How I Learned the Hard Way and Became My Own Financial Advisor

As I mentioned in the Preface, upon retirement I put my savings in the trusted hands of investment professionals at my local bank – just as so many other people do. But I found they were not so trustworthy and had their own agenda. Here is my warning to you.

When I retired at 58, my financial I.Q. was average. I was a professional engineer, not a financial guru. That's why, like many others, I went to a financial advisor. I opened two investment accounts with a full-service brokerage firm associated with a major Canadian bank. One account held my assets, and the other my wife's. My plans and dreams for my retirement years called for successful management of my assets and a steady income from investments.

In hindsight, I should have been suspicious when the advisor spent as few as ten minutes with me and didn't ask a single question about my life or my plans for the future. Even more alarming, he didn't ask to meet my wife, who was also his client. It was odd, but I was trusting. He didn't discuss how my funds were to be invested. This did surprise me. Wasn't that why I went to an advisor in the first place? It was weeks before I received any information concerning my portfolio. My money had been invested in individual bonds, stocks, mutual funds, GICs, and commodities futures. (Don't worry, we'll be going over what these are in plain language later in the book.)

Newly retired and a little bored, I decided to learn a bit more about the investment industry (eventually I would complete a Certified Financial Planners and the Mutual Fund courses). I subscribed to investment newsletters and purchased many books on the subject. As my knowledge of the investment world increased, I became actively interested in the investment products my financial advisor was buying for me.

I took a look at the mutual funds in my account and was surprised to see that they were all purchased on a deferred-sales-charge (DSC) basis. This meant that the investment firm got an immediate 5% commission and a 0.5% "trailer" fee each year thereafter. These funds were purchased without my knowledge or approval; I was not given a prospectus for these funds, which is mandatory – all violations of the regulations, as I found out much later.

If I wanted to pull my money out of these DSC funds (even if the fund was doing very poorly), I faced a 6% penalty the first year, declining by 1% each year. I estimated that my financial advisor may have spent a couple of hours on my account and his firm received over $30,000 from the sales commissions alone. At this rate, my retirement income would be making someone other than me very comfortable!

I began to ask my advisor pointed questions, but received ambiguous answers or a straight out "no." Often, he simply ignored me or was too busy to explain. I became suspicious that something was dreadfully wrong. For example, my advisor had purchased an index-linked Guaranteed Investment Certificate (GIC). I asked him for the documents to tell me exactly what sort of financial product these GICs were, I received different descriptions from my advisor and the bank manager, none of which described the actual product. This prompted further inquiries to my advisor and to the bank's vice-president in charge of the product. I was ignored.

I then asked my advisor to show me the criteria used in selecting mutual funds for my investment account. Once again, I was refused a straight answer. I would later discover that mutual fund companies often form deals with brokers to promote specific mutual funds. In return, the company provides the brokers with additional trading business. As incentives, some mutual fund companies will offer bonuses or all-expense, paid vacations to advisors and brokers who bring in sales of their funds. This conflict of interest may influence the advisor's recommendations.

I decided that things were not adding up. I contacted a different advisor from the same bank who provided some surprising information. Do you know that every financial advisor is bound by the "Know Your Client Rule" (KYCR)? This means that they must discover the essential facts about you, your personal circumstances (such as health and marital status), your short- and long-term goals, personal obligations, risk tolerances, all to make suitable recommendations. How else can an advisor advise? Obviously, this did not occur in my situation. As mentioned, my initial meeting with my advisor lasted about ten minutes and then a bank employee helped me fill out the KYCR form, not the advisor. Another violation. I was also told that my account was non-discretionary (meaning that my approval was required on all transactions). This came as a huge shock since most of my investment transactions, including the initial investment, had been done without my knowledge – let alone approval.

Every time a broker/advisor makes a transaction, he gets paid a commission. The more transactions he makes, the more money he makes. Most advisors have a quota to meet. It's produce or perish! This creates a strong incentive for the advisor to buy and sell securities in your investment accounts, whether you need it or not. In my case, my bank's financial advisor, the man my wife and I were trusting with our quality of life for years to come, was making these changes without even telling us. In other words, my advisor was engaged in unauthorized trading, which is a serious violation of the securities regulations and a breach of professional ethics. This was not a fly-by-night financial firm; my "advisor" was a senior investment advisor with a firm owned by a major Canadian bank.

Eventually I discovered that my advisor was actually a stock broker, not a certified financial advisor, who the bank impressively titled "Senior Investment Advisor." This fellow was only qualified to provide the most basic investment advice. The more I learned, the poorer his investment knowledge seemed. He knew little about registered retirement savings plans (RRSPs), pension plans, or tax strategies. He put large sums into cash accounts that provided almost no interest. He visited our town regularly to recruit new clients, but he had no time to meet with his existing ones.

I immediately transferred my account to another advisor within the same firm and formally filed a complaint with the brokerage firm's vice-president based upon unauthorized trades, violation of the KYCR, and unsuitable investments. I soon thereafter transferred my accounts to an on-line discount broker and started to manage my portfolios on my own.

The complaint was investigated by the Compliance Officer and went up the chain to the vice-president of the firm. From there it was sent to the bank's Ombudsman, then to the Canadian Banking Ombudsman. The bank's Ombudsman offered me $2,500 in compensation, although they weren't prepared to say exactly what they were compensating me for. I refused the offer. The advisor denied all claims against him.

As I lived in a small town, it wasn't hard to get in touch with some of his other clients who had received similar treatment. At this point, the investment firm threatened to sue me because I had contacted other clients.

I finally hired a lawyer. During the Examination for Discovery, the bank's lawyer used bullying tactics and threatened ridiculously high legal costs if I kept going. My lawyer advised me to drop the case because the bank had deep pockets and if I did lose the case I could be looking at well over $50,000 in costs. It didn't sit well, but caution won and I withdrew my suit. During this whole process, the financial institution that my wife and I trusted with our money treated us with insults and intimidation.

I learned that the law tends to favour financial institutions mainly because investors show implicit "trust" in their advisors. I learned too late that, for the cost of two postage stamps, I could have filed a complaint with the firm's Compliance Officer and the Investment Dealers Association (IDA). (In 2008, the IDA and RS (Market Regulation Services Inc.) were consolidated to form the Investment Industry Regulatory Organization of Canada (IIROC).) There is no costly court process and the advisor's name is put on a watch list, protecting other investors. Unfortunately, many wronged investors don't file complaints and so the securities regulators do not have an accurate picture of the problems within Canada's investment firms.

The Ombudsman for Banking Services and Investments (OBSI) is financed by the financial institutions it represents. This severely compromises its impartiality. Clients who can show irregularities with their investment accounts may receive a settlement but it must remain confidential. The OBSI is under no legal obligation to inform the Securities Commission (each province has a securities commission agency responsible for protecting investors) of the problem. The advisor does not even receive a reprimand and is free to keep trading and cheating investors, with the full awareness of the financial institution. Previous cases cannot be used as precedent, contrary to common law practice. Investigations can drag on for years. Investment firms have the resources and the stamina clients often lack. As a result, many investors simply move their account to another firm, abandon the pursuit, and walk away.

My faith in the justice system was shaken but I walked away a wiser and less trusting investor. I have learned that the financial waters are murky. If you dip your toe, you have to make sure the sharks don't bite it off. My experience taught me that you must do your homework before picking a financial advisor. Titles may not mean much – a fancy suit with no substance! If your financial advisor makes his money from transaction fees, sales commissions and trailer fees then a conflict of interest is likely to develop because he only earns if he is buying, selling and accumulating assets rather than letting your money sit in sound investments and grow in value.

After discussing my complaints with the other clients of this same advisor, it was evident he also had engaged in unauthorized trading in their accounts and the KYCR had been violated. I assisted one client to prepare his complaint. He received a settlement at the level of the OBSI. The advisor was charged with lying, unauthorized transactions and unsuitable investments. The OBSI had denied my own complaint on the basis that I knew too much about the investment industry and allowed the advisor to carry on with unauthorized trading in my accounts. This is ironic because the increase in my knowledge began after I had entrusted my accounts to this advisor, that is, after I became aware of his violations.

The first duty of investment advisors working for banks, credit unions, and investment firms is to make money for the financial institution, not to make money for you. Fees for buying and selling financial products (stocks, bonds, mutual funds) can quickly eat away at your investments.

Here are my tips to you:

- Make sure your investment account is non-discretionary – this means that no-one is allowed to sell, buy, or make other changes to your investments without checking with you first. Discretionary accounts may be best suited for wealthy individuals who deal on a fee-only basis with their advisors.
- If you have any suspicions, immediately file your complaint with both the firm's Compliance Officer and the branch manager. If you're not satisfied with their response, you have a number of alternatives: the firm's ombudsman, Ombudsman for Banking

Services and Investments (OBSI), the Securities Commission in your province, the Investment Industry Regulatory Organization of Canada (IIROC), and litigation.

- Don't expect the government to come to your rescue. They are aware of the dire future some Canadians are facing and they are mulling over different ways to encourage Canadians to save more. While, for example, they regulate the utilities to protect consumers against unreasonable fees, they have permitted the investment industry to self-regulate themselves. It's like having the fox look after your chicken coop.

My first and only financial advisor tuned out to be dishonest and in blatantly gross violations of the investment industry regulations. Many investors suffered as a result of his behaviour. He had received at least three complaints that I'm aware of, yet this advisor is still working for the same institution. He's obviously a good salesman and a good producer. When you and others have been the victims of a fraud and you regularly hear of other frauds and scams, you can't imagine your situation was an isolated case and you can't help but think this behaviour is pervasive in this industry. It is easy to exploit the many who are trusting and lack knowledge. And, the industry will go to great lengths to protect the offenders. There are some decent and honest advisors out there, but after such an experience, you have to wonder what the percentage is and how to find them. This book devotes a lot of space to help you know what to look for when choosing an advisor.

The first step is understanding and acknowledging your own attitudes about money. How much time are you willing to put into understanding the investment world? What level of risk are you willing to endure? Are you disposed to investing for yourself? If you are ready to learn the basics, let's start by exploring your money attitudes.