



THE INVESTMENT FUNDS INSTITUTE OF CANADA

# Retail Investor Behavior in Canada & The Value of Advice

IIFA Conference – Stockholm

September 18-23, 2011

# Perspective of Canadian Investor Advocates

- **Foundation for the Advancement of Investor Rights (FAIR) – funded by Securities Regulator in Canada**
- **FAIR Identifies Regulatory Gaps**
  - **Belief: Industry do not put interests of the investor first**
  - **Proposed Remedies:**
    - Adoption of Fiduciary standard for advisors
    - Regulate to remove ‘harmful’ products from market
    - Unbundle management and distribution fees

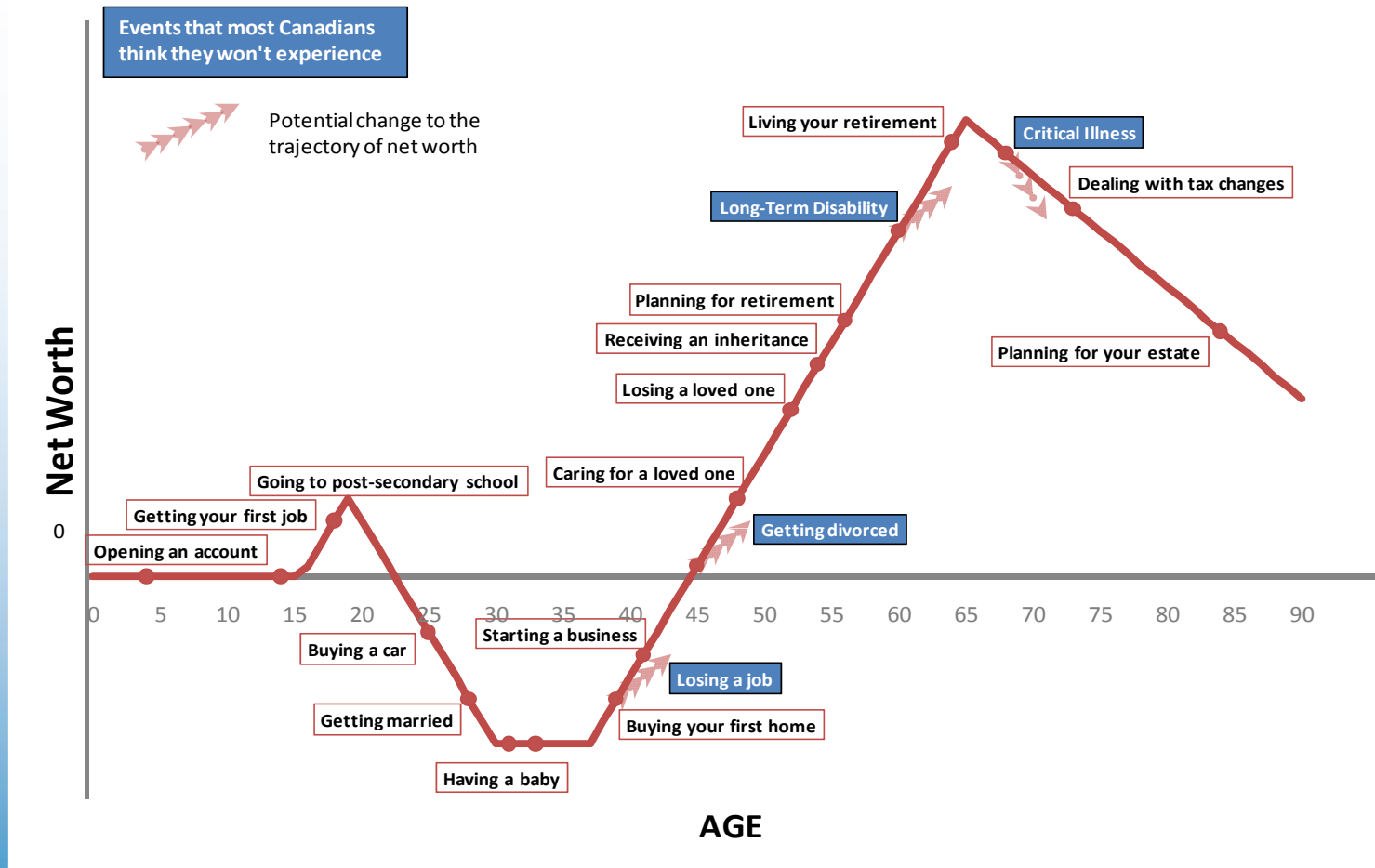


## Canadians choose advice

- **Canadians value and are well served by their advisors**
  - The vast majority of mutual fund investors (83%) report making their last mutual fund purchase through an advisor.
  - The majority (60%) of respondents say they use their advisor either all or most of the time when making investment decisions.
  - 71% of members of employee retirement plans are comfortable with their employer providing access to a qualified individual to help them make choices in their employer-sponsored retirement plan.



# Expert Advice Is For All Life Stages



# IFIC Response on Behalf of Industry

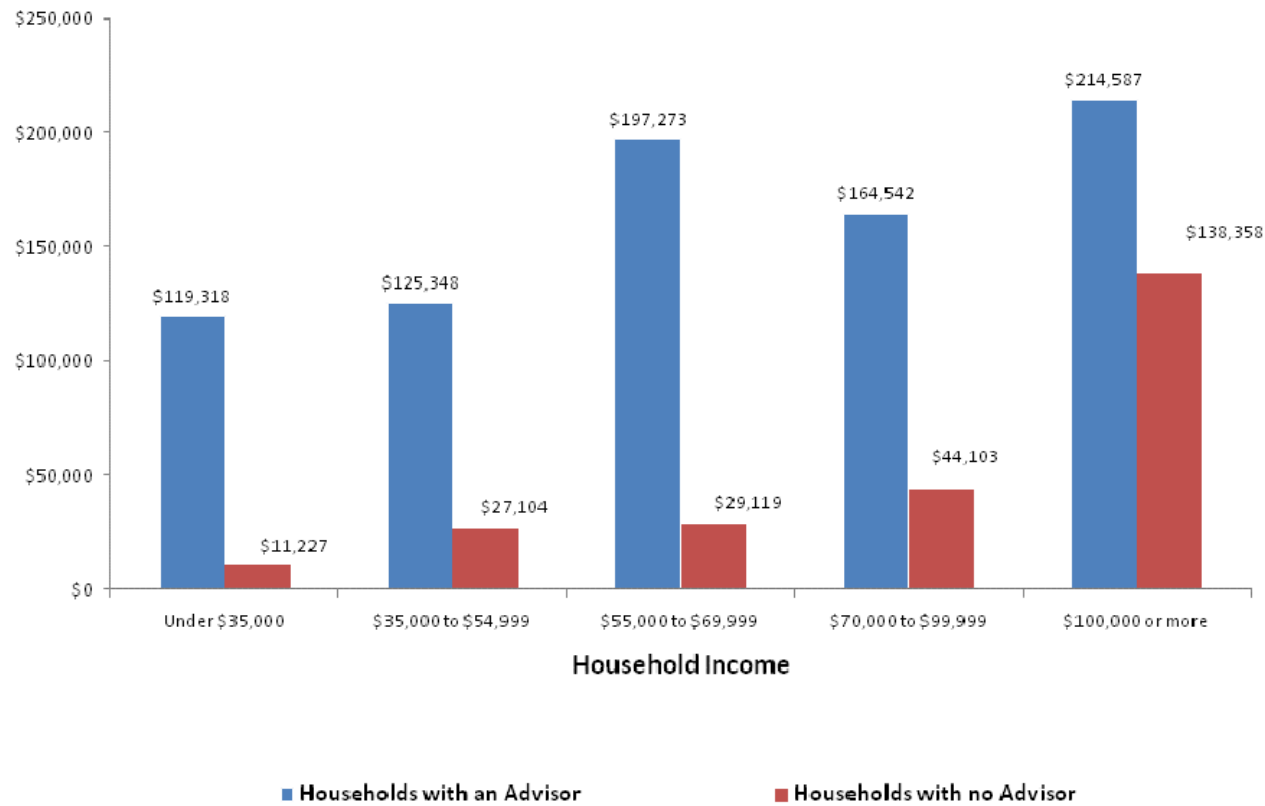
- Fact based research **MUST** inform regulatory framework
- Key Research on Value of Advice, showing:
  - Higher household investable assets
  - Right Investment Mix
  - Higher financial literacy
  - Less susceptible to fraud
  - Confidence that retirement needs will be met



# Impact of Advice

## Higher Household Investable Assets

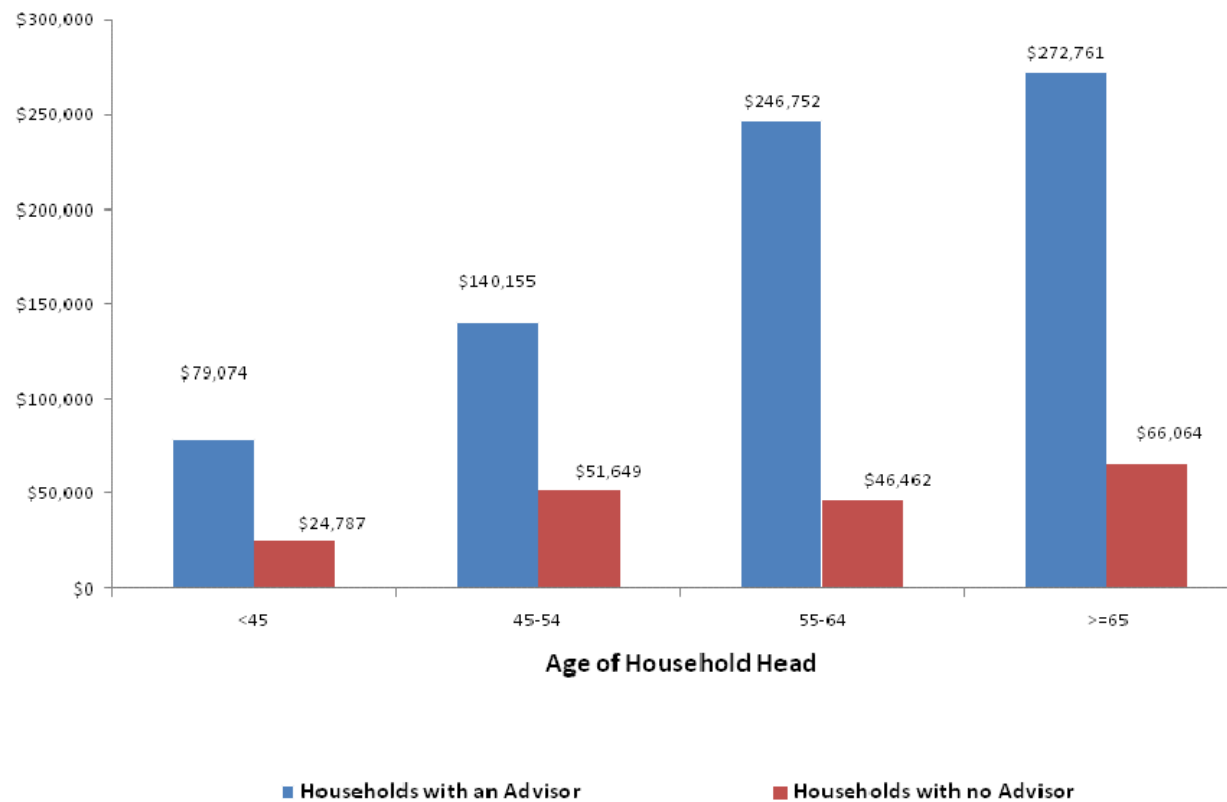
Household Average Investable Assets  
(By Income Level)



# Impact of Advice

## Higher Household Investable Assets

Household Average Investable Assets  
(By Age of Household Head)



## Advisors – Setting the Right Investment Mix

- **Advisors help choose the right asset mix for an individual client's circumstances, objectives, and risk tolerance.**
- **Without advice individual investment decisions are subject to a number of behavioral factors which make for bad decisions:**
  - too many choices
  - emotional biases
  - timing and uncertainty biases
  - evaluation biases
  - inertia
- **Ipsos Reid shows that households with advice hold a more diversified set of investments which position investors to achieve better returns over the longer term.**



# Confidence in the Future

- **Advised investors are better prepared to meet life's contingencies than those without advice and are more confident about their future.**
  - 67% of working participants who had an advisor believe their retirement will be as comfortable as they expected, compared to only 57% of those without an advisor
  - Canadians with access to an advisor feel more confident about their retirement than those without.
  - 80% of Canadians who work with an advisor feel good about their financial health at retirement.
  - Australian investors who use advisors have higher savings and make higher contributions to their savings than those who do not use advisors.
- **Ipsos Reid Canadian Financial Monitor Study:**

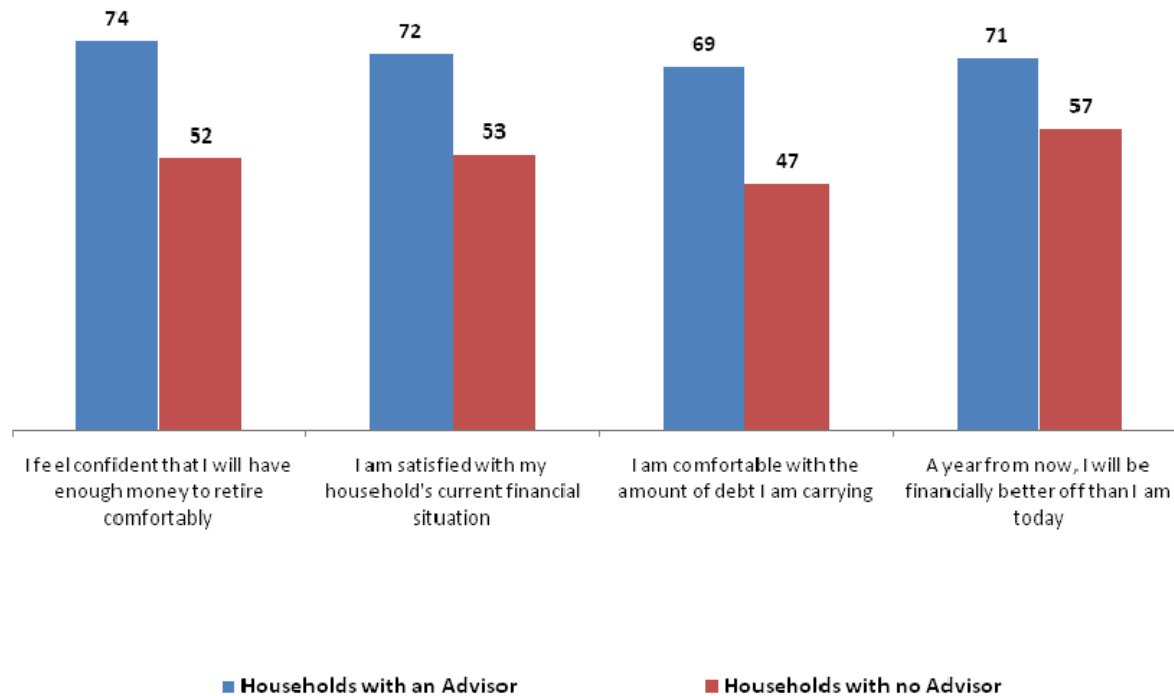
**“The advised group tends to reflect more confidence and optimism about achieving financial goals.”** (*Investor Research: The Value of Advice, Ipsos Reid, July 2010*)



# Higher Confidence

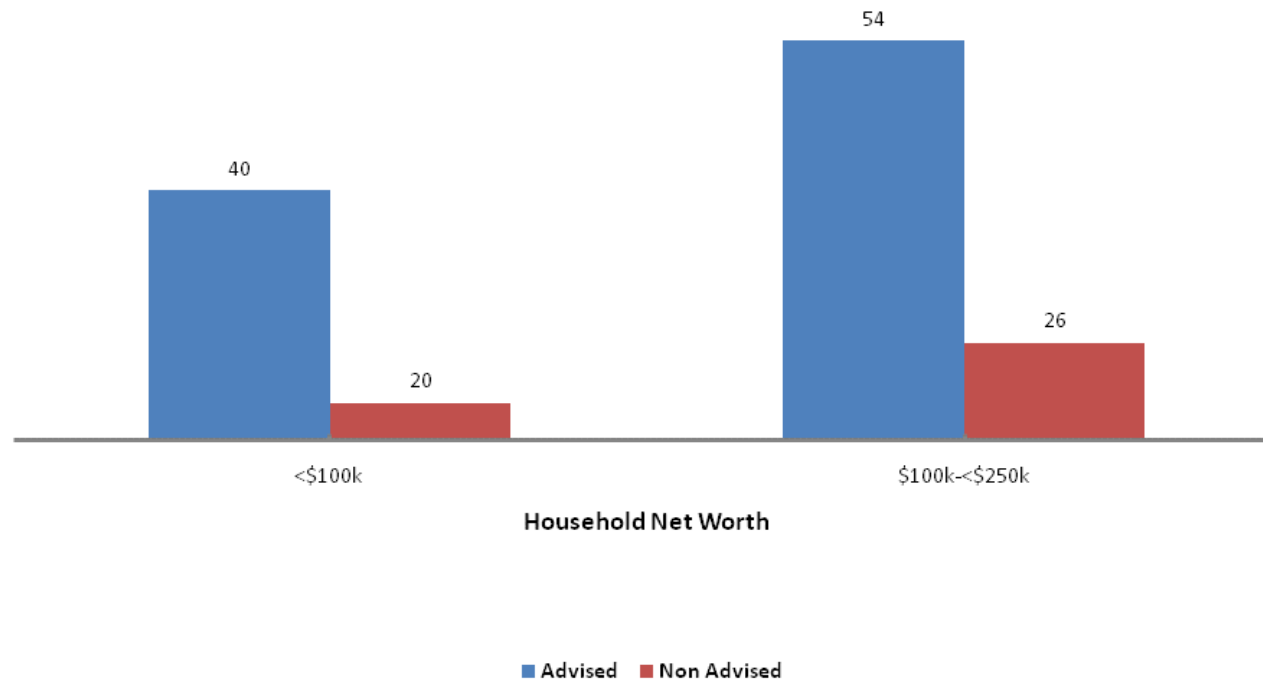
## More Comfortable, More Confident, Better Outlook with Advice

(% of respondents who agree - 6 to 10 on a 10-point scale)



# When is Financial Advice Needed?

I feel confident that I will have enough money to retire comfortably  
(% of respondents who strongly agree: 8 to 10 on a 10-point scale)



# Advisors Contribute to Financial Literacy

- **Governments are focused on improving the financial literacy of Canadians:**
  - Federal Task Force on Financial Literacy – to create a national strategy
  - Provincial initiatives for financial education in school systems
  - Regulators initiatives
  - High expectations on industry to play a role
- **Advisors already playing a critical role:**
  - 71% of over-35 year olds report that they use a professional advisor to learn about financial information.
  - 55% of investors report using an advisor as the source used most often when looking for information about investing
  - 91% of investors consider their advisor to be among the top sources of information guiding their investment decisions



## Less Susceptible to Fraud

- **Having an advisor ensures that you are dealing with a regulated entity with required investor protections in place.**
- **Regulatory framework:**
  - Proficiency requirements
  - Penalties including fines and loss of license for non-compliance .
  - Regulatory oversight with regular operational audits & subject to insurance and capital requirements
  - Investor protection funds covering client losses due to insolvency.
- **Investor protections work:**
  - Advisors are much less likely to be the source of fraud. As the use of advice goes up, the likelihood of fraud goes down. (2009 CSA *Investor Index Survey*, CSA, October 5, 2009)



# Conclusions

- **Advisors add value for their clients by:**
  - promoting the early adoption of good savings and investment behaviours;
  - helping them avoid common investment mistakes;
  - developing and helping them stick to a financial plan;
  - providing product, vehicle and plan solutions suited for them;
  - developing the right investment strategies for building wealth;
  - contributing to their, and their household's, financial literacy;
  - offering a secure, regulated environment for financial transactions; and
  - contributing to the economic and social fabric of their communities.
  - providing easy access to Canadians locally where they live and work.
- **In contrast, investors without advice are shown to save less, utilize tax-advantaged savings opportunities less, and invest in securities with less opportunity for future investment growth.**
- **Financial and investment advice is a cornerstone of our current retail financial market.**





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