I understand the Canadian Securities Administrators are asking for comments on the issue of mutual fund trailer fees. I feel very strongly on this issue and would like to give my opinion.

As a child we all heard the story of Little Red Riding Hood and the Big Bad Wolf. Remember the part where the Big Bad Wolf disguised himself as Grandma to trick Little Red Riding Hood? Clearly the Big Bad Wolf had ulterior motives. In today's Canada, the vast sea of so called Financial Planners are nothing more than mutual fund salespeople in disguise. They lure in clients with the pretense of assisting them in choosing the "best" investments for their retirement money. In reality the salesman has already struck up a deal with a couple mutual fund companies to push their product in return for some attractive commissions.

Financial Advisors Selling Mutual Funds – When an investor client first goes to a financial advisor they are looking for financial advice. Little do they realize the mutual fund sales pitch starts the minute they sit down. Yes the advisor will put together a packaged plan and portfolio for this investor client. Not surprisingly the portfolio will contain the exact mutual funds that the advisor sells and will receive a sizable commission for selling. The investor client is happy as he did not have to pay for the advice or the financial plan. Little does the investor client realize how much he will pay from his investments over the next year. The advisor is careful to disclose that there is no guarantee of a positive return from investing in mutual funds yet he is guaranteed a percentage of my money regardless of how his recommendations perform.

First I find this a severe conflict of interest. Is the advisor interested in what is best for the investor client or is the advisors overall objective to increase his personal income? I think we both know human natures response to that question.

I am amazed that your agency allows financial planners to sell funds. In any other segment of the business world this would not be allowed yet when it comes to this apparent self regulating field, this type of duping the public is fully acceptable.

Why is it that countries like the U.K. and Australia can see the obvious conflict of interest yet Canada continues to allow this practise to happen? It is time for change.

I feel that all financial advisors who provide retirement planning should be fee based only. Once the advisor and the client develop a retirement plan and portfolio they can approach a mutual fund salesman and discuss which fund is best in the class needed to fit the portfolio. No conflict of interest and each party is looking out for the best interest of the client. There is nothing hidden and everything is up front.

Trailer Fees – Can anyone tell me what the financial planner / mutual fund salesman does to warrant receiving a trailer fee? Clearly it is a sales bonus paid to the salesman to entice him to steer his clients toward their fund. This sales bonus is encouraging the advisor / salesman to put his own income ahead of what is best for the investor client. The bigger the trailer, the more the salesman will steer the investor client toward this fund. This whole system is so convoluted I am amazed it was allowed to develop in this way. Clearly mutual funds were designed to make money for the fund company, its managers and salesmen. The welfare of the investor client who is taking all the risk is far down the priority line.

Canadian MERs highest in the world – Now isn't that a record to be proud of. It is a clear indication the Canadian financial industry is gouging the unsuspecting public of as much of their hard earned retirement money as possible. Since there are few retirement options available for the public to choose from and the industry is very loosely regulated, the general public is ripe for the picking and it shows. With a large number of Baby Boomers approaching retirement, these advisor / salesmen are wolves in sheeps clothing salivating for the impending kill.

CSA possible options

Provide separate disclosure of trailer fees - Here is a touch of reality. When an investor client hands his money over to the advisor/salesman, one of the many papers signed is a disclosure of all the commissions, fees and charges. It is just one of the many papers the investor client scans before signing and since it is worded innocently enough, signing is relatively routine. The advisor / salesmen already disclose these costs so they are covered. However, the investor / client is not aware of just how much money in dollars and cents will be deducted directly from his account. If the only recommendation the CSA wants is for more disclosure, the financial industry will gladly accept and smile.

Capping commissions paid to advisors - I would compare this recommendation as treating an arterial wound with a small band-aid. Would it help control the bleeding? Yes a little bit. Would it fix the problem? no. I don't believe advisors should receive a commission, period. Commissions easily sway the advisor away from the best recommendation for the investor client.

Banning trailer fees altogether – this is the first recommendation that has some definite improvement. This should be the CSAs first of several objectives and the CSA should remain unwavering.

My Recommendations

Financial Planners / Advisors should not be allowed to sell mutual funds – the services of these people should be as their title implies, financial planning and advice. They should charge the client a fee for service much like an accountant, lawyer, doctor, plumber, carpenter, mechanic, painter, etc. The concept is so simple and right, it needs no further explanation.

Mutual fund companies and their managers should be performance paid only – Currently the mutual fund company charges the investor a fee regardless of whether the investment shows a gain or not. I believe the fund company and its managers should be paid on a percentage of the profit. If the fund does well, like they advocate, then they do well financially. If they performance is poor, their fees are also poor. The vast majority of businesses are performance based. So why are mutual funds any different? Their fees should be based upon their performance for their investor /client.

Summary

I strongly believe the financial industry needs to be restructured to suit the needs of the coming Baby Boomer and future generations. The needed changes are a radical departure from the current structure and clearly will be fought by the financial industry. Failure to make changes will ultimately result in a much lower standard of retirement living for us and our children.

Let's work together to make the golden years of our lives the best years.

Doug Jenkins