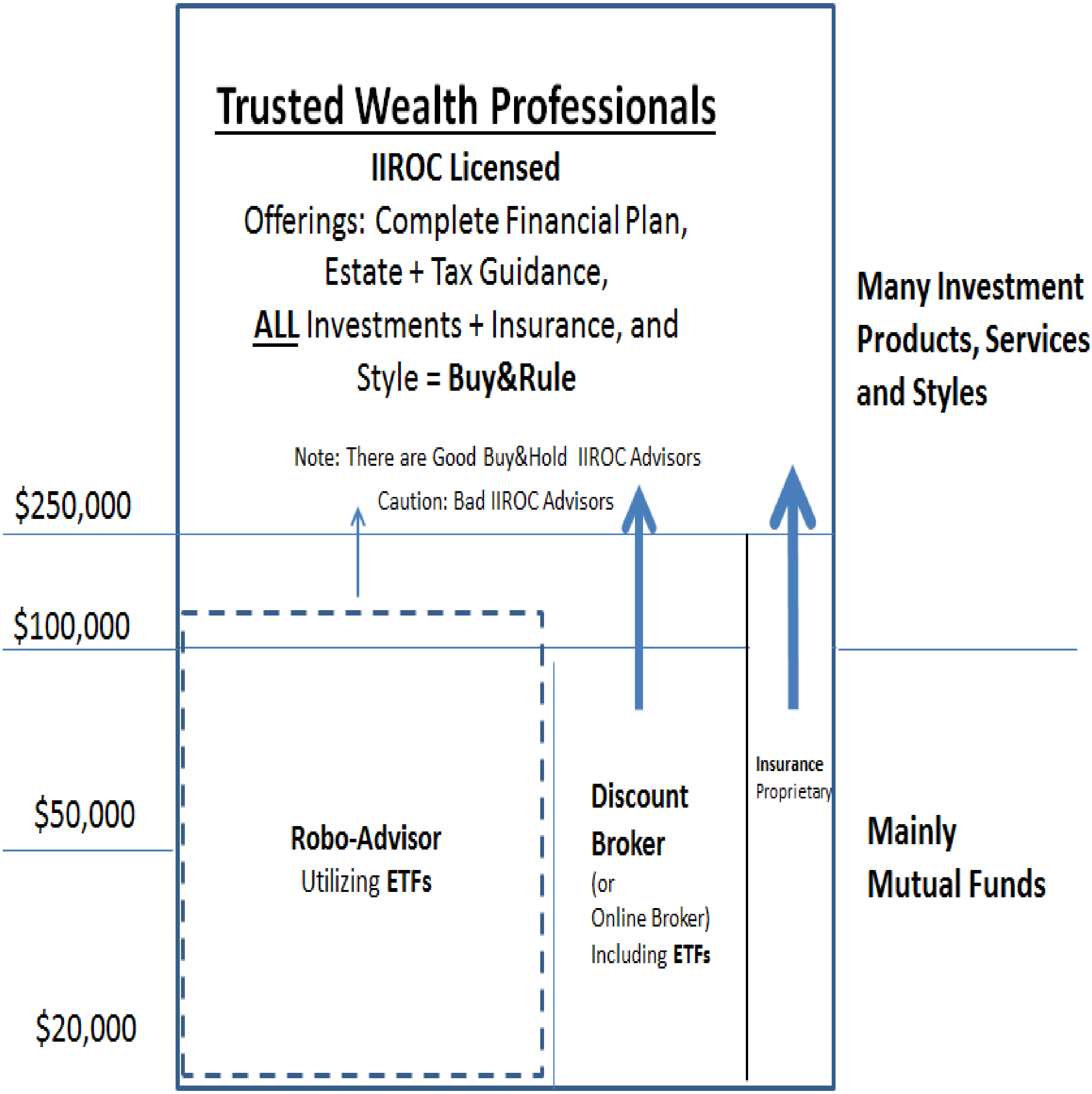
The MF industry needs to re-invent itself. The starting point is the Who Are The Players and Where are Assets flowing diagram below. The arrows show the 'theoretical' flows that are occurring today; think and thin arrows denote volume of flows.



Theoretically, the small accounts will migrate to Robo-Advisors. Large accounts will be gobbled up easily by the IIROC Trusted Wealth Professionals. Discount Brokers and the Insurance Channel will have eroded Asset Bases. Banks and Mutual Fund Sales Channel will lose heavily. Again, this is only theory.

But maybe it is reality.

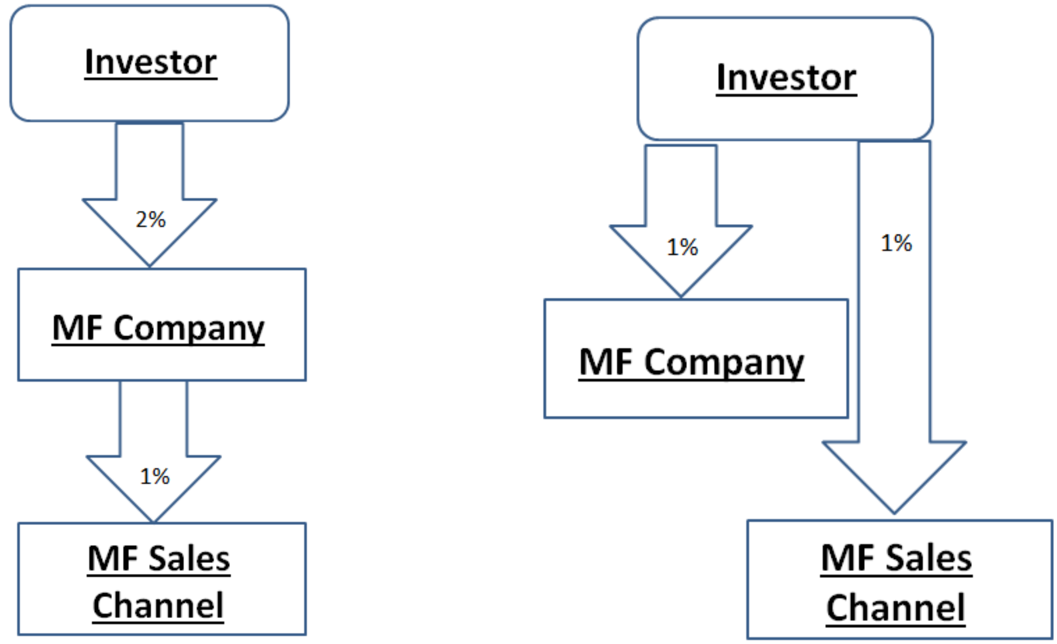
So the 'new' Wealth Industry Players and Assets are as follows:



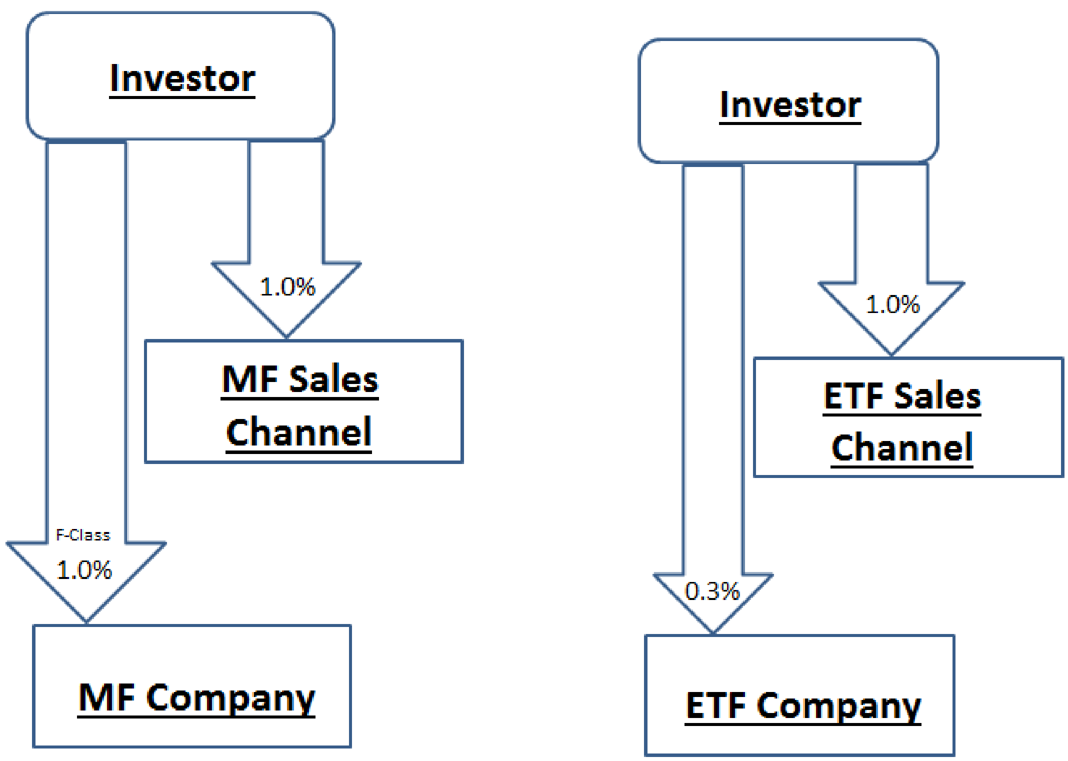
And maybe I'm wrong. Maybe not. But obviously biased. ☺

But the days of $1M accounts being unconsciously invested with a Robo, during a Bear market, are light years away.

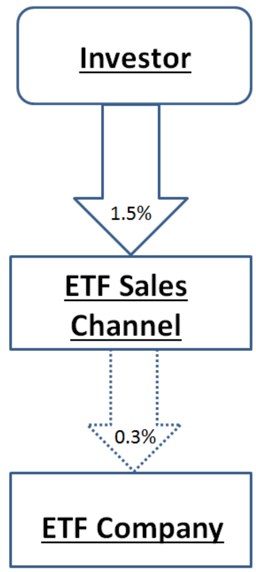
So the starting point, is how does the Sales Channel convince the investor to remain with the Mutual Fund Sales Channel, possibly through this dual Fee option (see 'right' image below).



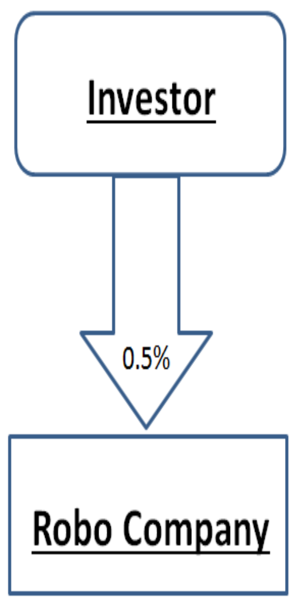
The Investor would essentially 'write' two cheques in that model. Even if the Funds were now F-class, or cheaper ETFs were used. But if the Mutual Fund Sales Channel up-licenced themselves to IIROC, and started sell ETFs, we'll see this switch occur.



But it will probably appear as:



More expensive to the Canadian investor, but the long term threat is this model:



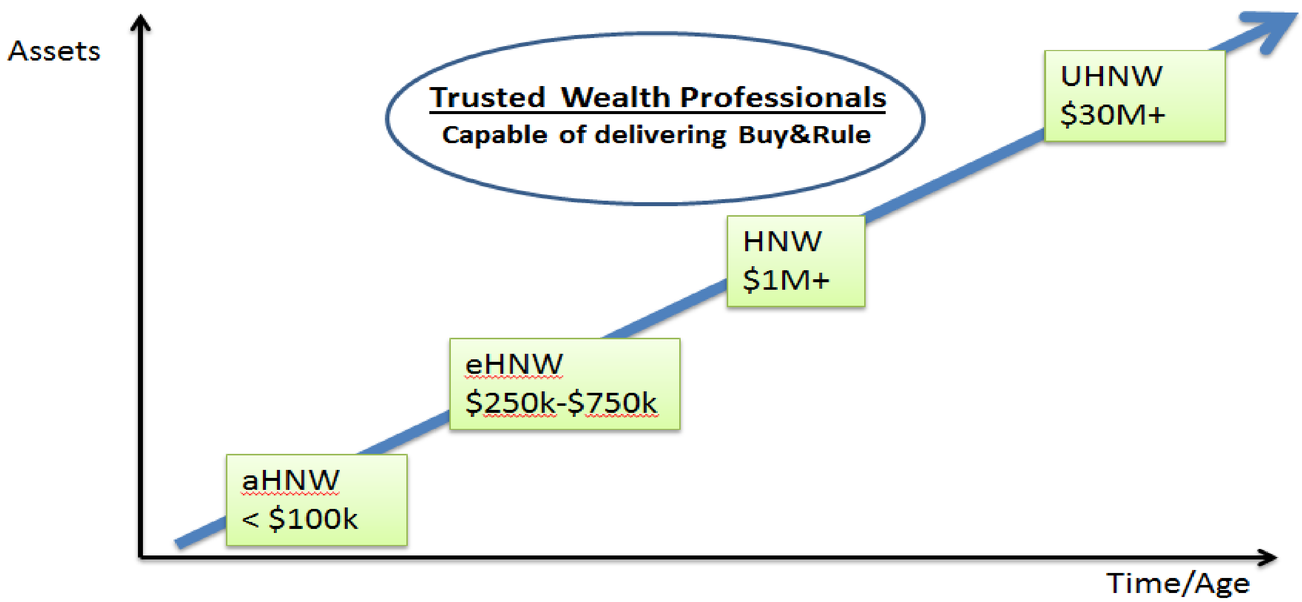
The point being, licensing matters. And if you have more+higher licensing, you can do more work for your clients, and charge higher fees.

Personally I think the Brokerage firms should lower their minimums and create Platinum, Gold, Silver and Bronze levels of Advice+Service. And start picking off the aHNW to eHNW marketplace; between $50k to $250k. If you start treating this niche, similar to the Service+Advice delivered to the full HNW client, you might end up with the most AUM ☺

The simple logic for the Crystal Ball is that the:

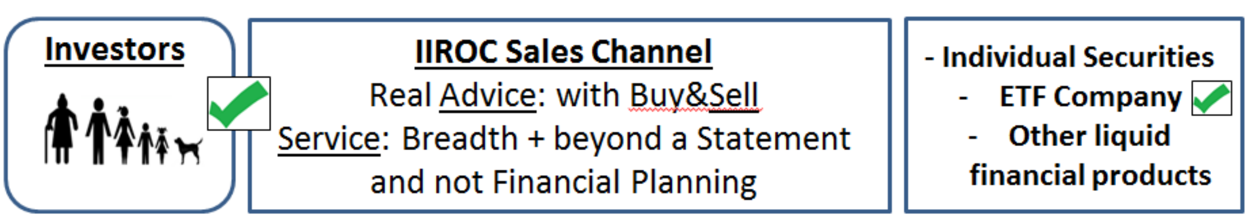
1. Highest licensed,
2. Full access to all Products and Services (a form of Liquidity),
3. Complete Tax, Accounting, Estate, etc … counsel, and
4. Practicing all Investment Styles, including Buy&Rule ®

will be the IIROC Life-Licensed Investment Advisor. All the Canadian investors want this Advice+Service offering; who wants an Advisor with lower licensing? Less Products + Services?



As mentioned above I believe that the IIROC licensed firms, will start to encroach into the aHNW marketplace as well; lowering their limits. This will be a strategic preemptive move against the Robo's. A Bear market will help in this regard. Just watch out for the 'bad' IIROC advisor. And I also wonder how many Robo's will survive the next Bear; there are going to be common acronyms, such as CDIC and CIPF, shared with

So, as Wealth Increases, as the rungs of the HNW Ladder are climbed, Canadian Investors will flock to the IIROC Sales Channel. The Wealthy, the HNW, know where to obtain Advice+Service.

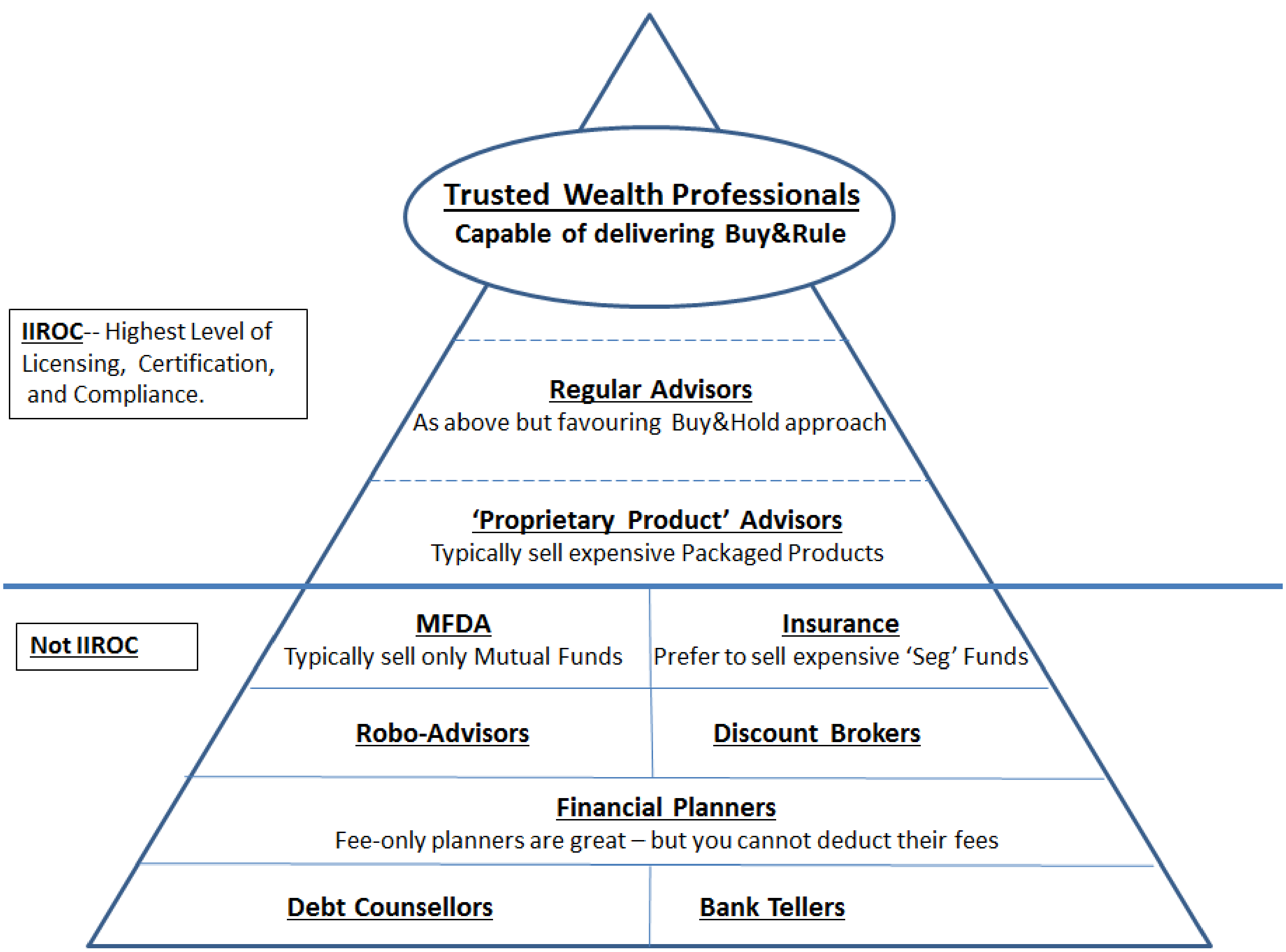


It may be the opportunity of a life-time, that as our current over-heated Bull market, returns to a Norm, via a:

1. Crash
2. Correction
3. Trickle-Down
4. Sideways Slide
5. Trickle-Up (but with lower growth than Inflation)

that the Investment Style Buy&Rule ® becomes the ideal haven.

The next Bear could be Gentle, or a ferocious Grizzly, but given a choice, I'd like to miss the most of it. That's why I have a Trusted Wealth Professional and don't use Mutual Funds. Capital Preservation and Liquidity are two components of the Advice that has been shared with me; reflected in my investment initiatives.



Addendum 1: The ‘Bad Advisor’ Blog may start

Up-Beeping is something that the ‘Bad Advisors’ are great at. If you left your MFDA sales person and transferred your assets to a full-service IIROC broker who has Financial Decidophobia (fear of making financial decisions), but they are a great relationship person, and they love the free lunches that mutual fund companies provide along with baseball tickets, luxury cruises, spa outings, Sonoma wine tasting ‘junkets’, etc … you may just find that your total Beeps now are greater than your Beeps you paid when transacting directly at your Mutual Fund company.

So you owned A-class mutual funds previously and now you own the F-class, but your total fees are higher. The average UpBeep is from about 200 Beeps to 225 Beeps.

And keep in mind your overall Wealth performance as well as some of these ‘Financial Decidophobia’ & ‘Relationship-type’ advisors are often swayed by the Mutual Fund sponsor of their latest Lunch&Learn or XMAS party. This is when Up-Beeping becomes Beep Churn (with not often positive results). But if you move from A-class to F-class, for the same Fund, and your total fees have gone up, this is bad news. You probably need lower priced no-commissioned ETFs (unless utilizing a specialty Mutual Fund).

Or you need to leave your Bad Advisor.

Addendum 2: Fee & Advice After-thoughts

Let's think about this example. Buying/Owning/Selling a home. Using round numbers as an example, you bought a home for $1M and paid 3%+3%=6% as a commission to Real Estate Agents. So that's $60,000 in Commissions. You pay your property tax, your utilities and upkeep. And now your Agent comes by and offers you a Valuation Service priced at 0.00365% to tell you what your house is worth; that's just $10/day. Do you buy it? It's made easy for you; automatically deducted from your bank account. And only $3650 per year? It could show you comparables in your neighbourhood? Perhaps via Monthly reports!

But you think that you don't need it, it's free online, or it doesn't matter now (you're busy and exhausted from commuting). You think it's a Scheme, it's a redundant, often free and value-less service. You can find out the value of your home, to the same degree of error+accuracy online now.

Please don't get charmed into thinking that a statement (online or not), or an annual phone call to inquire about a possible RRSP donation, is actually considered Advice or Service. IFIC's own statement shows that the average Canadian Mutual Fund investor has $46,000 at the end of 2015. So if we add a bit to that, and call it $50,000 now, there is no set standard level of Service or Advice that applies to a Mutual Fund investor. Hence it's all Commissions and Financial Planning, both of which are not deductible as ruled by the CRA. Note: I think the Fund Manager is doing all the work (if they aren't Closet Indexing).

Anyways, how do you feel about these 3 Advice+Service+Fee scenarios?

1. An 88-year old man had $2M in Mutual Funds at an Orangeville bank branch. He thought he only paid $100 a year in fees; that's what the Teller at the Bank told him. He recently passed away. Fee Shock was not the cause of his death.

2. A 55-year old recent divorcee, and first-time ever+anything investor, was convinced by a mutual fund sales person to invest her 2015 settlement proceeds of $600k in 'safe' mutual funds. Her first statement of 2016 showed her Oil based holdings were worth less than $500k. It did get worse, before it got better, but it still hasn't recovered. She's still alive. And single.

3. A 75-year old Grannie was convinced at the bank branch to switch her life-savings of $700k from GICs into a Bond fund just before the USA election. The Mutual fund sales person had never seen a period of rising interest rates; evidenced in November + December of 2016. Grannie now has $600k, pays about 100 Beeps per year in Fees,

and is worried about rising hydro rates. And property tax. And the cost of food. Grannie is counting her days, but not solely because the Bank is now wealthier. And I'm not sure if the Teller is still at the Bank.

Nothing moves in a straight line. The graph below is the last 10 years of the TSX. It is almost flat. And the market doesn't always go up. That's why Advice matters and why it is non-existent in the Mutual Fund Sales Channel. There's a Time to Sell. And a Time to Buy.

It's fair to say though, that if you have substantially more than $250,000, maybe $500,000, you do receive preferential treatment and service levels from your Mutual Fund Sales Person/Company. I don't disagree with that. But I'd love to debate how the Mutual Fund Services are defined; I know it isn't Advice.

Note: Adding to a position with an annual RRSP or TFSA contribution is not Advice. Most Mutual Fund Sales People just 'add' to the Pie-Chart; Balanced, Conservative, Growth, Income, etc … fund that you are already holding.

Addendum 3: Musings regarding Mutual Funds Commission-based Scheme

<u>Commission-based Scheme - Summarization</u>

1. Commission Laundering; Sales Channel Fee is non-deductible if paid directly to Sales Channel, and it's non-deductible if there is no Advice or Service beyond Financial Plan (non-deductible); see Point2 in the main section of the Beep Brief. No other consumer product is setup like this; none that I can think of, but that may change as well.
2. Mutual Fund companies pay themselves Daily, before calculating NAV. And it's an unknown amount and unknown communicated amount. "How much did I pay today?" "Or this year?" You don't know. You don't get a receipt. You don't know how much was taken. It's as close as you can get to an unauthorized withdrawal from your bank account And it is approximately 250 times per year. You get paid 2x/month, so 24 times a year, but you pay Mutual Fund fees 250 per year (with Embedded Commissions).
3. Embedded Fees, Canadian Investors don't see the Fees in total amount or percent amount until CRM ½ is shared on a statement at the end of the year. This denies the Liquidity by contrasting performance versus other instruments; ie. Bond Fund vs. 5-year GIC rate. All the Front-End Load, No-Load, DSC's, etc … bury the Fees such that the total Embedded Fee is roughly ½ Embedded Product Costs and ½ Embedded Commissions.
4. Trading Expense Ratios, TERs, are essentially a blank cheque (and they could be higher than some ETF Fees; 0.03% and 0.04% are ETF Equity fees that are in the public domain).
5. IIROC Advisor Fees decline when AUM increase (Fee-based account). I'm still perplexed; **there are no volume discounts on Mutual Funds?** Do they exist within the Sales Channel? Perhaps via rebates? If you had $1M or $2M in AUM, you probably would have a 1% (or 100 Beeps) Fee, or Less, via an IIROC advisor (OK, not via the 'Bad' IIROC advisor who 'gouges' their clients). But combine that with ETFs that charge 0.04 or 0.25, and you're better off with Advice and Liquidity from the full-service life-licensed IIROC advisor.

And yet we're still not talking about the Investments. And does anybody care about the Risk of the investments? And their Performance? Or if I made any money? Keep up with inflation? Beat a Benchmark? Retired early? Found Freedom at age 55?

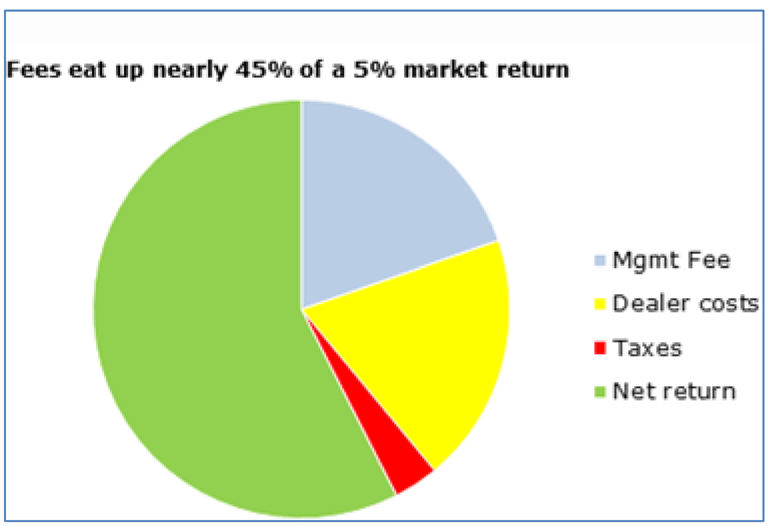
Nope.

Mutual Fund Sales Person got their Beeps. They DSC-ed you (potentially) and they have their Beep Loss Prevention Manual in case you try to Sell and go to Cash/E, or move your assets.

Back Matter

I’ve created a Beep Brief Back Matter over the past few months. It contains many pertinent articles; with the article title, the original article itself and source links, for my background reading when I was compiling Notes for myself.

It is available in softcopy and will accompany the Beep Brief Submission.



Thanks and Apologies

To my confidants, and my proof readers, many thanks.   Especially for the stories about Profiteering via Embedded Commissions. And you've already received my apologies for enduring the Out-Takes and the Extracts from this Brief. Evidenced by the fantastic Spell-O's that are created when you've got no RAM left for Auto-Correct to run on your laptop ☹

Also there still might be a correction or two required in the Beep Brief, and I apologize for that in advance.

Plus, thanks and apologies to any of the creators of the non-watermarked images+cartoons I've snipped from the web. I've left an audit trail, where possible, to show the original sourcing.