

Choosing Your Financial Advisers

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Choosing financial advisers is an important first step toward successful investment planning. Having access to sound, objective financial advice will be key to your long term financial success. With that in mind, you should take the time to choose your financial advisers just as carefully as you would a family doctor or a lawyer.

In Canada, securities laws require anyone trading securities or in the business of advising clients on securities to be registered with (licensed by) the provincial or territorial securities regulator, unless a registration exemption applies. This regulatory system ensures that all registered dealers and advisers meet certain minimum standards. However, it does not mean that they are all equally skilled, that they provide the same services, or that they charge the same fees.

What Types of Financial Advisers are There?

Dealers (Stockbrokers)

Dealers are firms that are registered with securities regulators to buy or sell securities on behalf of clients. This registration also allows them to provide advice to clients about the purchase or sale of securities. There are many different types of dealers offering different products and services and specializing in different areas:

- Some are large national firms, while others are very small and operate in only one province or territory, or one city.
- Some dealers are registered to buy or sell a full range of securities, while others are restricted to certain types of products such as mutual funds, scholarship plans, real estate securities or exchange contracts.
- All dealers are subject to regulation by provincial or territorial securities regulators. Some are also members of self-regulatory organizations.
- Some, but not all, dealers participate in contingency funds such as the Canadian Investor Protection Fund (CIPF). These funds are not designed to cover losses on investments but they provide reimbursement (within limits) for cash or securities lost in the event a dealer becomes insolvent.
- Some dealers offer clients a full range of trading, research and advisory services, while others specialize in providing low cost trade execution services for investors who are able to make their own investment decisions.

Advisers

Advisers are firms that specialize in providing advice to clients about investing in securities, but do not offer the trade execution services that are provided by dealers. You would look to a registered adviser purely for investment advice or if you wanted someone to manage your investment portfolio on your behalf.

Advice can come in different formats: face to face, written (newsletters and advertisements), e-mail, audio and Internet. Some advisers, called portfolio managers, are authorized to make discretionary trades on behalf of their clients (you give them authority to make investment decisions and to trade on your behalf). Advisers must be registered with the regulator in your jurisdiction and, like dealers, may offer different services depending on their category of registration.

What About Financial Planners?

Financial planners are people who offer the public financial services such as personal budgeting, cash and debt management, retirement planning and tax planning. Except in Québec, financial planners are not currently subject to provincial registration or regulation, although a number of jurisdictions are considering the issue. If, however, a financial planner wants to trade in securities or advise clients on securities, he or she must become registered under the securities legislation. Without that registration, financial planners cannot trade securities for their clients or recommend the sale or purchase of specific securities. Across Canada, many financial planners have become registered to trade in mutual funds, allowing them to trade and advise clients only with respect to mutual funds.

Selecting Your Financial Adviser

Investing your life savings involves a great deal of trust – trust in the management of companies you invest in, and trust in the people who advise you and handle your investment funds. However, trust is not enough and it should never take the place of careful research and healthy skepticism. Don't make your choice of financial advisers lightly.

How Do I Start?

When you start your search for a dealer or adviser, remember that you want to have confidence in and be comfortable with both the firm and the individual representative who will service your account. Find out if the firm focuses on certain sectors of the market or on certain types of securities. Make sure the firm's style and the individual representative's style match your own.

Decide what kind of investment services you need. Are you a knowledgeable investor who plans to do your own investment research and make your own investment decisions? If so, you may want to find a dealer who will simply execute trades for you quickly and at the lowest cost. A discount brokerage firm might be right for you.

Are you looking for someone who can provide investment advice, make recommendations on specific securities and also execute the trades for you? If so, you may want to look for a suitable full service dealer or you may want to find an independent investment adviser to provide the advice you need and a discount broker to execute the trades on your instructions.

Do you have a substantial investment portfolio and are you looking for someone to take control of the portfolio and manage it on your behalf? If so, a portfolio manager may be able to provide the services you need.

Are you interested only in mutual funds? If so, you will have a choice of many mutual fund dealers as well as the full service dealers in your area.

Where Do I Look?

Word of mouth can always be helpful in identifying capable financial professionals. Ask for recommendations from your accountant, your lawyer, your family, or friends whose judgment you trust.

Your local Yellow Pages™ can provide you with the names of many or all of the dealers and advisers in your area under headings such as 'bonds – investment', 'brokers – stocks and bonds', 'financial planning', 'investment advisory services', 'investment dealers', 'investment management' and 'stocks and bonds'.

You may also want to contact the Investment Dealers Association of Canada (IDA) or one of the stock exchanges (in Montreal, Toronto, Winnipeg, Calgary or Vancouver) to obtain a list of the member firms that are registered in your area. In some jurisdictions, you may also be able to contact your provincial or territorial securities regulator to obtain a list of all of the registered dealers and advisers in your area.

What Questions Should I Ask?

Once you have identified a list of firms that you might want to work with, you can obtain more information to help you make your choice. A good first step is to contact the branch manager for the firm. Some of the questions you might ask are:

- Is the firm in the market for new clients such as you, with your expected account size and your general investment objectives?
- Does the firm or individual specialize in a particular type of investment product or a particular clientele? For example, does it focus on speculative securities, mutual funds, blue chip stocks? Does it cater to conservative retail investors, high net worth clients, institutions or speculators?
- Does the firm or individual have any special expertise in the types of investments that might be of interest to you?
- What products is the firm or individual registered to sell or advise on? How long has the firm been registered? Does it operate in other jurisdictions as well? How many employees does it have? How many clients?
- What services does it provide to clients like you? For example, does the dealer provide trade execution only, or does it provide advice, research and trading?
- Does the firm have an internal research department that provides research reports to clients? Does it offer any educational seminars for its clients?
- How does the firm charge for its services? What commission rates or fees would a client like you expect to pay?

- If you opened an account, what representative(s) might be available to you? What are their experience and qualifications?
- Has the firm been subject to any disciplinary proceedings in the past few years? What about the individuals you might be dealing with?
- Is the firm a member of a contingency fund designed to protect clients in case of insolvency? If so, what coverage does the fund provide?

Many firms have written materials about themselves and their services that will answer many of your questions.

If you are like most clients, you will find that you deal with, and rely heavily on, a single individual with the firm. For that reason, it is very important that you know as much as you can about that person's skills, knowledge and expertise, their approach to investing and their ability to provide the personal service you expect. You want to find someone who deserves your confidence and your trust. If possible, arrange to meet with the person and ask about their educational qualifications, their experience, their investment philosophy, and their specialties. You may also want to ask for references, the size of their client list and the amount of an average client portfolio, and about their disciplinary history. If the person never has time to meet with you, is unwilling to discuss their qualifications or history, or is not keenly interested in **your** financial goals and objectives, you should probably look elsewhere.

You can always contact your securities regulator for additional information. Depending on the jurisdiction, this can include the firm's or individual's category of registration, how long they have been registered, and whether or not they have a disciplinary history with the regulator.

Since many dealers and advisers are members of the local Better Business Bureau, a stock exchange or the IDA, you should consider checking with these sources for more information about the firm's history and current standing.

Opening an Account

After you have chosen a firm and an individual within the firm, you and your new financial adviser will complete a number of forms to open your account. Some of these forms (for example, the cash or margin account agreements) describe the nature of your account(s) and the legal rights and remedies available to both you and the firm in case of a dispute. These forms are often dry reading, full of legal language. Even so, you should read and understand the forms **before** you sign. If you don't understand part of a form, ask your representative for an explanation, line-by-line if necessary.

The cardinal rule for every dealer and adviser is that they must **know their client**. In other words, they must learn the essential facts relative to every client and must determine the general investment needs and objectives of the client. To help them do this, most firms prepare a detailed New Client Account Form (NCAF) that contains key personal and financial information about the client. While the detailed questions may seem somewhat invasive, the information you provide in the NCAF is necessary if the dealer or adviser is to provide effective service and prudent advice.

The NCAF will generally include your name, address, employment information, credit references, income, net worth, investment experience, risk preference and investment objectives. Most NCAFs also ask whether anyone else has any interest in or authority over your account, and whether you are an insider or control person of any public companies. They may also include information relating to the transfer and registration of securities held in your account.

Many firms now use NCAFs that require the signature of the client. **Before** you sign the NCAF, make sure that everything in it is correct. Errors in the form may lead to inappropriate advice and may erode the legal protections you are entitled to if something goes wrong. Get a copy of the NCAF and keep it with your account records. Make sure that you contact the firm (preferably in writing) to have the form updated whenever the information in it changes. This is particularly important with key information such as your address, your personal financial circumstances and your investment objectives.

In most cases, you will also be asked to complete a shareholder communication form in which you will indicate the amount of information, such as annual reports, financial statements, proxy circulars and notices of shareholder meetings, that you wish to receive from the companies in which you invest. The form will also ask whether or not you consent to the disclosure of your name and securities holdings to those companies.

What are My Responsibilities as a Client?

No matter how well intentioned the dealer or adviser, no one will ever care as much about your financial health as you do. As an investor, you must be prepared:

- to research and monitor your investments, ask questions of your financial advisers, and educate yourself about investing.
- to communicate clearly and honestly with your dealers and advisers so they understand your financial circumstances, investment objectives and experience.
- to be realistic in your expectations of profit.
- to appreciate that investing can involve risk.
- to read any offering documents that are provided to you in connection with an investment (such as a prospectus or offering memorandum).
- to read and retain your confirmation slips and statements of account, as well as notes of conversations between you and your dealer or adviser. This will enable you to alert your dealer or adviser immediately if there are errors in or problems with your account.
- to ask questions about investment matters that you do not understand.

What Should I Expect from My Dealer or Adviser?

You should expect your dealer or adviser:

- to be competent and ethical, and to act in your best interests at all times.
- to deal with you fairly, honestly, and in good faith.
- to find out your general investment needs and objectives.
- to make recommendations that are consistent with those investment needs and objectives.
- to disclose the risks associated with their recommendations.
- to disclose any conflicts of interest that they may have concerning their recommendations to you.
- to provide you with prompt written confirmation of trades made on your behalf, with details of the value of the transactions as well as the commissions or fees charged.
- to provide regular statements of account detailing the transactions in your account, the fees charged and the securities held on your behalf.
- to obtain your express authorization in advance of **every** trade made on your behalf (unless you have provided proper **written** trading authority or power of attorney to someone else).

You should **not** expect your dealer or adviser:

- to be successful in every investment recommendation they make. No one can predict future market performance with certainty.
- to know what investment opportunities might be suitable for you unless you discuss your financial position, your objectives and your risk tolerance with them in detail.
- to be aware of changes in your financial situation or investment objectives unless you tell them.
- to act on vague or general instructions to buy or sell securities 'when the time is right'. Unless you have vested proper written trading authority in someone else, registrants can only act on specific instructions from you.
- to charge all clients the same commissions. Commissions are negotiable and larger clients may be able to negotiate lower commission rates.

What Can I Expect from the Regulators?

In Canada, the provincial and territorial securities regulators and the self-regulatory organizations play a role in registering firms and individuals in the securities business. They can be important sources of information about registrants and about the securities in which you might invest. Depending on the jurisdiction, the regulator may be able to give you information that includes:

- whether or not a firm or individual is registered in your jurisdiction.
- a firm's or individual's category of registration.
- whether or not they have been subject to disciplinary proceedings.

You can also expect the regulators to help you understand your rights as an investor, and the law and the rules that govern the conduct of people under their jurisdiction.

Finally, you can expect the regulators to look into legitimate complaints about the conduct of a dealer or adviser (or of anyone engaged in market activities) under their jurisdiction. Keep in mind that the regulators are authorized to discipline those who engage in misconduct, but they do not have the power to order the payment of financial compensation to investors. That is the exclusive territory of the courts.

What Should I Do if a Problem Arises with My Dealer or Adviser?

In some cases, the problem may be nothing more than an administrative error. In other cases, the problem can be much more serious.

Here are some tips to help you deal with problems quickly and effectively:

- Make written notes of your conversations with your dealer or adviser, particularly when you give instructions to buy or sell a security.
- Retain copies of all the forms, confirmation slips, account statements and correspondence concerning your investments.
- If you identify a problem, notify your dealer or adviser immediately. Follow up in writing if possible. Do **not** wait to see if the error works out in your favour.
- If the problem is not resolved promptly, contact the firm's manager or compliance officer, preferably in writing.
- If the problem still cannot be resolved, or if you think there has been misconduct, contact the securities regulator. If your dealer is a member of the IDA or a stock exchange, contact that agency first. If your dealer or adviser is not a member of a self-regulatory organization, direct your complaint to your provincial or territorial securities regulator.
- You may also want to seek legal advice about the remedies available to you.

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