“Held to a Higher Standard” –
Should Canada’s Financial Advisors Be Held to a Fiduciary Standard?

Applied Project Final Proposal

APRJ – 699

Nick Punko

Due Date: January 30, 2015

Acknowledgement

This paper is dedicated to my mom and dad for all of their love and support, and for inspiring me with a passion for learning. I am also grateful for the love and support of my wonderful wife Carolyn for putting up with me over the past 10 years as I worked to complete my education.
I could not have done it without you.
Thank you.

Abstract

Canada’s financial regulators are set to bring in a number of sweeping regulatory changes over the next couple of years in an effort to improve consumer protection and boost investor confidence following the global financial crisis.

One of the key changes being proposed by Canada’s regulators is to raise the standard of care that financial advisors owe their clients to a fiduciary standard. Holding financial advisors to a fiduciary standard would require them to act solely in the best interests of their clients, and avoid or disclose all conflicts of interest that arise in the advisor-client relationship. Currently, financial advisors in Canada are held to a “suitability” standard that does not require them to act in the best interests of their clients, instead, they must simply ensure that any investment recommendations are suitable given a client’s risk tolerance and return objectives. The implementation of a fiduciary standard would have widespread implications for the financial industry, as advisors would be required to ensure that all recommendations were in the best interest of their clients, including the minimization of all fees and expenses, which is typically at odds with the advisor’s goal of maximizing revenue from a client account.

This literature review will explore the various issues associated with the fiduciary standard debate in Canada, with commentary, analysis, and perspectives from both the consumers and providers of financial advice. It also includes findings from a variety of academic sources on the subject of a fiduciary standard, and its potential impact on the financial advice industry.

Table of Contents

Abstract..3
Introduction 6
Research Overview 8
What is a Fiduciary Duty? 9
A Look at the Consumers of Financial Advice 12
An Overview of the Financial Advice Industry in Canada 17
Canada’s Current Regulatory Framework 22
Calls for Change 26
Industry Opposition to a Fiduciary Standard..30
A Different Perspective 33
Uncertainties Regarding a Fiduciary Standard 34
How Effective Is Canada’s Current Financial Advisor Framework? 38
Why Costs Matter 47
Better Disclosure is not Enough 50
The Need for a Fiduciary Standard..52
Assessing the Impact of a Fiduciary Standard 54
Recommendations for Financial Advisors 57
    Calculating an Advisor’s Real Value 58
Beyond a Fiduciary Standard 60
Conclusion 62
References 63

"The real business of money management is not managing money,
It is getting money to manage."
- Mark Hurley, Goldman Sachs & Co.

Introduction

Every day, millions of Canadians seek out the advice of a financial advisor to help them plan and invest for their future. Whether it is developing a suitable investment portfolio, reviewing plans for retirement, offering ways to save for a child's education, or discussing strategies to minimize tax and preserve an estate upon death, millions of Canadians count on the advice and counsel of financial advisors to help them achieve their financial goals.

Yet, despite the enormous financial responsibility that is entrusted to financial advisors across the country, few consumers ever question what sort of education or experience their advisors possess, or the professional standards their advisors are held to. While most people naturally assume that their financial advisors have their best interests at heart – very few know whether this is actually the case.

Unlike other professions such as law or medicine, the vast majority of financial advisors in Canada are not bound by a fiduciary standard. The lack of a fiduciary standard can lead to a significant gap between the quality and objectivity of advice that consumers expect, and what is actually received (IEF Report 2012).

The global financial crisis and its aftermath have brought forward calls for greater investor protection, and sparked significant debate over the standard of care that financial advisors owe to their clients when providing investment advice. As a result, financial regulators around the world are now exploring the merits of imposing a fiduciary responsibility on financial advisors that would require them to act in the best interest of their clients (CSA 2012).

Regulators in Canada are set to introduce sweeping changes to the financial services industry over the next two years, through new legislation known as the Customer Relationship Model (CRM). Key changes being proposed under the new CRM rules (CSA 2012) include:

- Greater transparency around all fees and charges.
- Improved investment performance reporting.
- Potential banning of embedded commissions in mutual fund products.
- Imposing a fiduciary or “best interest” standard on financial advisors.

While each of these changes represents an important step in improving investor protection, the imposition of a fiduciary standard for financial advisors could represent one of the most significant regulatory changes ever-introduced in Canada.

This literature review explores the academic research surrounding the fiduciary standard debate globally, with a focus on issues related to Canada’s financial advice industry. The study begins by looking at the consumers and providers of financial advice, as well as the current regulatory framework that oversees financial advisors in Canada today. This is followed by a look at the proponents and critics of the fiduciary standard, as well as research on the potential impact a fiduciary standard may have on the financial advice industry.

Research Overview

The purpose of this literature review is to determine whether financial advisors in Canada should be held to a fiduciary standard?

The following areas will be considered as part of this literary review:

- An overview of the consumers and providers of financial advice, as well as the current regulatory environment in Canada.
- Defining a "fiduciary standard" and when does it apply?
- How does a fiduciary standard compare to the current standards of conduct in the Canadian securities industry?
- What is the potential impact of imposing a fiduciary standard on financial advisors in Canada?
- A summary of views from proponents and critics of the fiduciary standard.
- What role does education and professional designations play in achieving a higher standard of care for financial advisors.
- How does a fiduciary standard impact ethics and integrity of financial advisors?

Research Design

This study will be a conceptual paper using existing data from a variety of sources. To ensure that the information gathered is both timely and relevant, preference will be given to research/data that is less than 5 years old.

What is a Fiduciary Duty?

A fiduciary duty is defined as a legal duty to act solely in another party's best interests. Fiduciaries have a duty to avoid conflicts of interest between themselves and their principals, and may not profit from their relationship with a principal without their express consent. The concept of a fiduciary duty has been in society for centuries, and is central to the English common law system, as well as modern securities regulation (Rostad 2013).

Fiduciary law provides a legal and practical basis for consumers to rely on the advice of experts, and enter relationships of trust and confidence. A fiduciary duty exists to mitigate the information asymmetry or "knowledge gap" that exists between providers of socially important services – such as law, medicine, and finance, and the consumers of these services who lack the same level of knowledge and expertise (Rostad 2013).

In finance, fiduciary obligations exist to ensure that those who manage other people's money act responsibly in the interest of the clients or beneficiaries they serve. The nature of a fiduciary relationship means that a fiduciary should not put their own personal interests ahead of their duty to their clients; they should also avoid conflicts of interest where possible, and should fully disclose and carefully manage conflicts that cannot be avoided. A fiduciary duty is generally seen to impose a higher standard of performance than those of general contracts (PRI Association 2014).

Two critical elements of a fiduciary duty are:

- *A duty of loyalty* – fiduciaries should act in good faith, in the best interests of their client or beneficiaries. They should avoid conflicts of interest, and should not act for the benefit of themselves or another third party (PRI Association 2014).
- *A duty of prudence* – fiduciaries should act with due care, skill, and diligence, investing as a "*prudent man*" would do (PRI Association 2014).

Fiduciaries possess two attributes distinct from other business practitioners. First they possess technical expertise, experience, and specialized knowledge to provide appropriate advice with due care. Secondly, they are bound by an undivided loyalty to their clients, putting their client's interest first, ahead of their own personal interests (Rostad 2013).

The Principal-Agent Problem in Finance

The law tends to impose fiduciary obligations in circumstances where a "*principal-agent*" problem exists. A principal-agent problem arises whenever one person, the *principal*, engages another person, the *agent*, to undertake "imperfectly observable discretionary actions that affect the welfare of the principal" (Sitkoff 2014). Agency problems are pervasive in today's modern society, as no individual has the skills necessary to perform every task on their own, and because every undertaking comes with an opportunity cost. By delegating a task to an agent, a principal benefits from specialized advice, and is freed to undertake other activities. However, these benefits come at the cost of being made vulnerable to abuse by the agent, if their discretion cannot be easily monitored. In such circumstances, the agent may be tempted to favor their own interests over that of the principal, resulting in losses and inefficiencies to the principal. These losses and inefficiencies that arise from the misalignment of interests are known as "agency costs" (Sitkoff 2014).

In regulating an agency relationship, the primary objective is containment of agency costs. Curbing an agent's discretion does not solve the principal-agent problem, as the principal is typically not able to spell out in advance how the agent should act in each and every possible situation. Therefore, the primary mechanism to address any conflicts of interest is the creation of a fiduciary obligation to ensure that the agent acts in the best interests of the principal.

The principal-agent problem is well documented in the world of finance, with portfolio managers, financial advisors, rating agencies, and even government regulators all facing conflicts of interest with the investors they are supposed to serve. Within the financial advice industry, compensation structures play a significant role in driving financial advisor's interests, creating an incentive for them to act contrary to the interests of their investors. Given these misaligned incentives, and the difficulty investor's face trying to monitor financial advisors as their "financial agents", professional and ethical standards must be high to ensure that an advisor's monetary incentives do not override their fiduciary responsibilities (Shah 2014).

A Look at the Consumers of Financial Advice

Studies show that a consumer's decision to obtain financial advice is dependent on a number of demographic and economic variables, such as education, income, and overall level of wealth (Cockerline 2012). A study of investor behavior by the Investor Education Fund (IEF) found that consumers in Canada have embraced working with financial advisors, with nearly 8 out 10 investors having bought mutual funds through an advisor (The Brondesbury Group 2012).

The primary reason why consumers chose not to deal with a financial advisor was the belief that they had insufficient assets to warrant investment advice. The Investor Education Fund study found that 44% of non-advised households believed that financial advice was only available to those with over $50,000 in assets. With approximately 80% of Canadian households having less than $100,000 in investment assets, this represents a significant portion of the population that may be underserviced for financial advice.

Customer Segment	Household Assets	% Of Households
Emerging Affluent	< $100,000	80%
Mass Affluent	$100,000 - $500,000	12%
Affluent	$500,000 - $1 million	4%
High Net Worth	> $1 million	4%
Total		***100%***

**Source: Investor Economics Strategy Consulting: Financial Advice Industry Statistics 2014*

Investor Decision Making

The Investor Education Fund (IEF) study found that nearly 5 out of 6 Canadian investors have a traditional advisor relationship, whereby their advisor makes investment recommendations and they decide what to do. Less than 25% of investors say they have an advisor who makes investment decisions on their behalf, reflecting participation in a discretionary portfolio or some other investment management service with delegated investment authority.

How Do Investors Choose Their Advisor?

When it comes to finding and choosing an advisor, The Investor Education Fund study found that approximately one-third of investors selected their advisor based upon a referral from a friend or family member. However, the most common way for consumers to find an advisor was to have one assigned by their bank or financial institution. The IEF study found that investors were content to trust their assigned advisor, because they "*trusted their financial institution to do what is best for them*" (The Brondesbury Group 2012).

The Investor Education Fund study also found that consumers were unable to state what securities license, registration, or professional certifications their advisors hold. In fact, nearly two-thirds of investors admitted, "*they knew very little about their advisor when they first entered into the relationship*" (The Brondesbury Group 2012). These findings highlight the lack of due diligence consumer's perform when choosing an advisor to work with, despite the importance of such a trust-based relationship.

Advisor Disclosure

Having full and proper disclosure of material information is a critical element of the client-advisor relationship. The Investor Education Fund study found that the majority of financial advisors scored well on disclosing the justification behind their investment recommendations, as well as the risks associated with a particular investment. However, fewer consumers felt that their financial advisor explained all of the costs associated with an investment, and less than half of consumers said that their advisor explained how they were compensated from the sale of an investment product (The Brondesbury Group 2012).

Advisor Disclosure	% Agree	% Neutral	% Disagree
My advisor clearly explains the reasons behind the investments they recommend.	78%	13%	9%
My advisor clearly explains how I can make or lose money on the investments we discuss.	73%	18%	9%
My advisor tells me all of the costs before asking me to buy or sell an investment.	64%	23%	13%
My advisor tells me how much they get paid for the investment I buy on their recommendation.	45%	26%	29%

Source: Investor Education Fund – Investor Behavior and Beliefs: Advisor relationships and investor decision making study (The Brondesbury Group 2012).

Financial Advisor Compensation

In addition to a lack of disclosure on the part of many financial advisors, the Investor Education Fund (IEF) study found that in general - "*consumers have little or no idea about how their advisors get paid*" (The Brondesbury Group 2012). When asked a series of questions related to advisor compensation methods, consumers could not answer whether their advisor's compensation was based upon a flat salary or a commission based structure, or whether they received compensation from the sale of a product. The study also found that unless an advisor disclosed the amount of fees that a client pays, consumers were unlikely to research this information on their own to determine whether the information was accurate or correct. These findings highlight the information asymmetry that exists between consumers and advisors when it comes to financial literacy.

Fiduciary Duty

Perhaps the most troublesome finding from the Investor Education Fund study is the public's misconception over the standard of care that financial advisors are held to. The IEF study found that 7 out of 10 investors believe that their financial advisor has a legal duty to put their client's best interests ahead of their own personal interests. The IEF study also found that most consumers believe that their advisor will give them the best advice they can, even if it means their advisor will make less money (The Brondesbury Group 2012).

Fiduciary Duty	% Agree	% Neutral	% Disagree
My advisor has a legal duty to put my best interests ahead of his or her own.	70%	21%	9%
I trust my advisor to give me the best possible advice they can.	76%	16%	8%
I rely on my advisor to decide which investments are best for me.	64%	23%	13%
My advisor will recommend the product that is best for me, even if it means less money for them.	62%	27%	31%

Source: Investor Education Fund – Investor Behavior and Beliefs: Advisor relationships and investor decision making study (The Brondesbury Group 2012).

Conflicts of Interest

Related to the public's confusion over the standard of care that financial advisors are held to, the Investor Education Fund study found that consumers have a poor understanding of the potential conflicts of interest that arise between advisors and their clients. In fact, the IEF study found that only 13% of consumer's believed that commissions influenced the investment recommendations that their advisor provided, and 29% of consumer's admitted that they were unaware of the commissions their advisor received and didn't know how they might impact their advisor's recommendations (The Brondesbury Group 2012).

Do Commissions Create a Conflict of Interest?	**% Of Consumers Who Agree**
Sales and trailing commissions influence the recommendations my advisor makes for me.	13%
I was not aware of these commissions before this survey, and don't know how this impacts my advisor's recommendations.	29%

Source: Investor Education Fund – Investor Behavior and Beliefs: Advisor relationships and investor decision making study (The Brondesbury Group 2012).

These findings highlight the public's vulnerability when dealing with a financial advisor, and suggest the need for a fiduciary "best interest" standard to ensure their interests are protected.

An Overview of the Financial Advice Industry in Canada

Nearly 100,000 individuals in Canada are employed as financial advisors, consisting of full service brokers, bank branch advisors, insurance advisors, and independent broker-dealers according to a joint study by Price Waterhouse Coopers and Advocis (PWC / Advocis 2014).

Industry Segment	Number of Advisors	% Of Industry
Full Service Brokerage	10,162	10%
Bank Branch Advisors	13,177	13%
Insurance Advisors	44,074	44%
Independent Broker-Dealer	32,459	33%
Total	***99,872***	***100%***

**Source: Sound Advice – Insights in Canada's Financial Advice Industry – PWC & Advocis*

In addition to the four main distribution channels listed above, consumers may seek financial advice from one of the following niche advisory services, including: investment counselors, private bankers, estate and trust officers, and fee-only financial planners.

Alternative Advice Channels	Number of Advisors
Investment Counselors	1,107
Private Bankers	413
Estate & Trust Officers	375
Fee-only Financial Planners	450

**Source: Sound Advice – Insights in Canada's Financial Advice Industry – PWC & Advocis*

Investment Counselors are unique among Canada's financial advisory community as the only advisors held to a fiduciary standard as a function of their role as discretionary portfolio managers. With just over 1100 investment counselors across the country – they represent only about 1% of all financial advisors in Canada.

Business Structures

The business structure for financial advisors is heavily dependent on the type of securities license they operate under. For example, IIROC licensed full-service brokers and MFDA licensed bank-branch advisors typically work in a brokerage office or bank branch setting that has both administrative and management staff for oversight and day-to-day support. By comparison, many independently licensed mutual fund representatives and insurance advisors work from a home office with no direct staff for oversight or support.

Financial Advisor Compensation Methods

Of the numerous conflicts of interest that can exist in a client-advisor relationship, perhaps none is more prevalent than the conflict that arises from the way in which financial advisors are paid. The most common form of compensation for financial advisors is a commission-based structure, whereby advisors are paid based upon the products and services they sell. The following is a brief overview of the compensation methods for various financial products.

1. *Insurance & Annuities*

Financial advisors are compensated for the sale of various types of insurance and annuity products as a percentage of the product's annual premiums. Advisors typically earn a larger commission in the first year – equal to as much as the entire first year premium, followed by a lower renewal or servicing commission in the following years.

2. *Mutual Funds*

Financial advisors receive compensation from mutual funds in a variety of ways. Upon the initial sale, financial advisors may receive an upfront commission through the sale of a front-end or deferred sales charge (DSC) fund. A DSC fund typically provides an upfront 5% commission to the advisor, and imposes a holding period on the client. The typical DSC fund redemption schedule requires the client to stay invested in the fund for a period of up to six years in order for the fund company to recover its costs associated with the upfront commission payment. If the customer decides to redeem the mutual fund prior to expiration of the redemption period, a redemption fee is charged.

In addition to any upfront commissions, advisors may also receive a “trailer fee”, which is an on-going commission paid to the financial advisor by the fund company for as long as the customer maintains their investment in the fund. Trailer fees are paid as a percentage of assets accumulated in the fund, and typically range between 0.50% to 1.00%.

3. Securities

Securities licensed advisors are generally compensated by either transaction commissions or through a fee-based account arrangement. In a traditional transaction account, clients pay a fee or commission every time they buy or sell a security. These fees are charged as a percentage of the transaction, and typically range between 1-3%. Advisors receive a portion of the transaction fee based upon a commission grid that outlines the percent of the fee that the firm shares with the advisor. The size of the individual transaction and the total amount of fees/commissions that are generated by an advisor annually determine the percentage that is received. The “grid” payout structure provides an incentive for advisors to generate more commissions and larger trades (PWC / Advocis 2014).

Although full-service brokers have traditionally followed a transaction-based model to generate commissions, financial advisors are increasingly moving to a “fee-based” pricing model in which client’s pay a flat fee as a percentage of their assets for all inclusive money management. Fees typically range between 0.50% and 2.00% depending on the size of a client’s portfolio, and include all trading costs. A fee-based model helps eliminate the conflict of interest created by traditional transaction accounts that encourages “churning” of securities by an advisor in order to generate commissions. The fee-based model helps to align a financial advisor’s interests with their client, as their fees increase as the value of an account grows. Currently, fee-based accounts only represent about 1/3 of total client assets at Canada’s full service brokerage firms (PWC / Advocis 2014).

4. *Fee-Only Advisors*

Fee-only financial advisors are a small part of the financial advice industry in Canada, with approximately 450 advisors across the country. Fee-only advisors are typically not licensed to sell securities or insurance, and instead focus on providing specialized financial planning and investment advice to clients for a fixed fee. The fee-only model gives customers the benefit of independent and objective financial advice that is free of conflicts, as these advisors receive no compensation from any product providers. Typically, fee-only advisors will charge clients based on an hourly rate – ranging between $100 - $250 per hour (PWC / Advocis 2014).

Comparison of Financial Advisory Channels

Among the various investment advice channels, IIROC licensed advisors are significantly larger than their MFDA and insurance advisor counterparts, with greater assets under management and larger average account sizes.

IIROC advisors tend to have more assets under management and larger average client assets in part because of the wider range of products and services they are able to provide. Given the narrower range of products offered by MFDA licensed advisors, many MFDA advisors tend to be new to the industry, or focused on serving a specific customer niche. Price Waterhouse Coopers notes that MFDA membership has fallen significantly over the past decade, as MFDA advisors have migrated to larger IIROC firms, particularly the full service brokerage firms owned by the "big six banks" (PWC / Advocis).

Industry Segment	**IIROC Advisor (Big Six Bank)**	**IIROC Advisors (Non-bank)**	**MFDA Advisors**	**Insurance Advisors**
Total Assets Under Management	$733 billion	$189 billion	$239 billion	$86 billion
Average Assets Under Management Per Advisor	$114 million	$50 million	$8 million	$2 million
Average Assets Per Client	$430,000	$170,000	$40,000	$11,000

**Source: Sound Advice – Insights in Canada's Financial Advice Industry – PWC & Advocis*

Canada’s Current Regulatory Framework

The current regulatory framework that overseas Canada’s financial advisors is a complex system consisting of both federal and provincial regulation, as well as a number of self-regulatory organizations. The key mandate of Canada’s investment regulators is to ensure adequate levels of consumer protection, promote investor confidence, improve consumer financial literacy, and maintain the integrity and credibility of financial advisors through the effective use of proficiency and education standards (Sound Advice 2014).

Financial advisors in Canada are subject to licensing, regulation, and oversight by one of three primary regulators - depending on the types of products they are licensed to sell. These 3 main categories include:

- Mutual fund regulation and licensing – regulated by the Mutual Fund Dealers Association of Canada (MFDA).
- Securities regulation and licensing – regulated by the Investment Industry Regulatory Organization of Canada (IIROC).
- Life insurance regulation and licensing – regulated by the Office of the Superintendent of Financial Institutions (OSFI) and the various provincial insurance regulators.

Each of Canada’s self-regulatory organizations is responsible for setting professional standards for their respective members. In general, securities legislation in Canada requires advisors to deal “fairly, honestly, and in good faith” with their clients. Although this definition places a standard of care on advisors, no court or regulatory body has concluded that this duty creates, or is equivalent to, a fiduciary standard (CSA 2012).

Canadian securities regulators outline the due diligence requirements of financial advisors through a regulatory policy known as National Instrument 31-103. In general, most financial advisors in Canada are subject to a “suitability” standard that requires them to collect critical “Know Your Client” (KYC) information prior to making any investment recommendations, or accepting investment instructions to buy or sell a security. Financial advisors must demonstrate that they have taken reasonable steps to ensure that the purchase or sale of a security is suitable for the client. In order to satisfy the “Know Your Client (KYC) obligation, advisors must apprise themselves of both:

- The general investment needs and objectives of the client and any other factors necessary to determine whether a proposed investment is suitable (know your client);
- The attributes and associated risks of the products they are recommending to their client (know your product).

While the “suitability” standard requires an advisor to determine whether an investment is suitable or appropriate for a client based upon their KYC information, it does not mean that the product being recommended is necessarily the “best” product for the client. In their consultation paper exploring the appropriateness of a fiduciary standard, the Canadian Securities Administrators (CSA) note that: “*financial advisors can provide advice that complies with the suitability obligation - without providing investment recommendations that are considered to be in the best interests of the client*” (CSA 2012).

Although the majority of financial advisors are not held to a statutory fiduciary standard as part of their securities licensing and registration, Canadian courts may find that an advisor has a fiduciary duty under common law, depending on the nature of the client-advisor relationship.

In order to determine whether a fiduciary relationship is created from a legal capacity, Canadian courts have identified five interrelated factors used when determining whether financial advisors owe a fiduciary duty to their clients (CSA 2012):

1. *Vulnerability* – the degree of vulnerability of the client due to factors such as age, investment knowledge, education, or experience in the stock market.
2. *Trust* – the degree of trust and confidence that a client places in their advisor and the extent to which an advisor accepts that trust.
3. *Reliance* – whether there is a long history of relying on the advisor's judgment and advice, and whether the advisor holds him or herself out as having specialized skills and knowledge upon which the client can rely.
4. *Discretion* – the extent to which the advisor has power or discretion over the client's account.
5. *Professional Rules or Codes of Conduct* – a higher standard of care can be imposed by certain licensing requirements (ex. discretionary portfolio managers) or by professional standards imposed by professional certifications & designations (ex. Chartered Financial Analyst – CFA).

The Supreme Court of Canada highlights the circumstances in which a fiduciary duty may exist in a client-advisor relationship in the following statement: *"The nature of this discretionary power to affect the beneficiary's legal or practical interest may, depending on the circumstances, be quite broadly defined. It may arise from power conferred by statue, agreement, perhaps form a unilateral undertaking, or in particular situations by the beneficiary entrusting the fiduciary with information or seeking advice that confer a source of power"* (CSA 2012).

The use of “discretion” in the management of a client’s portfolio plays an important role in the context of an investment advisory relationship, as the investment industry generally distinguishes between client accounts based on whether they are managed on a discretionary or non-discretionary basis. A discretionary account or “managed account” is a type of account in which a financial advisor has the discretion to make investment decisions and transact in securities without the client’s express consent to each transaction. In a non-discretionary account, the client must authorize and consent to each and every transaction (CSA 2012).

The Canadian courts have found that financial advisors fall into a continuum when providing advice, with discount brokers at one end of the spectrum (who provide no advice, and simply execute transactions on a client’s express instructions) to financial advisors and portfolio managers who manage discretionary accounts at the other end of the spectrum. Currently, financial advisors in Canada are only held to a fiduciary duty when dealing with clients on a discretionary basis.

Calls for Change

Financial regulators around the world are now seeking to increase advisor oversight and strengthen investor protection rules in an effort to help restore confidence following the devastation caused by the global financial crisis. In Canada, consumer advocate groups such as the Canadian Association of Retired Persons (CARP) and the Canadian Foundation for the Advancement of Investor Rights (FAIR) are calling upon regulators to adopt a fiduciary standard for financial advisors to ensure better protection for the investing public.

In a consultation paper to the Department of Finance, the Canadian Association for Retired Persons (CARP) notes that many retail investors have limited financial literacy, and often have difficulty understanding the numerous complex financial products that exist in today's marketplace. This leaves consumers vulnerable to inappropriate advice and even investment fraud (CARP 2014).

In addition to the imbalance of knowledge between advisors and their clients, the multitude of financial designations and accreditations, regulatory bodies, licensing standards, and professional associations makes it difficult for retail investors to analyze and compare the competencies and skills of financial advisors. Not surprisingly, a poll of CARP members found that 97% believe that financial advisors should be regulated like lawyers and accountants so that those who breach their professional standards would no longer be allowed to practice (CARP 2014).

The Canadian Association for Retired Persons (CARP) also notes that under the current regulatory framework, Canada lacks an effective investor compliant-resolution system for retail investors. When money is lost due to advisor misconduct or poor advice, retail investors must go through a variety of compliant mechanisms offered by the various self-regulatory organizations and professional associations that grant industry accreditations. Not only is this process complex and onerous, many investors are unsuccessful in recovering lost funds due to a lack financial resources necessary to pursue legal action.

In response to these issues, CARP is calling on the federal government to:

1) Legislate a fiduciary standard for all financial advisors, with consequences for misconduct, including the removal of their designation, and the ability to practice as a financial professional.
2) Make the standards and accreditation requirements of financial advisors commensurate with the requirements of offering financial advice to the public.
3) Create a dedicated independent agency to resolve investor complaints, and ensure it has the appropriate authority and mandate to investigate and prosecute wrongdoers.
4) Create a clear pathway to redress supported by a compensation fund for retail investors.

The consumer advocate group known as FAIR – the Canadian Foundation for the Advancement of Investor Rights, shares the same concerns as CARP, with a goal of seeing all financial advisors held to a statutory fiduciary standard. In their 2014 Accountability Report, Ermanno Pascutto - FAIR's past executive director highlights the organization's key investor protection issues (FAIR 2014), which include:

1. The need for a statutory fiduciary or "best interest" duty for financial advisors.
2. The need to address conflicts of interest in the sale of investment products to facilitate better financial outcomes for the investing public.
3. The need for stricter regulation of misleading promotion of borrowing to purchase investment products.
4. The serious risks associated with selling speculative investments to unsophisticated and vulnerable investors.

While recent market events have increased calls for greater investor protection globally, regulators in Canada have been wrestling with the idea of imposing a fiduciary best-interest standard for financial advisors well before the financial crisis ever began. In January 2004, the Ontario Securities Commission (OSC) released a concept paper advocating a new "fair-dealing" model that would place a fiduciary standard on investment advisors. The OSC paper acknowledged that Canada's regulatory regime - which regulates investment dealers and their representatives through the products they sell – was based on an outdated business model that assumed "transaction execution" was the primary reason people sought out a financial advisor. Recognizing that most consumers are seeking broader and more comprehensive financial advice, the Ontario Securities Commission recommended that Canada's regulatory framework should be focused on the client-advisor relationship to meet the needs of an increasingly complex marketplace.

In a 2011 editorial in the Financial Post, former Ontario Securities chairman – Edward Waitzer stated that: "*financial professionals and salespeople in Canada are allowed to call themselves financial advisors regardless of their professional designation. Few are compensated directly for their advice; instead they are paid commissions to sell specific products. Retail clients should be entitled to rely on objective advice that is in their best interest, and when there are conflicts of interest, they should be clearly disclosed so that the client understands the conflicts and how that may affect the advice being given" (Waitzer 2011).*
Edward Waitzer also notes: "*If the product sold is that of advice, then that advice should be in the best interests of the client. Anything else is fraud, because the seller is delivering a service different from what the consumer thinks he or she is buying. Many argue that it is the buyer's responsibility to do their due diligence and shop around for the best price. But should "caveat emptor" apply when buyers think they are hiring a professional to do their shopping (Waitzer 2011)?*

Industry Opposition to a Fiduciary Standard

While there is strong and growing support for a fiduciary standard among regulators and consumer advocates, Canada's investment community remains divided on the need for a fiduciary standard.

In a formal response to the Canadian Securities Administrators over the appropriateness of a fiduciary standard, Advocis – the professional membership organization for Canada's financial advisors and financial planners, suggests that the adoption of a statutory fiduciary standard would have a negative impact on the investment industry, and leave both financial advisors and their clients worse off compared to existing legislation (Advocis 2013).

Advocis argues that a fiduciary standard is not appropriate for all advisor-client relationships, as retail clients are not a single homogenous group. Individual investors can range from neophytes who are completely dependent on their advisor's expertise and guidance, to seasoned veterans who may value their advisor's informed opinions, but who ultimately wish to make their own decisions. Therefore, the application of a fiduciary duty on advisor-client relationships should only be applied on a case-by-case basis (Advocis 2013).

This notion is supported in a quote by securities litigation lawyer Joseph Groria, who states: "*a statutory fiduciary standard will put all honest financial advisors and brokers in the same position, regardless of the sophistication of their client. The breadth of work which financial advisors and brokers perform is broad and varied, and thus in our view, it would be inappropriate to assign all of them with the same duty and corresponding liability. This will add significant cost and inefficiency to the advisor-client relationship" (Advocis 2013).*

Advocis further suggests that a statutory fiduciary standard will increase costs for all market participants, as a result of increased litigation and more onerous compliance obligations that will create greater uncertainty in the marketplace.

First, the adoption of a fiduciary standard is likely to result in an increase in the volume of litigation brought against financial advisors, by shifting the burden of proof from the client to the advisor. Clients wishing to sue an advisor for breach of fiduciary duty would no longer need to establish this duty of care existed, as it would be universally applied to all advisor-client relationships. Advocis fears this could add a wave of litigation by creating a perception among clients that based on the higher standard of care expected of fiduciaries, financial advisors should be responsible for losses suffered in a client's portfolio – even when those losses are due to normal market volatility and not through any fault of the advisor's advice or actions (Advocis 2013).

Advocis is also concerned that the adoption of a fiduciary standard will create a significant compliance burden, overwhelming advisors and choking their ability to do business. A fiduciary standard would necessitate that advisors conduct extensive "know your client" (KYC) reviews with every investor regardless of the nature of their advisor-client relationship. Even highly knowledgeable and sophisticated clients who prefer to direct their own trades would be subject to detailed financial reviews in order to minimize litigation risks down the road. Under the current "suitability" standard, financial advisors must assess suitability upon the occurrence of a specific event, such as when making an investment recommendation, accepting investment instructions from a client, or when buying or selling a security under a discretionary authority. By moving to a fiduciary duty standard, the compliance obligations placed on financial advisors would become exponentially more arduous, as they would be required to continuously analyze and review client portfolios to determine how on-going market events impact the suitability of a portfolio. The end result would be an overly complex and time-consuming compliance process that would burden advisors with a wave of paperwork in order to justify straightforward investment decisions (Advocis 2013).

Advocis also notes that the introduction of a fiduciary standard would have a significant impact on financial advisor’s compensation practices. It is highly likely that the embedded compensation paid by mutual funds and other products to advisors and dealers would need to be abolished in order to remove the conflicts of interest that this compensation structure creates. This would force all client accounts into the fee-based realm, with fees charged either as a percentage of assets under management, or based on an hourly rate for work completed. The challenge with fee-based compensation structures is it is more complicated and expensive to administer, as it requires billing infrastructure for the creation, distribution, and collection of thousands of invoices every quarter for relatively small amounts – typically a couple of hundred dollars. This costly overhead makes it uneconomical for advisors and dealers to service smaller accounts <$100,000, or for clients unwilling to pay fees. The end result is that many consumers who currently receive advice from a financial advisor may no longer under a fee-based model (Advocis 2013).

Lastly, Advocis is concerned that a fiduciary standard would increase the overall level of uncertainty in the marketplace by significantly “muddying the waters” regarding the standards of conduct financial advisors are held to, leaving both advisors and their clients uncertain about their respective rights and obligations. For example, Advocis questions whether a financial advisor would be held liable for executing a client’s investment instructions in circumstances where the advisor did not feel it was in the client’s best interests? In such circumstances, there would need to be a mechanism for advisors and clients to waive a fiduciary best interest standard in situations where a client wishes to pursue a speculative investment that does not fit with their stated investment objectives. However, the need to create exemptions would only serve to undermine and ultimately weaken the purpose of enacting a fiduciary standard in the first place. As a result, moving forward with a statutory fiduciary duty is likely to contain numerous ambiguities that will require further guidance from the Canadian Securities Administrators (CSA) to fill in the regulatory gaps created by this regulation (Advocis 2013).

A Different Perspective

While many in the advisor community remain opposed to the implementation of a fiduciary standard, the Portfolio Management Association of Canada (PMAC) representing the interests of more than 170 discretionary investment management firms has voiced full support for a statutory fiduciary standard for all financial advisors. PMAC notes that as discretionary portfolio managers, its members already owe a fiduciary duty to their clients under common law. In addition, the majority of PMAC members hold the Chartered Financial Analyst (CFA) designation, and are guided by the CFA Institute's Code of Ethics and Standards of Professional Conduct. The CFA Institute's Code and Standards explicitly state that: *"Members have a duty of loyalty to their clients, and must act with reasonable care and exercise prudent judgment. Members must act for the benefit of their clients and place their client's interest before their employers or their own interest*" (CFA Institute 2014). As fiduciaries, securities regulation requires that portfolio managers have the highest level of education and experience in the investment industry given the higher level of trust that client's place in their hands. As a result, investment decisions made by a portfolio manager must be completely independent; ensuring that they place their client's interests above all other considerations.

PMAC notes that the implementation of a statutory fiduciary duty would have little impact on its members who are already acting as fiduciaries on behalf of their client's as discretionary portfolio managers. However, they strongly believe that a harmonized fiduciary duty framework for all advisors in Canada is in the best interests of investors. "*Consumers should have the same protection afforded to them regardless of where they reside, or which advisor they choose to deal with* (PMAC 2013).

Uncertainties Regarding a Fiduciary Standard

The adoption of a fiduciary or “best interest” standard represents a significant advancement in the standard of care that financial advisors would be expected to show their clients compared to existing “suitability” legislation. Despite its benefits to consumers, the implementation of a fiduciary standard does create a number of potential uncertainties or challenges for the financial advisory community.

In theory, a “fiduciary” is expected to put their clients’ interests first, acting with the prudence, skill, care, diligence, and good judgment of a professional. They provide full and fair disclosure of all material facts, avoid conflicts of interest wherever possible, and fully disclose conflicts that cannot be avoided (Ferri 2013).

Given the highly complex and subjective nature of the advisor-client relationship, it is difficult to define the boundaries of where a financial advisor’s fiduciary responsibilities begin and end. As it is up to each individual advisor to determine when and where a conflict of interest exists, it is questionable as to whether advisors would be fully transparent and forthcoming with all of the potential conflicts they face when dealing with their clients. This would be particularly true when it comes to key issues such as investment performance and advisor compensation – two areas that can have a significant impact on the client-advisor relationship. For example:

- Would an advisor have a fiduciary obligation to disclose to his or her client that a competing advisor or firm offers the same services at a lower cost?

- Would an advisor have a fiduciary obligation to disclose to his or her client that a competing advisor or firm offers investment options with better a track record of performance?

In order for a financial advisor to truly act as a fiduciary with their client's best interests at heart, it would require a level of altruism that many advisors would likely view as being detrimental to their own career success and well-being.

The application of a fiduciary standard is also complicated by the structure of Canada's wealth management industry. Differences in licensing (ie. mutual funds, securities, and insurance), impact how a financial advisor conducts his or her business, and the types of products and services they can offer. As a result, the implementation of a fiduciary standard would create potential conflicts of interest for certain advisors who are limited or restricted by the type of license they have obtained. For example:

- Would advisors who are only licensed to sell mutual funds or insurance products have a fiduciary obligation to disclose to their clients that better investment alternatives may exist at competing firms that offer a broader range of securities?

In this situation, the application of a fiduciary standard would offer advisors who are securities licensed to have both an ethical advantage, and a competitive advantage over advisors who are licensed to only sell mutual funds or insurance products.

The product offering and overall competitive position of different firms would also impact the application of a fiduciary standard. While many large brokerage firms offer a broad range of products and services from a variety of providers, a number of independent boutique firms are limited to a handful of product providers or even internally produced proprietary products. As a result, the implementation of a fiduciary standard would create potential conflict of interest for advisors whose firms are limited by their product offering. For example:

- Would advisors of firms that only offer propriety products have a fiduciary obligation to disclose to their clients that better investment options exist at competing firms that deal with a broader range of product providers?

If financial advisors are forced to disclose the limitations of their firm's product offering, advisors at firms who deal with a wide range of product providers would gain an ethical and competitive advantage over advisors whose product offerings are more limited.

The adoption of a fiduciary standard also raises important questions regarding the level of due diligence that financial advisors will be required to perform when making investment recommendations to their clients. Given that investment recommendations must no longer simply pass a test of "suitability", advisors will need to ensure they have dedicated the appropriate time and resources to select investments that are viewed to be the very best solutions available for a client given their unique financial goals and objectives. Given the vast array of products that exist in today's financial marketplace, financial advisors will need to have a rigorous due diligence process to ensure they analyze and defend their product recommendations.

While having a broad range of products and services to offer clients does provide a competitive advantages over more limited offerings, it also makes an advisor's decision making over any potential investment recommendations more complex. It is important to consider what due diligence expectations would be required under a new fiduciary standard to demonstrate that the investments chosen were truly in the best interests of the client.

Finally, the adoption of a fiduciary standard for all financial advisors raises concerns about whether every practitioner is capable of handling such responsibility. For example:

- Does it make sense to allow a novice advisor—someone who has just completed his or her securities license to serve in a fiduciary capacity? Is it reasonable to expect that a novice advisor has the necessary knowledge, experience, and skills to adhere to a more discerning standard?

- Conversely, does it make sense for a highly skilled advisor that has a wealth of education, experience and a strong moral compass to be constricted by a set of legislative rules and regulations, as opposed to being guided by a broad set of values and principles?

How Effective Is Canada's Current Financial Advisor Framework?

One of the most important questions to consider in determining whether a fiduciary standard should be implemented in Canada is to analyze how well consumers are currently being served under the existing financial advice framework.

Canada's financial institutions routinely advertise the benefits of financial advice, claiming that consumers who work with a financial advisor are financially better off than those that don't. However, trying to determine the true value that a financial advisor brings to his or her clients is a strongly debated subject, with academic studies and industry produced research often providing conflicting views and results on the subject.

The Value of Advice

The Investment Funds Institute of Canada (IFIC) publishes an annual report known as the "Value of Advice" that highlights the benefits of working with an advisor. The most recent report published in 2012 found that financial advisors helped consumers achieve greater levels of wealth through the following activities: enforcing better saving habits, selecting more tax-efficient investment vehicles, maintaining a long-term investment strategy, and protecting against poor financial decisions and avoiding emotional investing mistakes (IFIC 2012).

In addition, the Value of Advice 2012 study (IFIC 2012) suggested that working with a financial advisor had the following impacts:

1) The presence of a financial advisor had a positive and significant impact on the level of consumer's financial assets; with the impact on the level of assets more pronounced the longer the tenure of the financial advisor relationship.

2) The positive effect of financial advice on wealth accumulation was not explained by asset performance alone, as greater saving discipline through financial advice played an important role. IFIC found that advised households saved at twice the rate of non-advised households, and that financial advice increased the likelihood of saving, with a 1% increase in the ‘saving rate’ increasing the level of financial assets by 8.7%.
3) Financial advice positively impacts retirement readiness, with respondents declaring confidence in their ability to achieve a comfortable retirement by more than 13% relative to non-advised respondents.

Claims over the value of working with a financial advisor and financial advice in general often draw considerable public debate, with positive industry claims being met with skepticism by the public. Therefore it is important to try and verify these claims with independent academic literature that is hopefully more objective in its analysis and findings.

Is Financial Advice Worth It?

Financial advisors can play an important and meaningful role in helping consumer’s manage their financial affairs. Whether it is building a well-diversified investment portfolio, developing a sound retirement plan, identifying strategies to minimize tax, or ensuring a proper estate plan is completed, there are numerous areas in which a financial advisor can offer valuable advice and counsel. However, given the wide range of issues in which advisors provide clients with advice, trying to measure the quality of this advice can be challenging. One area where the value of advice can be measured objectively is in the area of investment performance.

In a 2009 research paper titled – "The Influence of Financial Advisors on Household Portfolios: A Study on Private Investors Switching to Financial Advice", Ralf Gerhardt and Andreas Hackethal analyzed the impact of advice from investment advisors across 65,000 customers of a large German-based investment bank. Their goal was to build on previous studies that suggested that advice was costly but beneficial to investors (Muller 2008). Using this data, they evaluated investor's performance on both a gross and net of fee basis, as well as measured their Sharpe ratio – or risk adjusted return, which is the best measure of assessing value-added performance to an investment portfolio.

Gerhardt and Hackethal found that portfolios managed by investment advisors had greater diversification and better risk adjusted returns relative to non-advised accounts. However, the authors noted that although the client portfolios managed by financial advisors showed superior performance relative to non-advised portfolios, the improved performance was not necessarily due to the actions of the advisor. Rather it is important to differentiate between different investor demographics, where more rational and risk-averse investors tend to seek out investment advice, while risk-loving investors with strong gambling tendencies tend to act in self-directed accounts (Gerhardt & Hackethal 2009).

One particular group of investors stood out among the various investor demographics analyzed. The most active investors achieved the poorest return results in the study. "Heavy traders" – defined as those investors who performed 3x as many trades as the group average, achieved a Sharpe ratio (risk adjusted return) that was ¼ that of the other portfolios (Gerhardt & Hackethal 2009).

Although Gerhardt and Hackethal found that investor behavior was a greater factor in determining superior returns than the advice of an advisor, they concluded that advisors did provide value by helping to ensure that investors held more diversified portfolios and avoided speculative or excessive trading strategies that significantly lowered their investment returns.

While Gerhardt and Hackethal's research found some positive impact from the use of an investment advisor, a 2013 research paper by Yigitcan Karabulut observed vary different results. Looking at more than 3000 investment accounts over a two and a half year period, Karabulut found that those investors that received advice from an advisor earned lower risk adjusted returns than self-directed investors. His findings suggest that investors make use of investment advisors as a substitute for their own lack of financial literacy, and pay a high price with sub-par performance.

The study also revealed interesting details about the types of investors that seek out investment advice. Karabulut's findings show that woman are more likely to work with a financial advisor than men, and that high-income earners tend to be more confident investing on their own than low-income earners. These findings further support the notion that financial advice acts as a substitute for the financial literacy of individuals (Karabulut 2013).

Karabulut's research looked at a variety of factors impacting portfolio performance. Among the findings, Karabulut found that "overconfident" investors who traded too frequently exhibited the worst performance – an observation that is consistent with the research from Gerhardt and Hackethal. Karabulut also noted that high-income earners realized higher returns than lower income earners – likely due to greater financial literacy, and that older individuals (>60) earned lower returns than younger individuals due to a lower tolerance for risk.

In order to determine whether financial advice contributed to an improvement in performance, Karabulut compared the performance of advised clients to non-advised clients on both a before-fee and after-fee basis. Understanding the impact of costs associated with investment advice is important, as a study by Bergstresser, Chalmers, and Tufano (2009) found that advised clients pay more than twice as much in fees and commissions as self-directed investors. As a result, the potential benefits of financial advice are often partially or entirely offset by higher costs.

Ultimately, Karabulut's findings show that while advisor's appeared to offer some marginal improvements in portfolio diversification and trading behavior, they were found to encourage portfolio turnover and make product recommendations based upon their own monetary incentives. As a result, self-directed investors had performance that was superior to the performance of advisor-managed accounts after all fees and costs were considered. Karabulut notes that this research demonstrates the "principal-agent" conflict that exists between advisors and their clients.

In fairness to the claims quoted by the Investment Funds Institute of Canada in their 2012 Value of Advice report, the studies by Gerhardt & Hackethal, and Karabulut were both based on household data outside of Canada. Fortunately, a research paper – "Retail Financial Advice: Does One Size Fit All?" by Stephen Foerster, Juhani Linnainmaa, Brian Melzer, and Alessandro Previtero provides an in-depth look at the impact of financial advisors on portfolio performance based on Canadian household data. Using data provided from four large Canadian financial institutions, Foerster et al. analyzed over 10,000 financial advisors and more than 800,000 client households to assess the impact of financial advisor's decision making on portfolio asset mix and their ability to create value for their clients. Their findings show a strong correlation between portfolio risk and the use of an advisor, with advised households allocating more of their portfolios to risky financial assets than non-advised clients.
In fact, Foerster et al. research found that financial advisors increased their client's allocation to risky assets by more than 30%. These finding are consistent with other studies suggesting that financial advisors facilitate substantially greater financial market participation and risk taking, perhaps by reducing household's uncertainty about future returns or by relieving household's anxiety when taking financial risks (Gennaioli, Scleifer, and Vishny 2014).

Next, Foerster et al. compared the performance of advisor-managed portfolios against passive investment benchmarks to determine whether “alpha” or value added performance was created. This analysis was done in two stages, comparing advisor’s skill in fund selection, asset allocation, and market timing using client performance on both a “before” fee and “net of fee” basis. Foerster et al. research found that the “average advisor showed no evidence of skill” in generating returns in excess of passive benchmark indexes on a before fee basis (Foerster et al. 2014). However, on an after fee basis, the results are much worse. Foerster et al. found that the average advised client paid 2.67% in management fees, with a range of 2.04% and 4.71% between the 5th and 95th percentiles. These fees resulted from the management expense ratios (MERs) and sales commissions paid to advisors from the sale of mutual funds. Foerster et al. found that the average advisor generated a negative alpha of -3.34%, reflecting the fees that advisors charge (2.67% for the average advisor), as well as the underperformance of the advisor’s actively managed mutual fund portfolio versus using low-cost passive index funds (Foerster et al. 2014).

In addition, Foerster et al. found that the amount of risk a financial advisor takes in his or her own portfolio strongly predicts the risk taken by his or her clients. Differences in an advisor’s beliefs and preferences contribute significantly to portfolio allocation and decision making for clients.

Foerster et al. draw a number of conclusions from their research. First, advisors encourage increased risk taking among their clients - allocating as much as 30% more to risky assets than non-advised clients. Second, financial advisor’s personal beliefs and biases play a significant role in how they invest their client’s money. Furthermore, the amount of risk a financial advisor takes in his or her own personal portfolio is a strong predictor of the risk taken by his or her clients. Third, investment advice comes with high costs and in many cases lower returns. With the average advisor-managed client paying nearly 2.7% of their assets per year for advice, consumers are suffering a significant drag in their portfolio's performance due to higher fees and commissions. In addition, the higher expected return (also known as the equity risk premium) that should be generated as a result of greater risk taking is completely nullified by the higher costs borne by clients in high fee mutual funds. Foerster et al. conclude that for the average investor, "investment advice alone does not justify the fees paid to advisors" (Foerster et al. 2014).

Based upon these findings, it is evident that many consumers fail to achieve the purported value-added advice suggested by financial advisors and their firms as a result of the higher explicit and implicit costs that exist in the majority of client-advisor relationships. Without a fiduciary standard that forces financial advisors to act in their client's best interests, advisors will continue to recommend and sell high fee mutual funds and other costly products that drag down investment performance.

In fact, Canada has the dubious distinction of having the highest mutual fund fees and expenses in the world, according to a global survey of 24 different countries by investment research firm Morningstar. For the third time in a row, Canada scored an "F" rating for its high mutual fund ownership costs and expenses according to the Global Fund Investor Experience (GFIE) report (Morningstar 2013).

Average Mutual Fund Management Expense Ratios (MERs) in Canada

Category	**Fixed Income**	**Balanced**	**Equity**
Average MERs	1.50%	2.12%	2.42%

Source: Morningstar – Global Fund Investor Experience Report (Morningstar 2013)

As Money Sense magazine's senior editor David Hodges notes; "*the high cost of buying mutual funds here can be attributed to many unsavory practices, including self-interested salespeople, opaque contracts and hidden fees. The well-known fact that the vast majority of Canada's actively managed mutual funds are in fact closet index-huggers makes paying these kind of inflated prices even more outrageous"* (Hodges 2013).

Former Illinois Senator Peter Fitzgerald provided a similar indictment of the US mutual fund industry in testimony to congress; *"The mutual fund industry is now the world's largest skimming operation, a $7 trillion dollar trough from which fund managers, brokers, and other insiders are steadily siphoning off an excessive slice of the nation's household, college, and retirement savings" (Farrell 2012).*

Even Canada's regulators have started to take notice of the high cost of mutual fund ownership in this country, proposing a number of new regulatory options to help address the issue. In a 2012 consultation paper known as the CSA Discussion Paper and Request for Comment 81-407 Mutual Fund Fees, Canada's top regulators, known as the Canadian Securities Administrators (CSA) acknowledged that many consumers mistakenly believe that there is no cost to purchasing or owning mutual funds. This is in part due to the fact that advisors are not required to tell investors how much they make on trailer fees or other embedded compensation from the sale of mutual funds (CSA 2012). As a result, the CSA has outlined a number of options being considered to help improve fee transparency and lower overall costs to consumers, including (CSA 2012):

- The unbundling of trailer commissions from management fees to improve transparency to consumers.
- The potential capping of trailer commissions to help reduce overall costs to consumers.
- The creation of a new class of lower fee funds for do-it-your-self investors.
- At outright ban on trailers, that would shift the mutual fund industry to a fee-based model requiring full disclosure of all costs.

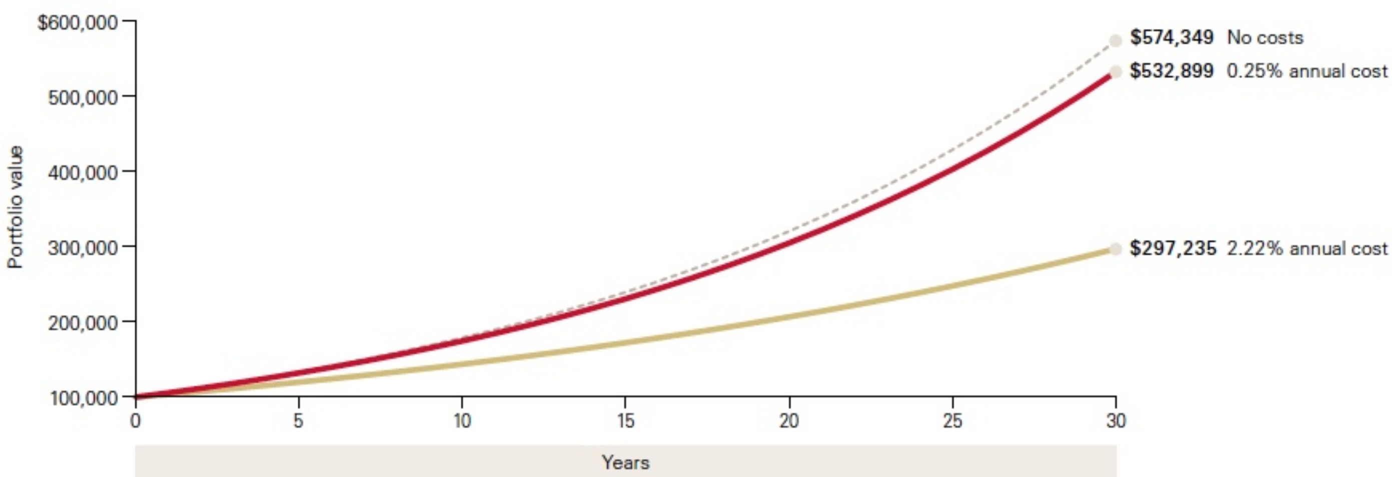
Furthermore, the proposal to ban mutual fund trailers is supported by the Canadian Foundation for the Advancement of Investor Rights (FAIR), which argues that the cost of financial advice should be charged separately from the cost of a financial product. While improving disclosure is a positive step, it does not always lead to better decision-making by consumers, as many are not equipped to properly factor this information into their investment decision-making. FAIR notes that consumers often place a “blind-faith” in their advisor, and show a complete disregard for any negative effects that a conflict of interest may have on the advice provided. In the absence of holding advisors to a fiduciary standard, banning trailing commissions and charging clients directly for financial advice will help to ensure that consumers can better assess whether the services and advice their advisor provide justify their fees. Only by paying fees for financial advice separately and directly, will consumers be able to shop and compare financial providers, allowing for real price competition in the marketplace (FAIR 2013).

Why Costs Matter

Minimizing costs should be a critical part of every investor's strategy, as every dollar paid in management fees or trading commissions is simply a dollar less available for earning potential returns (Vanguard 2013).

Figure 8. The long-term impact of investment costs on portfolio balances

Assuming a starting balance of $100,000 and a yearly return of 6%, which is reinvested



Source: Vanguard – Principles of Investing (Vanguard 2013)

The chart above illustrates how strongly costs can affect long-term portfolio performance. It depicts the impact of expenses over a 30-year time horizon in which a hypothetical portfolio with a starting value of $100,000 grows at an average of 6% annually. In the low-cost scenario, the investor pays 0.25% of their assets every year, whereas in the high-cost scenario, the investor pays 2.22% annually (the approximate average expense ratio for a Canadian equity mutual fund as of December 31, 2013). The potential impact on the portfolio's growth over three decades is striking - a difference of approximately $235,000 between the low-cost and high-cost scenarios (Vanguard 2013).

Beyond the high fees and expenses associated with owning mutual funds is the fact that very few actively managed mutual funds generate returns that match or beat their respective benchmarks. Standard & Poors SPIVA Scorecards provide a comprehensive look at the performance of actively managed mutual funds versus their passive index benchmarks.

% of Actively Managed Mutual Funds Outperforming the Index (Mid-Year 2014)

Fund Category	Comparison Index	1 Year (%)	3 Year (%)	5 Year (%)
Canadian Equity Funds	S&P/TSX Composite Total Return Index	20.46%	32.08%	19.57%
US Equity Funds	S&P 500 Total Return (CAD)	31.58%	1.47%	5.13%
International Equity Funds	S&P EPAC Large-Mid Cap Total Return (CAD)	21.21%	11.77%	10.00%
Global Equity Funds	S&P Developed Large-Mid Cap Total Return (CAD)	12.77%	5.83%	5.26%

Source: S&P Dow Jones Indices LLC, Fundata. Data as of June 30, 2014.

Standard & Poor's research shows that over longer periods of time (>5 years), less than 20% of actively managed Canadian equity funds outperformed their respective benchmark. In the case of US and Global equity funds, it was even less - at around 5%. Put another way, investors have at best a 1 in 5 chance of beating the market using actively managed mutual funds, and in some cases as little as a 1 in 20 chance. These odds certainly suggest that investors would be wise to consider using passive investment strategies as opposed to active when considering their investment options.

"Most investors, both institutional and individual, will find that the best way to own common stocks is through an index fund that charges minimal fees. Those following this path are sure to beat the net results (after fees and expenses) of the great majority of investment professionals."
— Warren Buffett, 1996 (IFA 2014)

Despite the evidence that passive investment strategies offer better results for investors, the majority of advisors in Canada continue to recommend actively managed mutual funds and other similar products that charge high fees, due to their embedded compensation structures.

Although high fees and consistent underperformance characterize Canada's mutual fund industry, investors continue to purchase actively managed mutual funds at a surprising rate. As of November 2014, Canadian's held more than $1 trillion dollars in mutual fund assets according to the Investment Funds Institute of Canada, and purchased more than $60 billion dollars' worth of new mutual fund assets in 2014 alone (IFIC 2014). Mutual funds are the most commonly held investment product in the country, with 62% of Canadians holding mutual funds in their investment portfolios (Investor Economics / CSA 2012). In addition, mutual funds make up the largest share of investable assets for the typical Canadian household. At June 2011, the average Canadian household held 36.1% of its investable assets in mutual funds (Investor Economics / CSA 2012). In addition, mutual fund assets accounted for 73.8% of all Canadian investment industry assets under management (Investor Economics / CSA 2012).

Canada's Total Mutual Fund Assets Under Management (AUM) – November 2014

Date	**November 2014**	**November 2013**	**YOY Growth**
Total Assets	$1,154 Billion	$986.4 Billion	168.3 Billion

Source: Investment Funds Institute of Canada – IFIC Industry Overview (November 2014).

It's hard to imagine that Canadian's would continue to purchase high fee mutual funds delivering sub-par performance if financial advisors were held to a fiduciary standard that required them to act in their client's best interests. Without misaligned incentives distorting the advice being provided, low-cost index-based investments would be more frequently recommended over high-cost actively managed ones. As a result, consumers would receive more objective and cost-conscious advice that would help to improve their returns over the long run.

Better Disclosure is not Enough

Financial regulators often focus on improving disclosure as their primary solution to addressing the conflicts of interest that exist between advisors and their clients. While common sense suggests that consumers benefit from being more fully informed when making investment decisions, a 2003 research study – "The Dirt on Coming Clean: Perverse Effects of Disclosing Conflicts of Interest", by Daylian Cain, George Lowenstein, and Don Moore - suggests that the benefits of improved financial disclosure should not be assumed so quickly.

Cain et al. note that in order for disclosure to be effective, the recipient of advice must understand how the conflict of interest has influenced their advisor so that they may correct for this biasing influence. In many situations, the public's understanding of potential conflicts of interest, and their ability to correct for it is woefully lacking. Research finds that people tend to be naturally trusting and credulous towards their advisors, and underestimate the extent to which their advice may be distorted. Consumers will even acknowledge that while conflicts of interest exist between financial advisors and their clients, few can imagine that their own advisor would be affected (Cain et al. 2003).

In addition, most people have an incorrect understanding of the psychological mechanisms that transform conflicts of interest into biased advice. Many people think that conflicts of interest are a problem of overt corruption, i.e., that professionals consciously and intentionally misrepresent the advice they give so as to secure personal financial gain. However, considerable research suggests that biases are more frequently the result of motivational processes that are unintentional and unconscious on the part of the advisor (Cain et al. 2003).

Cain et al. also note that increased disclosure is a remedy most often embraced by professionals as the lesser of evils, since it generally involves minimal disruption of the status quo. In fact, financial disclosure offers benefits to advisors, as it diminishes their responsibility for adverse outcomes. If clients agree to participate on the recommendations of their advisor when all of the necessary disclosures have been performed, it can be argued that the investor is now fully liable for any negative consequences that result; i.e. *caveat emptor* – or “buyer beware” (Cain et al. 2013).

Information Overload

Concerns over the effectiveness of financial disclosure are shared by Troy Paredes, an associate law professor at Washington University. In his 2003 research paper – “Blinded by the Light: Information Overload and its Consequences for Securities Regulation”, Paredes notes that securities regulation focuses primarily on the disclosure of information, and pays relatively little attention to how the information is used. Securities law generally assumes that investors and other capital market participants are perfectly rational, in which case greater information will lead to better investment decision-making. However, research has demonstrated that investors are not perfectly rational, as people have limited cognitive ability to process information, as well as a finite amount of time and resources. As a result, people tend to adopt heuristics or “rules of thumb” to simply complicated tasks. Studies show that at some point, people become overloaded with information and make worse decisions than if less information were made available to them (Paredes 2003).

These findings suggest that greater financial disclosure is unlikely to address the challenges and concerns consumers have when trying to navigate today’s complex financial marketplace. Rather than trying to bombard the public with even more information, regulators should focus on protecting the public by holding advisors to a higher standard of care – as financial fiduciaries.

The Need for a Fiduciary Standard

In a 2010 research paper – “The Economics of Fiduciary Investment Advice”, Benjamin Cummings and Michael Finke suggest that advisors need to be held to a fiduciary standard in order to ensure that consumer’s interests are placed ahead of their advisor. Due to the information asymmetry that exists in an advisor-client relationship, consumers are often unable to assess the difference between their advisor’s recommendation and the “optimal” recommendation, leaving them vulnerable to the self-serving interests of their advisor (Cummings & Finke 2010).

Cummings and Finke (2010) suggest that in an efficient market, consumers will pay for financial advice when: 1) they believe their advisor knows more about investing than they do, and 2) the perceived benefits of hiring an advisor outweigh the costs. Without an informational imbalance between the advisor and client, there would be no motivation to pay for “professional” advice. However, this informational imbalance often creates situations where advisors make recommendations based upon their own set of preferences, resulting in less than optimal outcomes, and wide-spread consumer losses for society as a whole (Cummings & Finke 2010).

While it would be impractical and economically inefficient to expect no consumer losses from the delegation of decision-making to an investment advisor, Cummings and Finke (2010) suggest that these losses need to be minimized through effective regulation and oversight that places restrictions on self-serving behavior. Regulation that decreases agency costs to consumers or increases costs to advisors for not acting prudently will result in an increase in overall consumer welfare. If the costs of self-serving advice are sufficiently large, advisors who make low-quality recommendations will suffer, while higher quality advisors will stay in business. However, in the absence of proper disincentives, the most successful advisors will be those who make recommendations that maximize their own revenue rather than the welfare of the client (Cummings & Finke 2010).

Concerns over the information asymmetry that exists between advisors and their clients, is shared by Ken Kivenko, president of Canadian Fund Watch (an investor education and advocacy group) – who suggests that a fiduciary standard for investment advisors is urgently needed, given that many retail investors, particularly seniors - are vulnerable to bad advice due to a lack of financial literacy and a tendency to be overly trusting of others (Kivenko 2012).

Kivenko (2012) suggests than under Canada's "suitability" standard, investors have to make purchase decisions with inadequate information and live with the results. To understand the difference between a "suitability" and "fiduciary" standard, consider the example of a financial advisor who recommends a client purchase a high fee mutual fund with a deferred sales charge (DSC) – a recommendation designed to generate the largest possible commission for the advisor. As long as the fund is considered "suitable" for the client - based on the client's investment objectives and risk tolerance, the advisor is within his or her right to recommend the product, regardless of whether it is truly the best product for the client. If the advisor had been bound by a fiduciary / "best-interest" standard, the advisor would be required to recommend a better, low-cost solution (Kivenko 2012).

Assessing the Impact of a Fiduciary Standard

While Canada has yet to implement a uniform fiduciary standard for financial advisors, other jurisdictions such as the United States provide a guide to the potential impact such a regulatory change would have.

In a 2014 study - Suitability Versus Fiduciary Standard (Goetz et al. 2014) researchers from the University of Georgia surveyed 387 advisors from 48 different states to assess how financial advisor's felt their advice would change under a fiduciary standard. The results are reprinted below:

Advisor's Views of How Their Advice Might Change Under a Fiduciary Standard

How Do You Think Your Advice Might Change	Greater	Lesser	Unchanged	Prefer Not to Say
My ability to act in my client's best interest would likely be	**35%**	18%	41%	6%
The likelihood I would find the best investment products for my client would be	**47%**	29%	18%	6%
The time I would spend with my clients would likely be	**53%**	12%	29%	6%
The fees my clients pay would likely be	24%	**35%**	35%	6%

Source: Suitability Versus Fiduciary Standard. The Perceived Impact of Changing One's Standard of Care. (Goetz, J. Chatterjee, S. Cude, B. 2014).

These findings suggest that financial advisors who currently follow a suitability standard would advise their client's differently if they were held to a fiduciary standard. As shown above, 35% of advisors felt their ability to act in their client's best interest would be greater under a fiduciary standard, and nearly half of advisors (47%) felt their investment recommendations would be superior if held to a higher standard.

Nearly a third of advisors (35%) felt that their clients would pay lower fees as a result of a fiduciary standard, and the majority of advisors (53%) felt that they would spend more time with their clients then they do currently under the existing suitability standard.

While this study does suggest that a fiduciary standard would have a positive impact on the way advisors conduct themselves, it is limited by the fact that it only reflects opinions, as opposed to actual observed behaviors. Fortunately, a 2012 study – "The Impact of the Broker-Dealer Fiduciary Standard on Financial Advice", by Michael Finke and Thomas Langdon provides a real life look at the impact of a fiduciary standard using a large sample of financial advisors across the United States. In order to test claims of whether the brokerage industry and its clients would be adversely affected by the imposition of a stricter fiduciary standard, Finke & Langdon analyzed and compared broker-dealers in states that impose a fiduciary duty on advisors, with states that do not impose such a duty. Their study compared 544,000 registered representatives (financial advisors) across all 50 states, of which four states apply a strict fiduciary standard, 14 states apply a limited fiduciary standard, and 32 states apply no fiduciary standard at all. Finke and Langdon's study found no evidence that the broker-dealer industry was negatively affected by the imposition of a stricter legal fiduciary standard on the conduct of registered representatives (Finke & Langdon 2012). First, they found that the "saturation rate" of advisors practicing in states with a strict fiduciary duty was nearly identical to states that had a limited duty or no fiduciary duty at all, suggesting that a stricter regulatory regime did not result in fewer advisors being able to carry on business due to the perceived increase in regulatory and liability costs associated with a fiduciary standard (Finke & Langdon 2012).

In addition, Finke & Langdon (2012) found no evidence that small investors had less access to advice from advisors operating under a fiduciary standard. Despite concerns from the investment community that smaller client's may be unable to access advice due to the increased regulatory and liability costs associated with a fiduciary standard, the percentage of low to moderate income clients (defined as income below $75,000 per year) was statistically equal between both groups of advisors (Finke & Langdon 2012).

Lastly, Finke and Langdon (2012) conclude that the imposition of a fiduciary standard among financial advisors may result in net welfare gains to society, with minimal impact to the financial industry (Finke & Langdon 2012).

Recommendations for Financial Advisors

The majority of financial advisors have traditionally focused on investment performance as their core value proposition to investors, seeking to add value through activities such as market timing and security selection. While it is possible for active managers to outperform in the short-run, consistent outperformance over the longer term is extremely rare. This underperformance isn't necessarily due to a lack of skill, but rather a consequence of higher management fees and trading costs associated with active management. Therefore, a customer value proposition based on outperforming the market places an advisor at a significant disadvantage, as its success is dependent on factors outside of the advisors control – such as the returns from individual securities or actively managed mutual funds (Bennyhoff & Kinniry 2012).

Rather than trying to "beat the market", research suggests that advisors should focus their efforts on activities that have a greater probability of adding value to clients, such as holistic wealth management and financial planning advice. In addition, advisors should focus on low-cost "passive" investment strategies that seek to capture market returns, rather than using high-cost "actively" managed strategies that attempt to beat the market.

In the past, many investors viewed "passive" investing as leading only to "average" returns, requiring no investment skill. Today, the idea of capturing beta or market returns has become the cornerstone strategy for many investors, including large institutional investors such as pension funds and endowments. This transition to "passive" investing has been facilitated by two factors. First the "democratization of indexing" through the use of exchange traded funds or ETFs, has brought a plethora of indexing options to both institutional and retail investors. Secondly, investors have begun to move towards a more holistic investment model that focuses on transparency and low-cost investment options (Bennyhoff & Kinniry 2012).

In fact, financial advisors and other investment professionals would be wise to adopt the movement to passive investing when it comes to their own personal investment portfolios. In a 2014 study – "Do Financial Experts Make Better Investment Decisions?", Andriy Bodnaruk and Andrei Simonov analyzed the personal investment portfolios of 84 mutual fund manager's to determine the impact of financial expertise on investment outcomes. Their research found that "financial experts" did not make better investment decisions than the average retail investor. In fact, despite having greater knowledge and experience, along with access to superior information and analytical tools then the average investor, the portfolio managers demonstrated no ability to outperform the market with their own money. In addition, these "financial experts" were prone to many of the same mistakes as the average retail investor – which included holding undiversified portfolios, and exhibiting costly behavioral investing mistakes. If these highly skilled and experienced investors cannot outperform the market with their own personal investment portfolios, financial advisors should think twice about using investment performance as their core value proposition to clients.

Calculating an Advisor's Real Value

Can financial advisors actually provide value to their clients? Researchers at Vanguard and Morningstar have attempted to quantify the added value that financial advisors can provide their clients through intelligent planning and portfolio design strategies. Estimates from Vanguard suggest that financial advisors can add as much as 3.00% in "value-added" performance through a number of investing best practices (Kinniry Jr. et al. 2014). Rather than focusing on security selection and market timing – two activities that have low probabilities of success, financial advisors should focus their energy and efforts on the following 7 strategies:

1. Construct broadly diversified portfolios focused on strategic asset allocation as the primary driver of portfolio risk and return.

2. Minimize portfolio costs through the use of low-cost index mutual funds and exchange traded funds (ETFs).
3. Ensure regular rebalancing of the portfolio back to its target asset allocation.
4. Practice effective behavioral coaching to help clients avoid making costly behavioral mistakes during periods of market volatility.
5. Optimize tax efficiency by holding portfolio assets in their optimal asset location – such as an RRSP, TFSA, non-registered account, etc.
6. Implement effective portfolio withdrawal strategies that optimize tax efficient income in retirement.
7. Focus on a “total return” investment approach that considers a client’s overall returns net of inflation, taxes, and expenses.

By focusing on the best practices listed above, financial advisors can create meaningful value for their clients, and do so with the knowledge that these actions have a much greater likelihood of success.

Beyond a Fiduciary Standard

Holding financial advisors to a fiduciary standard represents an important step in helping to build consumer's trust and confidence in Canada's financial advice industry. However, even the strictest rules and regulations are not a replacement for dedicated professionals who are committed to the highest levels of integrity and ethical behavior by choice, rather than by enforcement.

The past two decades have witnessed tremendous growth in the wealth management industry. Unfortunately, in many cases, this growth has come at the expense of the investors it was designed to serve. Jack Bogle – founder of investment firm Vanguard, decries the industry in the following quote: "*the investment business has turned from stewardship to salesmanship, from managing assets to gathering assets. We have become largely a marketing industry engaged in a furious orgy of product proliferation" (Bogle 2014).*

While a higher standard of care among financial advisors can play an important role in fostering a more ethical and professional financial advice industry, Jack Bogle and other suggest that what is needed most is a change in mindset that sees the financial advice industry restore its sense of stewardship to investors.

Rather than trying to impose a higher standard of care on advisors through tougher rules and regulations, Don Trone of 3Ethos, proposes the concept of a "Financial Steward", representing a fiduciary of the highest order that is driven by principles, not profits. As financial stewards, advisors would be motivated to act in the best interests of their clients based upon a set of guiding principles, rather than rules and regulations. Financial stewards represent advisors who heed a higher calling to protect and promote the well-being of others, offering the same type of selfless advice to a client that they would provide to a close family relative (Trone 2013).

Given the difficulty of applying a fiduciary standard on an industry wide basis, Trone argues that a uniform fiduciary standard will become nothing more than a checklist of compliance activities that need to be completed whenever an advisor offers advice to a retail client. In effect, it will institutionalize mediocrity, rather than truly pushing for a higher standard of care. Instead of using rules to restrict conduct or regulations to control actions, policymakers should focus on developing a set of principles that seek to guide advisor conduct to a higher standard of care. Trone has proposed a hierarchy of governance for financial advisor governance that seeks to classify advisors based upon their overall level of engagement, experience, and ethos - a combination of character, competence, and courage (Trone 2013).

Hierarchy of Advisor Governance

Title	**Standard**	**Governance**
Salesperson	Suitability	Rules
Financial Advisor	Fiduciary	Regulations
Financial Steward	Stewardship	Principles

Source: Trone, D. (2013, November 1). Uniformity = Mediocrity. Financial Advisor Magazine.

Using this hierarchy framework as a guide, financial advisors should aspire to reach the level of financial steward, where rules and regulations are replaced by a set of guiding principles that would form the foundation of how advisors choose to conduct themselves.

Conclusion

Canadians' need for sound financial advice has never been greater. Faced with longer life-expectancies, volatile financial markets, record low interest rates, sky-high consumer debt levels, and a shrinking social safety net, consumers are bearing a greater responsibility to plan and save for their own financial well-being than ever before. To meet this challenge, the majority of Canadians will need to turn to a trusted advisor for objective advice and counsel. While Canada's regulators have proposed a number of regulatory reforms to better serve the public trust, well-entrenched conflicts of interest will continue to impact the quality of advice that consumers receive. Despite potential challenges in its implementation, holding financial advisors to a fiduciary standard represents one of the most important steps Canadian regulators can take to ensure that the advice consumers receive is truly in their best interests.

The adoption of a fiduciary standard also represents an important step in helping to transform Canada's financial advice industry into a true profession, one that is characterized by a commitment to the highest levels of ethical and professional practice. While conflicts of interest will always exist, the adoption of a fiduciary standard helps place financial advisors on a path to "stewardship" whereby the public's best interests are paramount, and advisors work selflessly to improve the financial well-being of the clients they serve.

References

Advocis. (2013, February 20). Response to Canadian Securities Administrators Consultation Paper 33-403: The Standard of Conduct for Advisors and Dealers: Exploring the Appropriateness of Introducing a Best Interest Duty When Advice is Provided to Retail Clients. Retrieved from: http://www.advocis.ca/regulatory-affairs/submissions13.html

Advocis & Pricewaterhouse Coopers. (2014, July). Sound Advice - Insight into Canada's Financial Advice Industry. Retrieved from: http://www.advocis.ca/sareport.pdf

Bennyhoff, D. & Kinniry Jr., F. (2013, April). Advisor's Alpha. *Vanguard*. Retrieved from: https://advisors.vanguard.com/iwe/pdf/ICRAA.pdf

Bergstresser, Chalmers, and Tufano (2009). Assessing the Costs and Benefits of Brokers in the Mutual Fund Industry (October 2009). *The Review of Financial Studies,* Vol. 22, Issue 10, pp. 4129-4156, 2009. Retrieved from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1479110

Bodnaruk, A. & Simonov, A. (2014, October 7). Do Financial Experts Make Better Investment Decisions? Retrieved from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2506988

Bogle, J. (2009). *Enough*. John Wiley & Sons Inc. Hoboken, NJ.

The Brondesbury Group. (2012). Investor Behavior and Beliefs: Advisor Relationships and Investor Decision Making Study. *Investor Education Fund*. Retrieved from: http://www.getsmarteraboutmoney.ca/en/research/Our-research/Documents/2012%20IEF%20Adviser%20relationships%20and%20investor%20decision-making%20study%20FINAL.pdf

Cain, D. Loewenstein, G. Moore, D. (2003, December 1). The Dirt on Coming Clean: Perverse Effects of Disclosing Conflicts of Interest. Retrieved from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=480121

Canadian ETF Association. (2014). Industry Statistics. Retrieved from: http://www.cetfa.ca/infocentre/stats.html

Canadian Securities Administrators. (2012, December 13). Discussion Paper and Request for Comment 81-407 Mutual Fund Fees. Retrieved from: http://www.osc.gov.on.ca/documents/en/Securities-Category8/csa_2012123_81-407_rfc-mutual-fund-fees.pdf

CARP. (2014, February 28). Consultation Submission to the Department of Finance: Strengthening Canada's Financial Consumer Protection Framework. *Canadian Association of Retired Persons*. Retrieved from: http://www.carp.ca/wp-content/uploads/2014/02/CARP-Submission-Canadas-Financial-Consumer-Protection-Framework-Feb-2014.pdf
CFA Institute & Edelman. (2013). Investor Trust Study. Retrieved from: http://www.cfainstitute.org/about/press/release/Pages/08142013_90232.aspx

Cockerline, J. (2012). New Evidence on the Value of Financial Advice. *The Investment Funds Institute of Canada*. Retrieved from: https://www.ific.ca/wp-content/uploads/2013/08/New-Evidence-on-the-Value-of-Financial-Advice-November-2012.pdf/1653/

Fabozzi, F. Focardi, S. Jonas, C. (2014, May 16). Investment Management: A Science to Teach or An Art to Learn? CFA Institute Research Foundation. Retrieved from: http://www.cfapubs.org/doi/pdf/10.2470/rf.v2014.n3.1

Fargeot, C. & Orsagh, M. (2013, December). Restricting Sales Inducements: Perspectives on the Availability and Quality of Financial Advice for Individual Investors. CFA Institute Research Foundation. Retrieved from: http://www.cfapubs.org/toc/ccb/2013/2013/15

Farrell, P. (2012, October 12). Mutual fund casinos still skimming billions. *MarketWatch*. Retrieved from: http://www.marketwatch.com/story/mutual-fund-casinos-still-skimming-billions-2012-10-12

Ferri, R. (2013, August 26). Beyond the Fiduciary Standard. Forbes.com. Retrieved from: http://www.forbes.com/sites/rickferri/2013/08/26/beyond-the-fiduciary-standard/

Finke, M. & Langdon, T. (2012, March 9). The Impact of the Broker-Dealer Fiduciary Standard on Financial Advice. Retrieved from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2019090

Foerster, S. Linnainmaa, J. Melzer, B. Previtero, A. (2014, November). Retail Financial Advice: Does One Size Fit All?. *Chicago Booth Paper No. 14-38*. Retrieved form: http://www.nber.org/papers/w20712.pdf

Gerhardt, R. & Hackethal, A. (2009, February 14). The Influence of Financial Advisors on Household Portfolios: A Study On Private Investors Switching to Financial Advice. Retrieved from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1343607

Goetz, J. Chatterjee, S. Cude, B. (2014, February). Suitability Versus Fiduciary Standard - The Perceived Impacts of Changing One's Standard of Care. *Journal of Financial Planning*. Retrieved from: http://www.onefpa.org/journal/Pages/Suitability-Versus-Fiduciary-Standard.aspx

Hackethal, A. Haliassos, M. and Jappelli, T. Financial Advisors: A Case of Babysitters? (June 8, 2011). Retrieved at: http://ssrn.com/abstract=1360440

Hodges, D. (2013, May 22). Dear Canada: Your mutual fund fees still stink. *MoneySense*. Retrieved from: http://www.moneysense.ca/invest/dear-canada-your-mutual-fund-fees-still-stink

Index Fund Advisors. (2014). Warren Buffet Quote. Retrieved from: http://www.ifa.com/12steps/step1/

Investment Funds Institute of Canada. (2014). Stats and Facts. Retrieved from: https://www.ific.ca/en/info/stats-and-facts/

Investment Funds Institute of Canada. (2012, November). The Value of Advice Report. Retrieved from: https://www.ific.ca/en/policy_topics/value-of-advice/

Investor Economics. (2014, December). Insight December 2014 Report. Retrieved from: http://investoreconomics.com/issue/insight-december-2014

Karabulut, Y. (2013, June 17). Financial Advice: An Improvement for Worse? http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1710634&rec=1&srcabs=968197&alg=1&pos=2

Kinniry Jr, F. Jaconetti, C. DiJoseph, M. Zibering, Y. (2014 March). Putting a Value on Your Value: Quantifying Vanguard Advisor's Alpha. *Vanguard*. Retrieved from: http://www.vanguard.com/pdf/ISGQVAA.pdf

Morningstar. (2013, May 15). Global Fund Investor Experience Report. Retrieved from: http://corporate.morningstar.com/US/asp/subject.aspx?xmlfile=374.xml&filter=3081

Ontario Securities Commission. (2012. September 28). National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. https://www.osc.gov.on.ca/documents/en/Securities-Category3/ni_20120928_31-103_unofficial-consolidated.pdf

Paredes, T. (2003, June 1). Blinded by the Light: Information Overload and its Consequences for Securities Regulation. *Washington University Law Quarterly*. Retrieved from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=413180

PMAC. (2013, February 22). Response to Canadian Securities Administrators Consultation Paper 33-403: The Standard of Conduct for Advisors and Dealers: Exploring the Appropriateness of Introducing a Best Interest Duty When Advice is Provided to Retail Clients. Retrieved from: http://www.portfoliomanagement.org/2013/02/csa-consultation-paper-33-403-the-standard-of-conduct-for-advisers-and-dealers/

PRI Association. (2014). Responsible Investment and Fiduciary Duty. *PRI Association.* Retrieved from: http://www.unpri.org/wp-content/uploads/3.Responsibleinvestmentandfiduciaryduty.pdf

Roseman, E. (2014, Oct 28). Disclosure May Not Work in Investing: Roseman. The Star.com. Retrieved from: http://www.thestar.com/business/personal_finance/2014/10/28/disclosure_may_not_work_in_investing_roseman.html

Rostad, K. (2014, September 10). Key Principles for Fiduciary Best Practices and an Emerging Profession. *Institute for the Fiduciary Standard*. Retrieved from: http://www.thefiduciaryinstitute.org/wp-content/uploads/2014/09/BPPSeptember102014.pdf
S&P Dow Jones Indices. (2014). SPIVA Canada Scorecard. Retrieved from: http://www.spindices.com/documents/spiva/spiva-canada-scorecard-midyear-2014.pdf

Roth, S. (2013, September). Calculating an Advisor's Value. *Financial-Planning.com*. Retrieved from: http://www.financial-planning.com/fp_issues/43_9/morningstars-gamma-how-financial-advisors-add-value-2686311-1.html#Login

Shah, S. (2014, April). The Principal–Agent Problem in Finance. The CFA Institute Research Foundation. Retrieved from: http://www.cfapubs.org/doi/pdf/10.2470/rflr.v10.n1.1?gclid=Cj0KEQjw-dSgBRDb0oOl9MzxqMEBEiQAkHqy-SJUMN1lMlAKO3AZ-LVj4K92Nw3vnT1Rvyj_IX8ctjUaArEG8P8HAQ

Sitkoff, R. (2014, February). The Fiduciary Obligations of Financial Advisers under the Law of Agency. *Journal of Financial Planning*. Retrieved from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2234830

Trone, D. (2013, November 1). Uniformity = Mediocrity. Financial Advisor Magazine. Retrieved from: http://www.fa-mag.com/news/uniformity---mediocrity-15828.html

Vanguard. (2013). Principles for Investing Success. Retrieved from: https://www.vanguardcanada.ca/individual/about-vanguard/investment-principles.htm#minimize-costs