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Choosing an Investment Dealer or Representative

AUTORITÉ DES MARCHÉS FINANCIERS

About the AMF

The *Autorité des marchés financiers* (AMF) is the regulatory and oversight body for Québec's financial industry. Its mission is to protect the public by applying the laws and regulations that govern insurance, securities (for example, stocks and bonds), deposit institutions (other than banks) and the distribution of financial products and services.

The AMF has published three brochures to help consumers manage their personal finances. The third in the series, this brochure will help you identify the firms and representatives that can assist you with your investments. The other brochures are: *Reviewing Your Personal Finances* and *Choosing Investments*.

NOTICE

The AMF, its management and staff are not liable for the consequences of any potential content errors. This brochure is provided for your information only. The AMF does not offer any advice on the purchase or use of specific financial products or services.

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Do you know where to turn for investment assistance?

You're a novice or seasoned investor who could use some assistance on where to place your money. Answer the following questions:

1. Do you know who to ask for investment assistance?
2. If so, is this person authorized to offer the financial products and services you need? How is this person paid (e.g. commission, salary)?
3. What will this person do to help you achieve your investment goals?
4. Are you able to provide this person with a detailed picture of your financial and personal situation so that he/she can recommend the appropriate products and services?

Many investors can't answer these questions. But since this is YOUR money we're talking about, you need to do your research before handing it over to anyone.

This brochure sets out four steps to help you:

- evaluate your needs so you can choose the most suitable firm and representative;
- prepare for a meeting with your representative;
- monitor your investments;
- take action should a problem with a representative or firm arise.

Take the time to carefully choose the firm and representative that will help you manage your investments, just as you would when looking for an accountant or car dealer.

1. Evaluate your needs

If you have investment goals but don't quite know how to go about achieving them, you can get help with:

- setting your goals;
- preparing a plan;
- choosing suitable investments;
- monitoring their performance;
- adjusting your plan if necessary.

Check whether the representative and firm are registered with the Autorité des marchés financiers

Representatives usually work for a firm such as an investment dealer. You'll find a description of the various types of firms that can help you later in this brochure.

Consult the register of firms and individuals authorized to practice on the AMF website (www.lautorite.qc.ca) or contact its Information Centre. Check the list once a year to see if they are still registered. Doing business with a firm or representative not authorized to offer the product or service you're looking for can lead to financial or legal problems, and your recourses will be limited in the event of a dispute.

 

Mr. Brown is dreaming about retirement…

Mr. Brown is 52, has no pension plan and has $50,000 in an RRSP. He would like to retire in four years with an income of $30,000 a year and has made an appointment with a representative to discuss his plans.

Mr. Brown is disappointed when he learns that his goal is unrealistic and wonders whether the representative is competent.

Are Mr. Brown's expectations realistic?

What you should not expect from your representative

Even the best representative can't:

- predict market performance with certainty;
- recommend investments that are always profitable;
- meet unrealistic goals or expectations of profit.

What type of firm is right for you?

When choosing a firm, think about the kinds of products and services you need and how much you're prepared to pay for advice.

Not all firms offer the same products and services. Some specialize in certain kinds of investments while others offer a wide range of products and services.

While not complete, the following list will give you a good idea of the most popular types of providers.

TYPE OF PROVIDER	SERVICES
Investment dealer	Offers a vast selection of investments including: . stocks . bonds . mutual funds Some investment dealers offer advice and a full range of services such as market analysis, securities research and portfolio management. Others act more like intermediaries, selling or buying securities based on your instructions but without giving advice (discount brokerage).
Mutual fund dealer	Only offers mutual funds.
Scholarship plan dealer	Only offers units in scholarship plans. The periodic contributions made by investors to a Registered Education Savings Plan (RESP) are pooled and used to purchase plan units. These dealers invest the scholarship plan contributions made by the participants.
Exempt market dealer	Offers investments or securities that are exempt from prospectus requirements to accredited investors.
Portfolio manager	Manages your investment portfolio according to the mandate you issue, making decisions and trading securities on your behalf.
Financial planner (F.Pl.)	Helps you manage your finances by preparing an action plan tailored to your needs and taking your constraints and goals into account. Financial planners are registered with the *Autorité des marchés financiers* (AMF), unless they are overseen exclusively by a professional order.* They must also be registered as dealing representatives in order to recommend or trade in securities.

* The Ordre professionnel des administrateurs agréés du Québec, Ordre des comptables professionnels agréés du Québec and the Chambre des notaires du Québec. These professional orders have agreements with the AMF and their members can represent themselves as financial planners if they meet the conditions of these agreements and requirements of the Institut québécois de planification financière (IQPF).

 

Remember to consult the register of firms and individuals authorized to practice on the AMF's website (lautorite.qc.ca) or contact its Information Centre.

Dealers and portfolio managers hire representatives, with whom you will deal, unless you choose to do your own trading. These individuals must meet specific qualification criteria and be registered with the AMF under the category of the products and services they offer. For example, a dealer registered solely for mutual funds and who works for an investment dealer can only sell you units in mutual funds, i.e. he can't offer you stocks. You can learn more about investments in the *Choosing Investments* brochure.

You can also turn to chartered professional accountants (CPAs), lawyers, notaries and chartered administrators (C. Adm.). These professionals are experts in accounting, finance, taxation, law or management, as the case may be.

Mr. Grant looks at on-line trading…

Mr. Grant's brother-in-law is a retiree who manages his own investments. He tells anyone who'll listen just how successful he's been using the services of an on-line broker. Mr. Grant is thinking about exploring this avenue too but values his free time and isn't sure he can or wants to manage an investment portfolio.

Do your own trading or ask for advice?

Ask yourself the following questions:

- How much do I know about investing?
- How much time can I devote to researching and managing my investments?

Some investors prefer to go at it alone and trade through an on-line brokerage firm without obtaining advice. Although it costs less, this option isn't right for everyone.

To invest on your own, you need to:

- have solid investment knowledge;
- set aside enough time to research the stocks you want to buy or already own.

You're responsible for your own success – but for your losses as well. If you don't think you have enough knowledge or time to handle your investments yourself, you're better off with a representative.

2. Choose a firm and a representative

Now that you've defined your needs, you can look for a firm and a representative.

How to find a firm or a representative?

Here are two ways:

- Word of mouth and personal referrals. Keep in mind that what's good for one person may not be good for another.
- The financial institution where you already do business.

Questions to ask when screening representatives

The following questions can help you make a decision. Ask the representative:

- How will you help me reach my goals?
- What products and services are you licensed to offer?
- What are your qualifications?
- How are you paid?
- How much do you charge?
- Are you familiar with the products and services I need?
- Do you have other clients with the same profile as mine? (Some advisers require a minimum investment).
- How will my portfolio be monitored? How often will we meet?
- How will you update me on the performance of my investments?
- How quickly will my phone calls and e-mails be returned?

Make sure the representative you choose is receptive to questions and explains his/her strategies and recommendations.

How is your representative paid?

Representatives are usually paid by commission, salary or fees or a combination of these methods; for instance, commission on top of a base salary.

Commission

With this form of compensation, the representative is paid based on the value of the financial products he/she sells. For example, you pay 1% to 5% on a transaction and the representative receives a portion of this amount as commission.

Fees

Some representatives such as financial planners charge fees, in which case you might be able to agree on an hourly rate and on the number of hours needed to analyze your portfolio.

Salary

Representatives working for financial institutions are usually paid by salary. Sometimes they also receive a sales-based bonus. Typically, they must meet sales targets set by the financial institution.

How much are the fees?

Different types of fees apply when you buy or sell securities or receive advice.

These vary by firm and the services provided. Shop around. Generally, fees are charged per transaction or as a percentage of your portfolio's value and are usually negotiable.

Many investment dealers will adjust their rates based on how the transaction is made, i.e. through one of their representatives or on-line.

Ask how the representative gets paid and how much he/she charges for services.

Transaction fees (or commission)

Also called brokerage fees, a transaction fee is the amount you pay when you buy or sell securities. This fee or commission is calculated based on a sliding scale, which you should take the time to understand, and depends on:

- the amount of the transaction;
- the value of the security;
- the number of units traded;
- the type of investment;
- the firm with which you are dealing;
- the value of your portfolio with that firm.

Some firms will offer a certain number of free transactions per year, depending on the size of your account. There are also fee plans for frequent traders.

Higher fees do not necessarily mean higher returns. Look into and compare the fees before choosing an investment firm. And most importantly, remember that every dollar you pay in fees is one dollar less in your pocket.

You want to handle your own investments and use a discount broker

The first step is to decide how many trades you plan to make, i.e. more or less than 10 a month. This will help you find the best discount broker for your needs. For instance, if you plan to trade often, some brokers offer discounts to "active traders." However, the rate structure should not be the only consideration.

Mutual fund costs

When buying units in a mutual fund, you may have to pay a fee when you purchase or redeem. If you hold units of funds with redemption fees (or deferred sales charges), this will be indicated on your account statement. Your representative will have you sign a form before selling your units if redemption fees still apply. Management and operating expenses are also deducted from the fund's assets, which reduces your return. Some funds offer a rebate that decrease management fees if your account is over a certain amount. Ask your representative to explain these costs.

Make sure you're getting the service you need

Is there a service to explain how the platform works? Are they clear in what they say? Are the transaction statements clear?

The platform

Is the on-line transaction platform user-friendly? How is the research feature, i.e. is it easy to find information and track the markets in real time? Can you create personalized tables and graphs?

On-line advisers (robo-advisers)

On-line advisers are often called "robo-advisers" or "automated advisers." These terms might give you the impression that any advice given is fully automated. But this is not so.An adviser retains its legal obligations, whether on-line or in person. In particular, an on-line adviser is required to pursue activities by way of a natural person, known as an "advising representative." As well, on-line advisers must make sure that the investor profile generated on your behalf is suitable and consistent with your answers to the questionnaires. For instance, the representative must ensure that a conservative investor does not invest in a portfolio that is too risky. You generally never meet an-online adviser in person. However, you can always contact a representative through different communications channels, including telephone, e-mail, on-line messages and webcam.

How do on-line advisers operate?

First, you fill out questionnaires to determine your investor profile, your objectives and your risk tolerance. In most cases, a software program will determine your investor profile and your investment portfolio composition.

In most cases, an on-line adviser will recommend an investment portfolio among pre-established model portfolios. However, don't forget to ask about the type of securities in which your money will be invested and the applicable fees.

3. Prepare for the meeting with your representative

When you meet with a representative, he/she will ask you a series of questions to help pinpoint your needs.

Your representative's biggest responsibility is getting to know you

Representatives must follow rules of professional conduct that require them, among other things, to place the client's interests first when selling products and services. Your representative should therefore be available to answer your questions.

The representative you deal with must follow the "Know Your Client" rule. Before making any recommendation, the representative must understand your current financial situation, know your financial goals and establish your investor profile.

To do so, you and your representative will complete an account application together. The information you provide will help the representative get to know you and evaluate your needs, objectives and risk tolerance. This is an extremely important step. Because the application form will be referred to in case of any dispute with your representative, it is important that you read it carefully before signing.

The representative should also sign the form and give you a copy, which you should make sure to keep.

If you decide to trade independently through a discount broker, you will usually complete the application form by yourself and are fully responsible for your investment choices.

The application form gives your representative information about:

Your investment knowledge

How much do you know about investing? How have you invested your money until now? A representative should not recommend investments that you don't understand.

Your personal and financial circumstances

Do you have family obligations? How much money do you have to invest? What are your sources of income? Is your employment income stable? Is all your income derived from investments? The answers to these questions will help determine which investments are suitable for you.

Your financial goals

Once you are retired, do you plan to travel abroad more than once a year? Your goals will guide the representative.

Your time horizon

Are you investing so you can buy a home in two years or to pay your children's university education 10 years down the road? The answers to these kinds of questions will also help your representative recommend the right investment for you.

Your risk tolerance

How would you react if the value of your investments dropped 10% overnight? Do you lose sleep when the markets fall? Your representative should make sure that you're comfortable with the risk level of your investments. Your situation will change over time. A conscientious representative should therefore regularly update your personal information. Make sure to inform the representative of any change or event that could affect your financial situation such as losing your job or the birth of a child.

When you get together with your representative, take notes to avoid misunderstandings and to allow you to follow up on what was discussed. Jot down the date and location of the meeting, the recommendations, the amount of the transactions, the reasons that justified the recommendations, documents received on the spot and those that will follow, your instructions to the representative, and any other relevant information.

To simplify the task, complete the "Take Notes when Talking to Your Representative" form inserted in this brochure and keep all the information in a folder.

Your responsibilities as an investor

Once you've set up an appointment with your representative:

Be prepared for the meeting and provide detailed information

The more detailed and complete the information, the better the guidance from the representative. Know what your income, expenses, assets and debts amount to. The *Reviewing Your Personal Finances* brochure can help you calculate these figures. Take some time before the meeting to review your investments and jot down what you want to discuss. Bring all relevant information such as recent account statements.

Tell your representative when your personal or financial circumstances change

Major life changes such as the birth of a child or significant increase in income could affect your investment objectives and risk tolerance.

Ask questions and take notes

Make sure you understand the investments your representative recommends. Don't be afraid to ask about the expected return, availability of the money invested, the risks associated with the investment, and the applicable fees. All these factors must be considered in order to make an informed decision. If you don't understand something, ask for clarification. Take notes of conversations you have with your representative and what you agree to.

Be informed

Read the documents that you receive about investments you're considering. Learn as much as you can about the investment world through courses, books, newspapers, websites and other media.

4. Play an active role

Stay on top of your investments

Review your transaction confirmations and account statements as soon as you get them. Make sure they reflect what you discussed and contact your representative right away if there are any discrepancies.

If you have a problem with your representative

- Write down the facts that lead you to believe that a problem exists.
- Write down any action you plan to take as soon as a problem arises.
- Orally inform your representative. Confirm the discussion in writing if necessary.
- If the problem is not resolved, put your complaint in writing and send it to the firm for which your representative works.
- If you're still not satisfied, contact the AMF. You can ask for your complaint to be transferred to the AMF, which will study the reasons and help settle the dispute. While dispute resolution is offered free of charge to consumers, it cannot take place without the co-operation of the firm against which the complaint has been filed.
- You may also choose to hire, at your expense, a lawyer at any time.

Who oversees firms and representatives that sell financial products and services?

The *Autorité des marchés financiers* oversees dealing representatives and firms. However, it does recognize self-regulatory organizations (SROs) to which it delegates responsibilities. The organizations help the AMF ensure regulatory compliance. Their mission is to protect the public by overseeing the practice of their member representatives and firms and supervising them.

The Investment Industry Regulatory Organization of Canada (IIROC) is the SRO that oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. It sets rules regarding the proficiency, business and financial conduct of its member firms and their employees. For more information, contact IIROC or visit their website at www.iiroc.ca.

Another SRO, the *Chambre de la sécurité financière* (CSF) protects consumers by maintaining discipline and overseeing the training and ethics of its members, who work in the following five sectors:

- group savings plan brokerage (mutual funds);
- scholarship plan brokerage;
- financial planning*;
- insurance of persons; and
- group insurance of persons.

For more details, contact the CSF or visit their website at www.chambresf.com.

* For the financial planning sector, the CSF oversees only the ethical conduct of its members.

By following these four steps, you should be able to find the right investment adviser, prepare for your meeting with him/her and take action in case of a problem:

Step 1 — Evaluate your needs

Step 2 — Choose a firm and a representative

Step 3 — Prepare for the meeting with your representative

Step 4 — Play an active role

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