



**Investor behaviour and beliefs:
Advisor relationships and investor decision-making study**

Written by



The Brondesbury Group, Toronto, ON
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0.0 EXECUTIVE SUMMARY

Investor Education Fund (IEF) identified a number of issues that are critical for understanding the expectations and learning needs of investors who have an advisory relationship. IEF worked with the Ontario Securities Commission (OSC) to define the objectives for particular aspects of the research, in order to gain an understanding of the expectations and learning needs of investors.

The issues were too numerous and too complex to address in a single online survey. As a result, the issues were divided into two surveys: Advisor Relationships and Investor Decision-Making. Each survey had approximately 2,000 online respondents yielding an accuracy of $\pm 2\%$ some 19 out of 20 times. Surveys were conducted between December 2011 and January 2012. The surveys were roughly 15 minutes in length and conducted in the language of the respondent's choice. Fewer than 10% responded in French.

0.1 ADVISOR RELATIONSHIPS

Some 5 out of 6 investors in our sample identify themselves as having an advisor relationship where the advisor makes recommendations and then the client decides what to do. While others may not initially self-identify this way, subsequent questioning indicates that their relationship does fit the classic advisor relationship. Only 1% have other relationships, including discretionary accounts.

Two-thirds of investors know little about their advisor when they enter into a relationship with that advisor. Only one-third gets to an advisor through a referral. The most common way to get an advisor is to have one assigned by a bank or financial institution. Investors

trust this assigned advisor, because they trust their financial institution to do what is best for them.

Some 8 out of 10 investors have bought mutual funds from their advisor and nearly half have bought GICs and stocks. One-third report buying life insurance directly from their advisor.

When asked what products their advisor can directly sell, the numbers reported are far off the actual incidence of the related licenses/registrations for financial advisors, leading us to conclude that people are not certain what their advisor sells directly (i.e., is licensed to sell) versus the products an advisor can secure for them through their firm. Over-estimation is particularly common for life insurance and equities.

In addition to buying specific investments, the services that people expect from their advisor are clear. Planning and asset mix (types of investments to buy) are the leading themes in their discussions. More than 8 out of 10 investors contacted their advisor to get planning or goal-related advice over the past two years – even more than to buy investments.

For those just getting started with less than \$50k invested, the most critical need is **Help in figuring out financial needs for the long term**. As the amount invested increases to the \$50-99k range, the top service shifts to **Building a financial plan**. After that, **Advice on types of investments to buy** (not specific stocks or funds) is the leading choice of service expected.

When talking about buying investments, advisors typically present several choices to clients who want to discuss their investments. Advisors typically discuss risk of loss, alternative investment instruments, and the reasons behind their recommendations. The

range of topics discussed depends on what the client wants to discuss.).

Some 7 out of 10 investors believe their advisor has a legal duty to put the client's best interests ahead of his or her own. They rely on their advisor to select the best investment for them and most believe the advisor will recommend what is best for the client even at the expense of their own commission.

In the event that they get inappropriate advice, most clients have no expectation that there is any 'safety fund' that will compensate them for their losses.

0.2 INVESTOR DECISION-MAKING

The advisor was the dominant source of information for buying stocks or mutual funds. The advisor was most likely to be the first source used and the last source used by more than a 6-to-1 ratio over any other source. Advisors were an information source for more than 8 out of 10 investors. The next most used sources were chosen by fewer than 3 out of 10 investors.

Performance and portfolio mix dominate investment decisions, whether buying or deciding not to buy. Performance relative to similar investments, alternative investments and past earnings are all major considerations, as is portfolio mix. Risk of loss is a major factor only for deciding NOT to buy.

Cost of buying is a factor for 2 out of 10, but almost never a decisive factor. Management fees get similar treatment. Costs may deter some 1 out of 6 from buying.

Investors have little or no idea about how advisors can get paid. Only one-third of investors typically recognize several common arrangements for payment.

Having been informed about the full range of commissions and fees (as well as what might affect them), half of investors could not form a view about conflict of interest. The majority of 'no opinion' indicated that they were not aware of all these commissions prior to the survey. Among the half of investors with an opinion on conflict of interest, three-quarters believed that their advisor would look out for their best interest regardless of how the advisor was paid.

When reporting advisor fees to investors, responses suggest that both dollar amount and percentages are needed to meet the needs of investors. When percentages are used, there is no preference between reporting a single blended estimate of the percentage versus a range of percentages.

In summary, advisors are the key influence in investor decision-making. Investors rely upon their advisor for planning and asset mix advice, as well as advice on what specific investments to buy. Other sources of information are secondary to the advisor's opinion. Investors trust their advisor to provide advice that benefits the client first. This trust is underpinned by a belief that their advisor has a legal responsibility to 'put the client's best interest first'. With this as a foundation of investor belief, investors find little reason to be concerned about fees, and perhaps as a result, fewer than half of advisors disclose what they are paid.

1.0 INTRODUCTION

1.1 BACKGROUND

Investor Education Fund (IEF) identified a number of issues that are critical for understanding the expectations and learning needs of investors who have an advisory relationship. IEF worked with the Ontario Securities Commission (OSC) to define the objectives for particular aspects of the research, in order to gain an understanding of the expectations and learning needs of investors.

To understand what an investor in an advisory relationship needs to know, we consider several facets of the client-advisor relationship:

1. How advisor relationships are formed and maintained;
2. The products people buy, as well as other products they believe they can buy;
3. Which services advisors are expected to provide;
4. Types of advice sought and received;
5. Fiduciary duty in the advisor relationship;
6. Working with advisors to make investment decisions;
7. Reliance on advisor advice versus other information;
8. Major influences on investment decisions; and
9. The role of fees and their disclosure in investor decision-making.

In addition to getting answers to this broad set of issues regarding investor behaviour and beliefs, it is important to be able to adapt what is learned to different types of investors. Past research has shown that knowledge and behaviour change as the amount invested increases, so this is one of our critical considerations. Equally important, past IEF research shows that information seeking, decision-making and attitudes vary considerably with age.

While age and amount invested are a primary focus, we also look at related variables like income and education to help understand what the survey results tell us.

Regional differences are not a primary concern in this work. Especially in the case of financial advisor relationships, regional patterns are shaped by demographic differences, especially wealth and age distribution. As well, it is also important to recognize that geography is a factor of diminishing importance in an online learning environment.

1.2 METHOD

The nine issues we need to address are too big to tackle in a single survey, even though they are inter-related. We divided the issues into two groups and ran two parallel surveys to make this study feasible. There is some crossover between the two surveys.

The first survey focused on Advisor Relationships, which covered issues 1-6 in our list. The second survey focused on Investor Decision Making, which included issues 6-9 in our list. In effect however, both surveys deal with how investors make decisions when working with an advisor. As well, both surveys address investor attitudes and expectations about their relationship with their advisor.

The questions were developed by The Brondesbury Group based on an outline of issues identified by IEF and OSC. Questions were originally written in English and then translated into French. The survey was conducted online.

In an online study of this kind, a request for participation is sent to a large number of people. They are asked a set of qualifying

questions, and if they are qualified, they are asked to participate.

The conditions for participation in this study included:

- Working with a financial advisor who makes recommendations that the investor considers and then decides what to do;
- Buying a mutual fund or stock through this advisor (Investor Decision-Making Study only);
- At least 20 years old; and
- No one in the family works in the financial services industry or a regulatory body.

To ensure reasonable representation of different groups of importance, there were also quotas for a number of demographic criteria. Respondents were accepted subject to these quotas:

- At least 25% of the sample from each of three age groups, 20-39, 40-59 and 60+;
- At least 45% of the sample from each gender; and
- Regional quotas to provide an accurate representation of adults with advisory relationships.

Contrary to common practice, the survey data is not weighted to ensure the sample matches the distribution of adults by region. The reason for this is that we are sampling advisor relationships rather than adults. Furthermore, we intentionally under-sampled the bottom income quintile. Past research has shown that households in that income category typically do not have money to invest.

As it stands, we don't know the actual distribution of advisor relationships, but past research unequivocally indicates that they don't match population. We do know that lower income and less urbanized provinces typically have fewer advisor relationships per capita, and besides this, there are regional differences in the use of financial products and advice. But despite the lack of weighting, true values are unlikely to be substantially different.

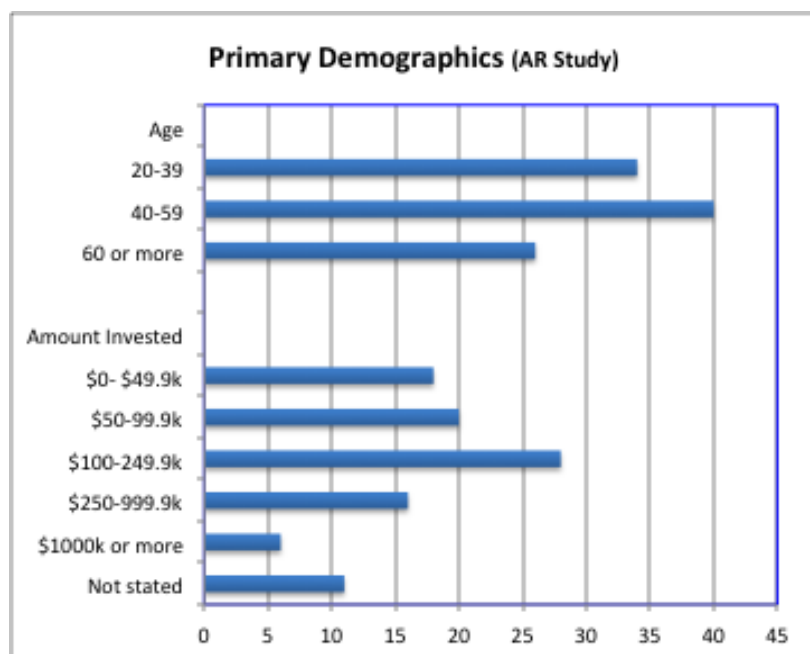
The Sample

Each survey had approximately 2,000 online respondents yielding an accuracy of $\pm 2\%$ some 19 out of 20 times. Surveys were conducted between December 15, 2011 and January 5, 2012. The surveys were roughly 15 minutes in length and conducted in the language of the respondent's choice. Fewer than 10% responded in French.

The Sample – Advisor Relationships

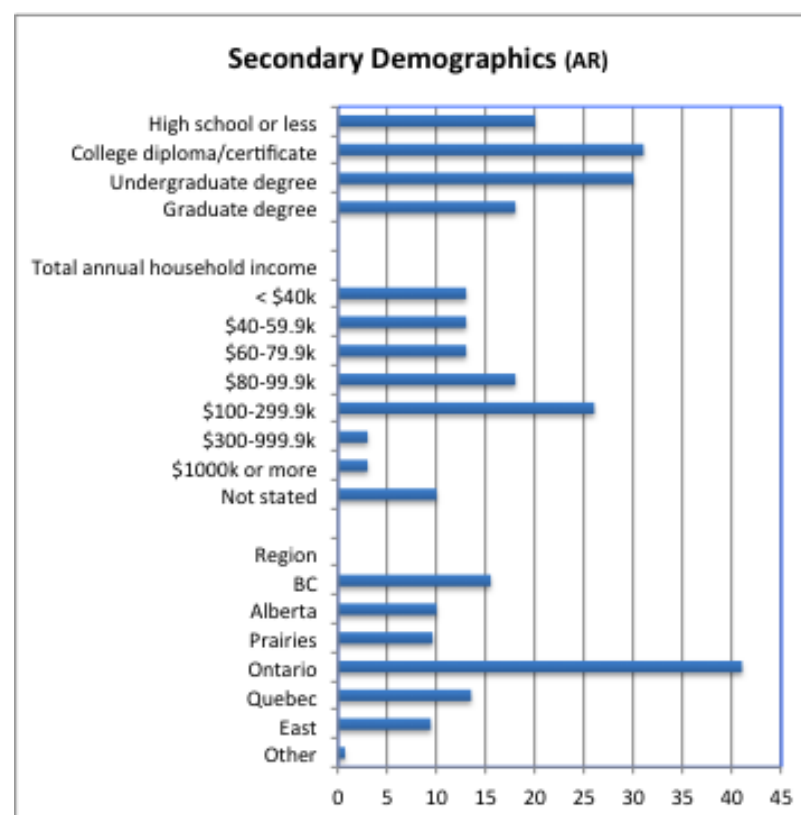
Looking at the primary demographics for the sample, we observe the following.

- The sample is strong in the peak investing years with 4 out of 10 respondents aged 40-59. Only one-quarter are age 60 or more.
- The amount of money invested is slightly higher than is typical. More than 2 out of 10 have more than \$250k invested, and including this group, more than half have over \$100k in investments. Note that these numbers are not corrected for the group that would not disclose the amount of investment.
- While not shown, we estimate that 8% are accredited investors.



Secondary demographics give us a more rounded picture of the respondents.

- It is a well-educated sample with half holding university degrees – roughly double the population average.
- As would be expected, the median household income is higher than average at \$90k.
- Quebec is under-represented in the sample, but this is consistent with past surveys of advisor relationships, which suggest a smaller proportion of Quebecers use advisors.
- While not shown, the proportion of men and women in the sample is roughly equal (52% versus 48%).

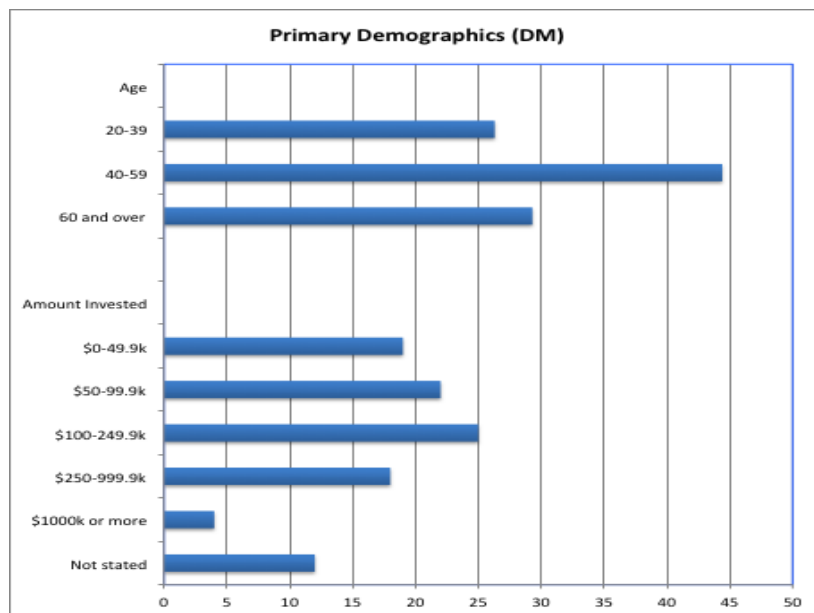


Based on responses we will report later, we estimate that half of this sample has a relationship with an investment adviser who is licensed to sell equities. The vast bulk of the remainder deal with advisors that hold a mutual funds license.

The Sample – Investor Decision-Making

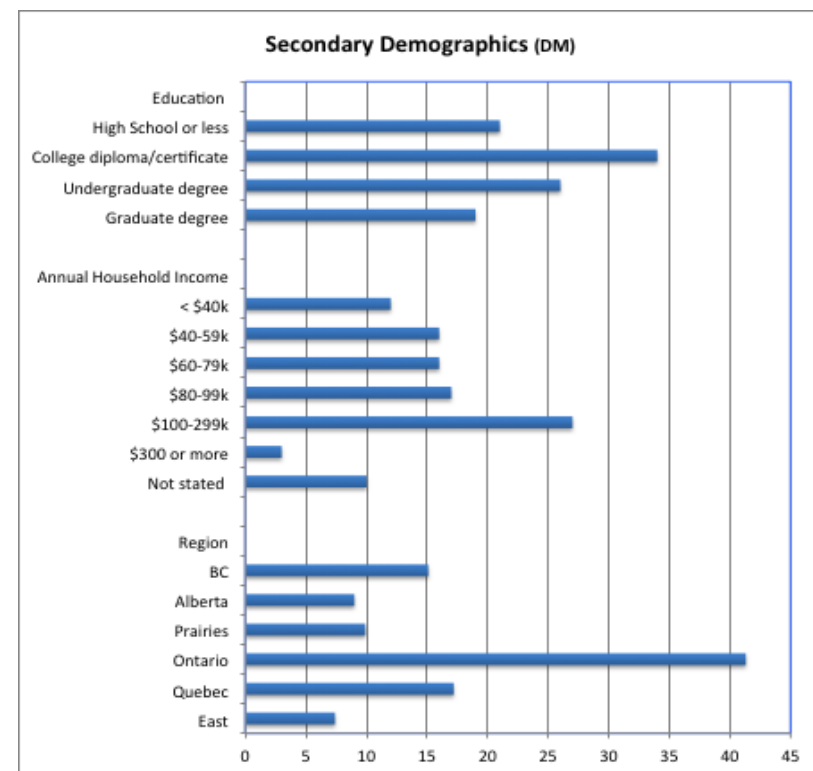
Looking at the primary demographics for the sample, we can see the similarities with the AR sample in this independent group.

- The largest group of investors is in the peak 40-59 investing years. The remainder is split between younger and older. This is a slightly older sample than the AR sample.
- Investments are above average for the population with nearly half having more than \$100k in investments and one-quarter holding over \$250k.



Secondary demographics tell us a bit more about the sample.

- This is a very educated sample with nearly half of the investors holding a university degree and one-third with college diplomas.
- One-third of respondents are from the West, 4 out of 10 from Ontario and just under 2 out of 10 from Quebec.
- Household income is roughly as expected for those with advisor relationships with a median around \$90k.
- Based on household income and amount invested, we estimate that just over 5% are accredited investors.
- The sample is split between men and women (52% versus 48%).



1.3 BALANCE OF THIS REPORT

In addition to this Introduction and the Executive Summary, there are three chapters in this report.

- **Advisor Relationships** (ch.2) follows the findings in the Advisor Relationship survey in a section-by-section order;
- **Investor Decision-Making** (ch.3) follows the findings in that survey in a section-by-section order;
- **Summary and Conclusions** (ch.4) ties together the findings according to the nine themes set out in the introduction, weaving in some material from past studies.

2.0 FINDINGS: ADVISOR RELATIONSHIPS

HIGHLIGHTS

The Advisor Relationship (AR) survey is divided into three broad content areas.

- (2.1) **About Your Advisor** describes how relationships are formed, product purchases and service expectations.
- (2.2) **Advisor Contact** describes how contact is maintained, types of advice sought, and the nature of discussions about investments.
- (2.3) **Advisor Expectations** deals with levels of trust, amount of advisor explanation, and investor beliefs about the advisor's fiduciary duty.

Key findings and observations from this survey are as follows.

- Few people know much about their advisor when they start working with them. Most often the advisor is someone that their financial institution has assigned to them, rather than an advisor they have sought out based on specific needs.
- Investors don't understand or consider different types of advisor registration and licensing. They don't distinguish between the products their advisors are individually licensed to sell and the products the adviser's firm can provide.
- Services that people expect from their advisor are clear. **Planning** and **asset mix** are the leading themes in their discussions. **Advice on dealing with life events** is common and consistent with past research.
- Contact rates between advisors and clients are quite good with half seeing their advisor 2-4 times per year.
- When discussing investment choices, advisors typically present multiple options and make their selection criteria clear.

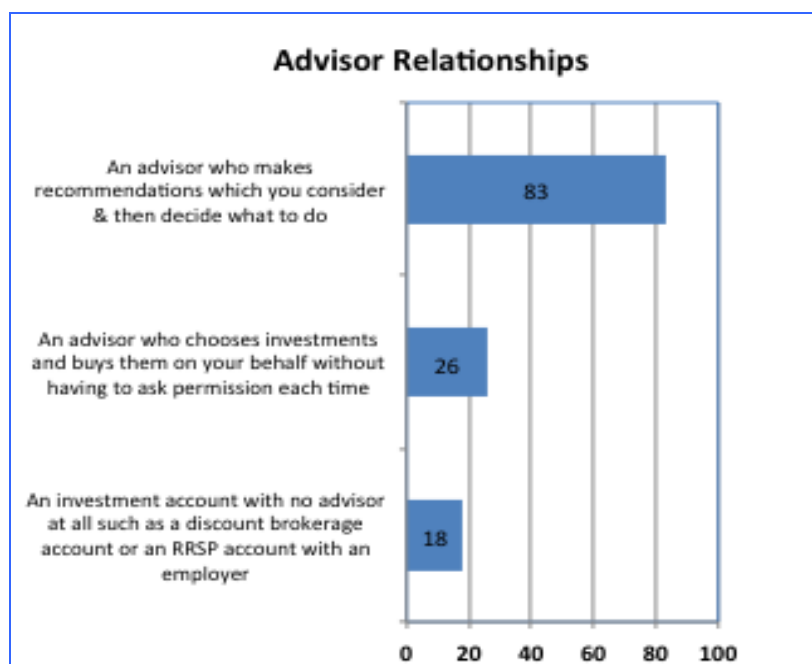
- The majority of investors trust their advisor to give them the best possible advice they can.
- Most clients believe the advisor has a legal duty to put their interest ahead of his or her own.

2.1 ABOUT YOUR ADVISOR

Some 5 out of 6 investors in our sample have a classic advisor relationship, where the advisor makes recommendations and then the client decides what to do.

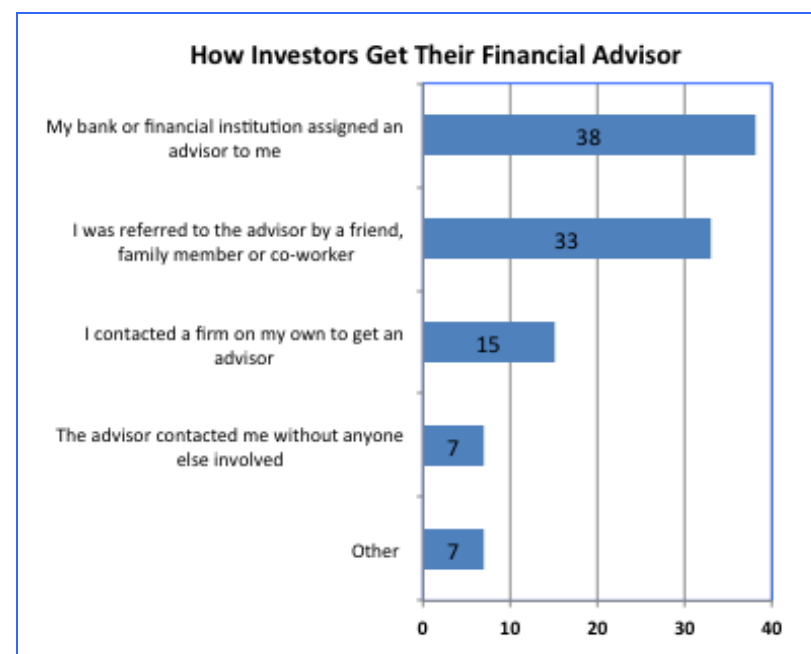
About 1 out of 4 initially say they have an advisor who makes decisions on their behalf without having to ask permission each time. Subsequent questioning indicated that the vast majority of these people also have relationships where they discuss recommendations, or alternatively, where their advisor at least asks for an 'okay' before buying for them. In fact, only 1% of the sample is really responding about a true discretionary account. It is likely that many others confused a wrap account with a true discretionary account.

You may also note that some 2 out of 10 have investment accounts without an advisor. This entire group also has an advisor who recommends investments, which they discuss. No participant solely has an account without an advisor. **Investors were directed to answer survey questions about their main advisory relationship involving decision-making.**



How Do Investors Get Their Advisor

Essentially, **two-thirds of investors know little about their advisor when they enter into a relationship with that advisor**. Only one-third gets to an advisor through a referral. The most common way to get an advisor is to have one assigned by a bank or financial institution. In the 20-39 age group, half are assigned an advisor by their financial institution. In a number of studies, investors have told us that they are content to trust this assigned advisor, because they trust their financial institution to do what is best for them. As expected, assigned relationships drop off with amount invested.

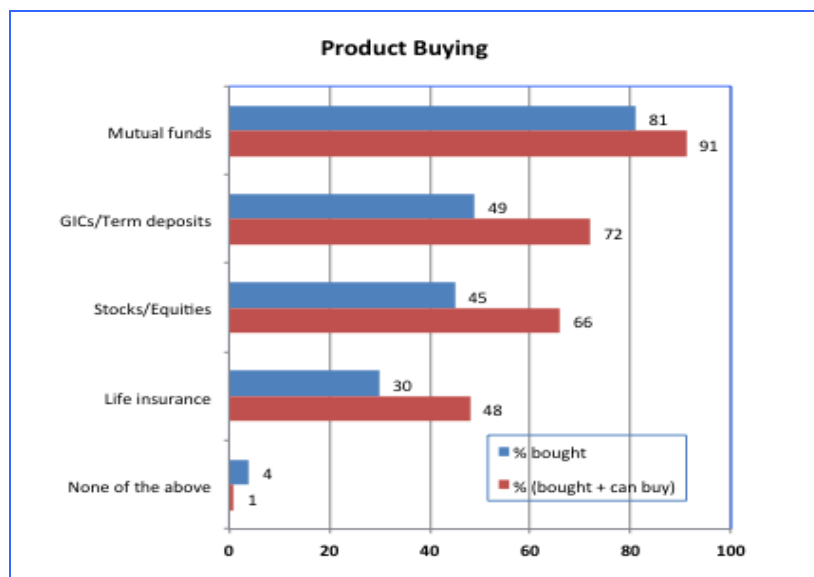


Product Buying

Buying and selling of financial products are the activities that fuel client-advisor relationships. To understand the nature of the relationships, we asked investors what products they had ever bought from their advisor. For each product an investor had never bought, we asked them if their advisor could directly buy the product for them.

Working on the assumption that only investment representatives are registered to sell stocks and only life insurance representatives are licensed to sell life insurance, past buying suggests that 45% of the sample probably deals with an registered representative of a investment dealer/adviser firm (which we will henceforth refer to as

an RR for “Registered Representative”) and 30% deal with life insurance agents. In terms of mutual fund sales, any RR can sell mutual funds and almost half of life insurance agents have mutual fund licenses, so it is difficult to infer the number of mutual fund representatives in the sample.



While the proportion dealing with an RR may be correct, we are less certain about life insurers. When asked about other products their advisor can sell, the same logic would lead us to conclude that two-thirds are RRs and half are life agents. These numbers are far off the actual incidence of these kinds of licenses and registrations, leading us to conclude that **people are not certain what their advisor sells directly (i.e., is licensed/registered to sell) versus the products an advisor can secure for them through their firm.**

Virtually any RR and quite a large proportion of mutual fund sales reps can arrange for clients to purchase life insurance through a licensed individual affiliated with their firm. In the matter of equities, we are also aware that bank-based personal financial advisors (usually with a mutual funds license) will occasionally arrange purchase of individual stocks on a client’s behalf through their investment dealer arm. These practices may be one source of confusion. A second source is also that the client is unaware of the limitations on what their advisor can sell based on licensing or registration.

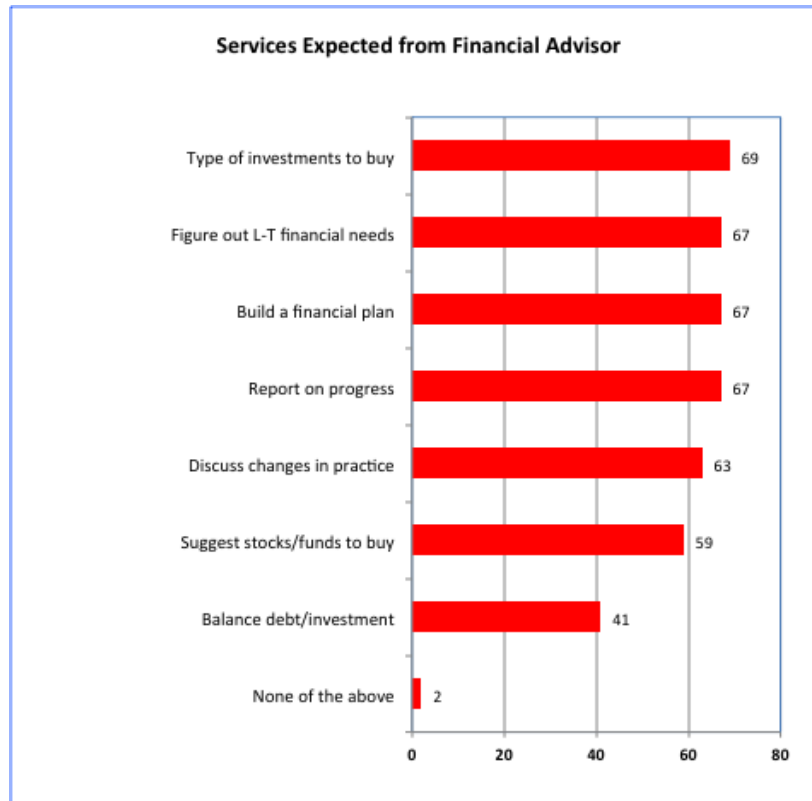
As one would expect, the uptake of all investment products increases with the amount invested, but the differences are most pronounced for equities. Those with the most invested also seem to have a better grasp of what advisors can sell directly, since they are less likely to name stocks and life insurance, if they don’t buy them already. Nonetheless, there is ample evidence that they don’t fully understand what their advisor can sell directly either.

The findings here confirm prior research. In several prior studies, The Brondesbury Group has asked investors if they know how their advisor is licensed or registered. We have consistently found that investors are not able to state what license, registration or certifications are held by their advisor. As we see here, inference from investor beliefs about product sales are not accurate enough to ascertain licensure.

Services Expected from a Financial Advisor

Investors were asked what services they expected from their financial advisor besides buying products. They were given a list of seven choices in random order. With the exception of **Balancing debt and investment**, which is only expected by 4 out of 10,

remaining services are expected by 6 or 7 out of 10 respondents. Only 2% expect none of these services.



Services that people expect from their advisor are clear. Planning and asset mix (**types** of investments to buy) are the leading themes in their discussions.

There are some differences in service preference by age. **Type of investments to buy** is among the top two services for all age groups.

Building a financial plan is one of the top two up through age 59, but **Regular reports on progress** is the second choice for 60+. We also note that there is a slight increase in demand for services in the peak investing years compared to older or younger investors.

For those just getting started with less than \$50k invested, the most critical need is **Help with figuring out long-term financial needs**. As the amount invested increases to the \$50-99k range, the top service shifts to **Building a financial plan**. After that, **Advice on types of investments to buy** (not specific stocks or funds) is the leading choice of service expected.

There are also some small differences by type of advisor, but we emphasize the differences are small. We note that RRs are more often asked to help with **Balancing debt and investment**, while mutual fund salespeople are more likely to be asked for **Help with figuring out long-term financial needs** and **Building a financial plan**. Differences are only in the 10% range, so they should not be interpreted as anything more than a modest difference in expectations.

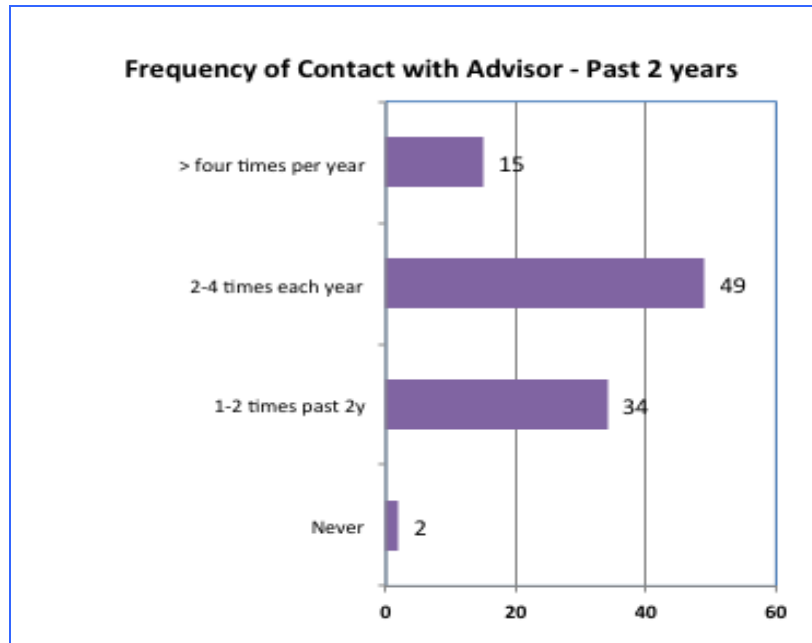
In short, the services that people expect from their advisor are clear. Planning and asset mix are the leading themes in their discussions.

2.2 ADVISOR CONTACT

Timing of Contacts

Responses suggest that virtually all investors (98%) have met or spoken with their advisor over the past two years. Some two-thirds of investors had contact at least 2-4 times each year, and a portion of this group have contact even more often. As would be expected,

the amount of contact increases with the amount of money invested. Based on median amount of contact, someone with under \$50k invested can expect annual contact, but this rises to semi-annual in the \$50-99k range. For those with over \$100k, quarterly contact is quite common. Half of those getting contact more than once per quarter have over \$250k invested.

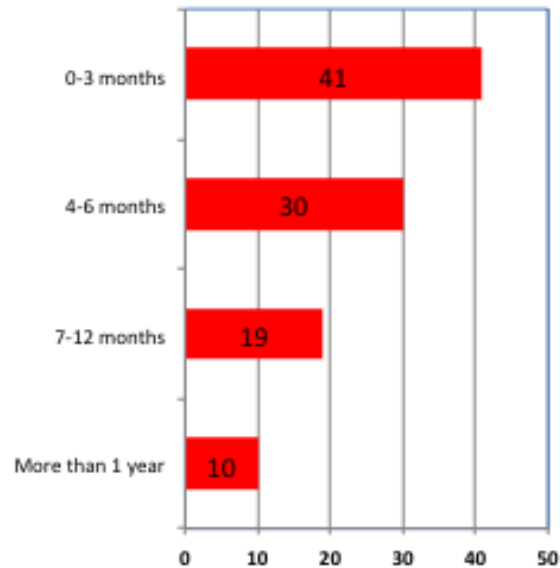


Client initiation of contact is quite common. Some 8 out of 10 investors contacted their advisor over the past two years to ask for their advice, especially RR clients. Initiation of contact is unrelated to age and only slightly related to amount invested.



Whether the investor initiated contact or not, some 9 out of 10 investors spoke with their advisor about buying an investment over the past year. Roughly half of all investors spoke with an advisor about buying investments over the past 4 months. For those age 60+, half spoke with an advisor over the past quarter – and that was autumn rather than RRSP season. The number rises to 6 out of 10 for those with over \$250k invested. In general, the recency of contact to buy investments is related to amount invested. Less money means less contact and less recent contact, and conversely, more means more.

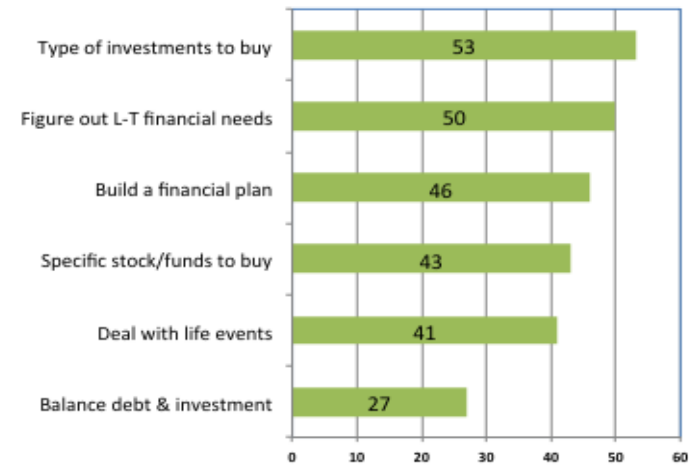
Most Recent Contact to Buy an Investment



Type of Advice Sought

When investors initiate contact, the kinds of advice they sought were consistent with the services they expect to get from their advisor. Asset mix and planning are the most frequently sought services, followed closely by recommendations for specific stocks or funds to buy.

Type of Advice Sought



Advice on dealing with life events is the only new entry in this exhibit. It is common enough at 4 out of 10 and consistent with past research. The consistency comes in two forms. First, this is the proportion of the population with investment that asked for this type of advice in IEF research done in 2003¹. Second, it is consistent with the incidence of life events that require advice.

With the exception of dealing with life events, every type of advice is more often sought by younger investors (20-39) than middle or older. Only dealing with life events is higher in the middle years.

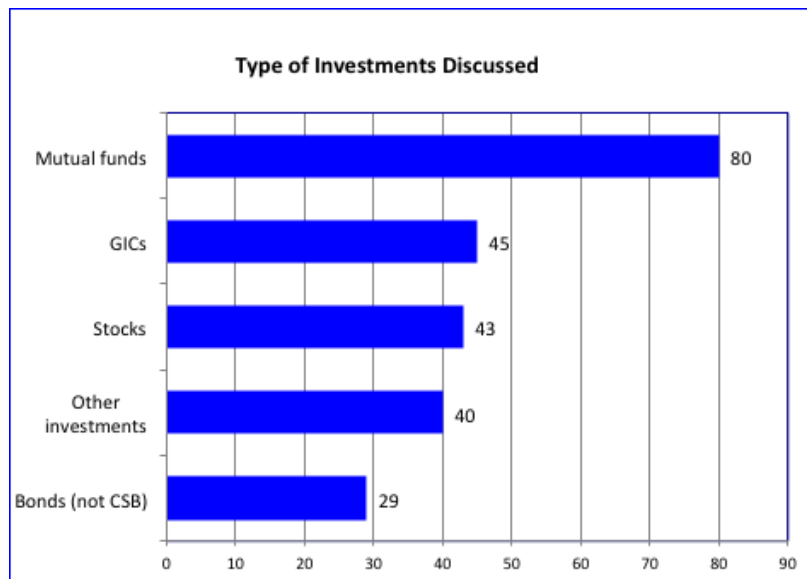
Type of advice sought differs modestly for stockbrokers and mutual fund salespeople in a way that is completely consistent with earlier results. The consistency suggests that “expectations of service”

¹ TBG report for the IEF, Personal Response to Triggering Events, 2003.

reported in 2.1 are largely based on services already sought with only a small amount of response reflecting future intentions.

Buying Investments

In the most recent discussion with their advisor about buying investments, most talked about more than one kind of investment. While mutual funds were common to 8 out of 10 discussions, the alternatives to mutual funds were also commonly discussed.



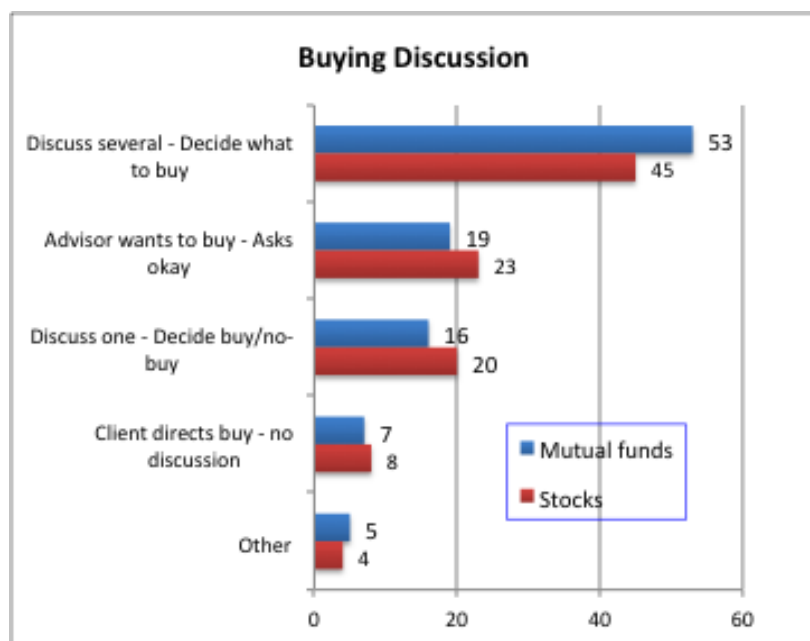
Mutual funds were the leading investment discussed in all groups. Stocks took second place in the 20-39 age group, while GICs were second in the middle and older age groups.

In terms of amount invested, the results are consistent with numerous other studies that show every investment is considered

more often by those with the most invested (i.e., \$250k+ invested). GICs are the most likely alternative discussed after mutual funds for those with less than \$50k invested.

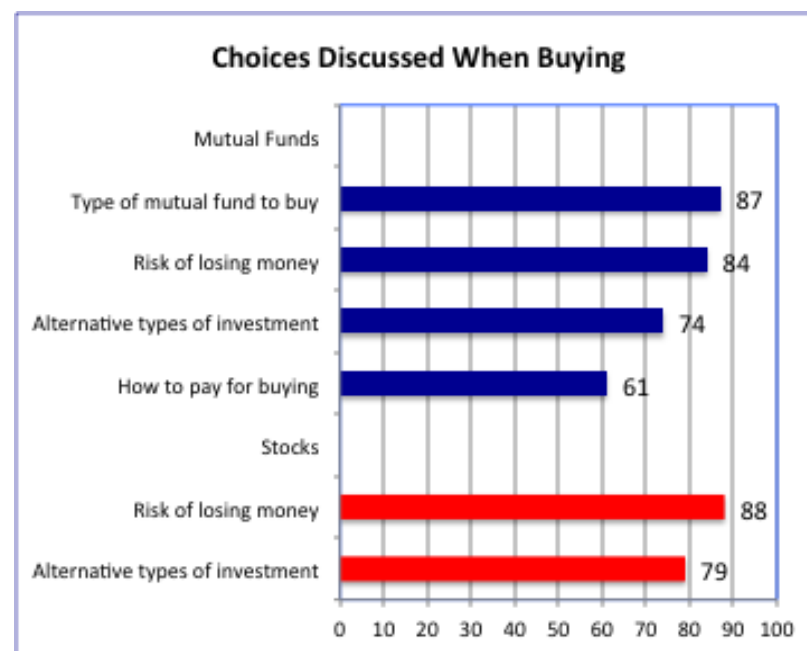
Whether stocks or mutual funds were discussed, advisors most typically offered investors more than one choice of investment. Roughly 5 out of 10 discuss multiple investments and work with the client to decide what to buy. Another 2 out of 10 discussed just one investment and decided whether to buy it or not. Some 2 out of 10 also report an advisor suggesting a single investment they are ready to buy for their client, and then, just calling to “ask for an okay” without real discussion. Finally, 1 out of 10 just call their advisor and tell the advisor what to buy on their behalf.

The overall pattern of discussing several options and deciding what to buy is dominant in all age groups falling below the 5 out of 10 mark only for those age 60 or over. Discussing just one fund and deciding whether to buy is most common for the 20-39 age group. Having an advisor call to ask for an “okay” to buy a single investment is most common for age 60+. There is no consistent relationship between amount invested and the nature of the buying discussion.



The issues discussed were also quite similar for stocks and mutual funds, so once again even though they were separate questions, we present both sets of results in a single exhibit.

In 5 out of 6 investment discussions, the risk of losing money was discussed. In 3 out of 4 cases, they also discussed alternative types of investments such as GICs or bonds. In both cases, we found that the likelihood of this discussion declined substantially with age, especially with stocks. The data support an interpretation that this is based on investors being more familiar with these topics making discussion less necessary, but we have no way of knowing that is the reason with certainty. An alternative must be considered, however, which is that the older investors are encouraged to use managed accounts that lessen the need for discussion.



Two topics were asked solely for mutual funds. We found that 9 out of 10 fund buyers discussed the type of mutual fund to buy with their advisor. Some 6 out of 10 also discussed the means of paying to buy the fund (load). Once again, discussion declined in an orderly manner as the age of the investor increased.

2.3 Advisor Expectations

Investors read a series of ten statements. They were asked to rate their agreement with each statement using a 1-5 scale, where 1 means 'Strongly Disagree', 5 means 'Strongly Agree' and 3 means 'Neither Agree nor disagree'. The order of the ten statements was randomized. We have grouped them into three sets: Amount of advisor explanation; Fiduciary duty; and Other Investor Attitudes.

While all statements were rated on a 1-5 scale, it is more convenient to show responses using three categories: Agree, Neutral and Disagree. That is the convention we will use here, although at times we may comment on the more detailed findings.

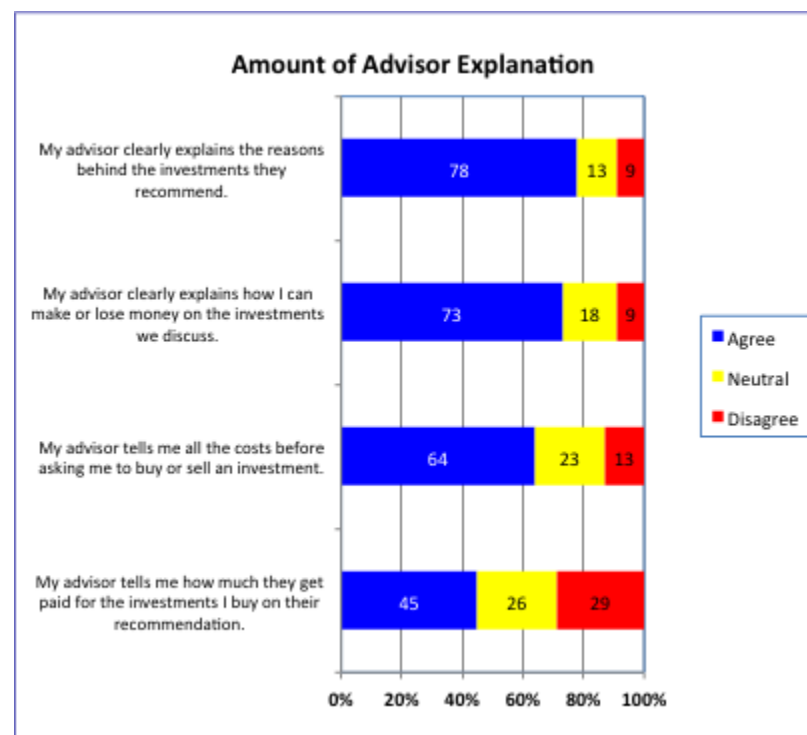
Amount of Explanation

Amount of explanation focuses on how well advisors inform their clients on critical matters. In a real sense, this is a cross-check on responses in the preceding section, as well as an advance into new territory.

Consistent with the responses in section 2.2, we find that three-quarters of investors agree that their advisor discusses **How I can make or lose money**, as well as **explaining the reasons behind the investments they recommend**. Given that some investments are very simple and don't require much explanation (GIC), we view this as a strong endorsement that critical issues are discussed.

Reinforcing the notion in the preceding section that advisor discussion changes as clients become more familiar with investing, we note that **explaining the reasons behind investments** actually increases with age. Instead of talking quite as much about risks and alternatives, the focus shifts to a broader discussion of selection

criteria. We also note that there is no age relationship to the question about risk here, but in contrast to the earlier question, which just discussed risk of loss, this statement encompasses the broader context of potential gains as well as losses.



When we move from the investment to costs, the proportion saying their advisor discussed costs is lower than the discussion of investments. At the same time, we note that only 1 in 10 are reasonably sure that costs are not discussed. Turning to the more sensitive issue of advisor compensation, just under half believe it is discussed, but 3 out of 10 are reasonably sure it isn't. As we will see in the next chapter, however, knowledge of how advisors get paid is

so weak, that these numbers can only be taken as a statement of belief, rather than proof of advisor practices.

In terms of demographics, we note that being told about costs is consistent across age groups. Belief that the advisor is divulging how much they get paid drops from 56% at age 20-39 to 40% for age 40 and over. This suggests that more experience creates less certainty that all matters of compensation are divulged. This is partly confirmed by a comparable finding for amount of money invested.

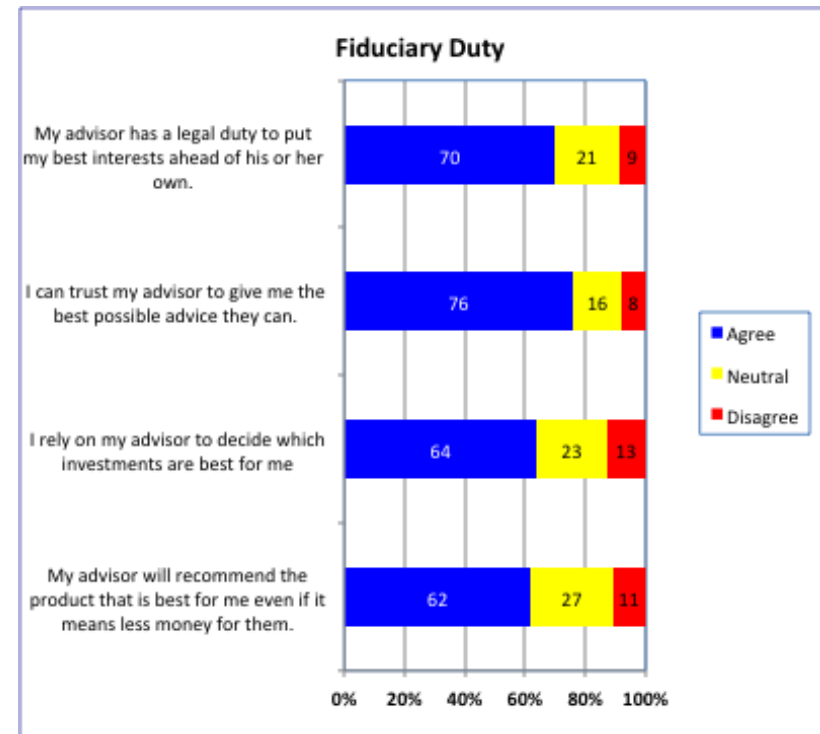
Fiduciary Duty

An advisor is said to have a 'fiduciary duty' to a client when the advisor has a legal duty to put the client's best interest ahead of their own. It also means doing what is best for the client even if it means less money for the advisor.

At the core of our look at fiduciary duty, we note that **7 out of 10 investors believe their advisor has a legal duty to put the client's best interests ahead of his or her own personal interests.** Slightly more 'Strongly Agree' rather than 'Agree'. The belief in legal duty is unrelated to age and is stronger among those with \$100k or more invested. In short, those with the most to lose are most likely to believe there is a legal duty.

It is also clear that most people believe the advisor will give the best advice they can, and in turn, they can rely on their advisor to decide which investments are best. The extent of this reliance will be discussed in chapter 3, and as we will see, it is stronger than the agreement levels here suggest. The confirmation of these other beliefs comes from the agreement that "My advisor will recommend the best product for me even if it means less money for them". For

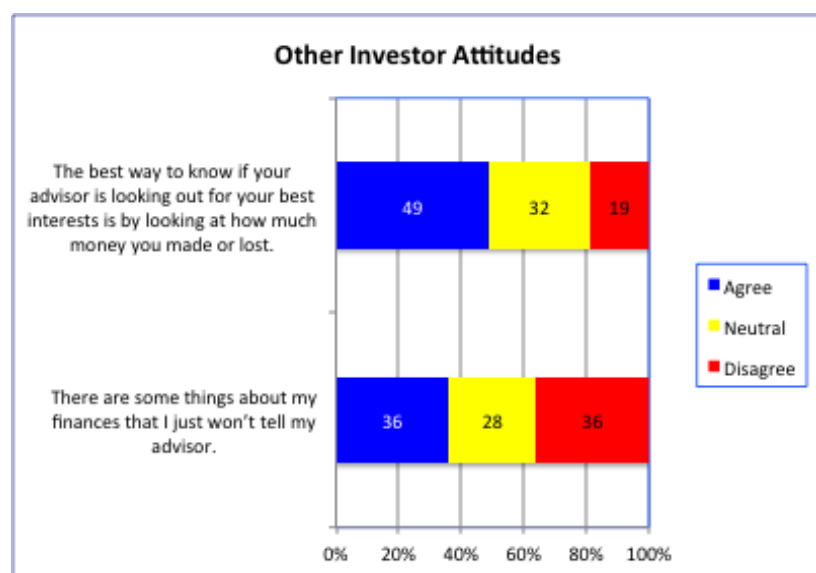
the most part, the reliance on the advisor and their advice peaks among investors with \$100-249k invested. Reliance begins to lessen after that, but it is still quite substantial.



Other Investor Attitudes

Based on prior research, we evaluate two attitudes that are sometimes expressed in investor interviews.

The first attitude is stated formally here, but in discussion it effectively says, “As long as I am making money, I have a good advisor. If I’m not making money, I don’t have a good advisor”. Those with an understanding of economic cycles and money management will recognize the fallacy of this approach, especially in a market where most people are losing money. This attitude is counter-productive to a long-term relationship, yet half of investors agree with it. We suspect it is only the 15% that strongly agree who will have a hard time building a relationship.



The second attitude is an unwillingness to disclose some aspects of personal finances, either debts or money invested with other advisors. This kind of omission makes it difficult for an advisor to provide complete advice. Roughly one-third of investors agree that they won’t tell their advisors some things about their finances with only 1 in 10 strongly agreeing.

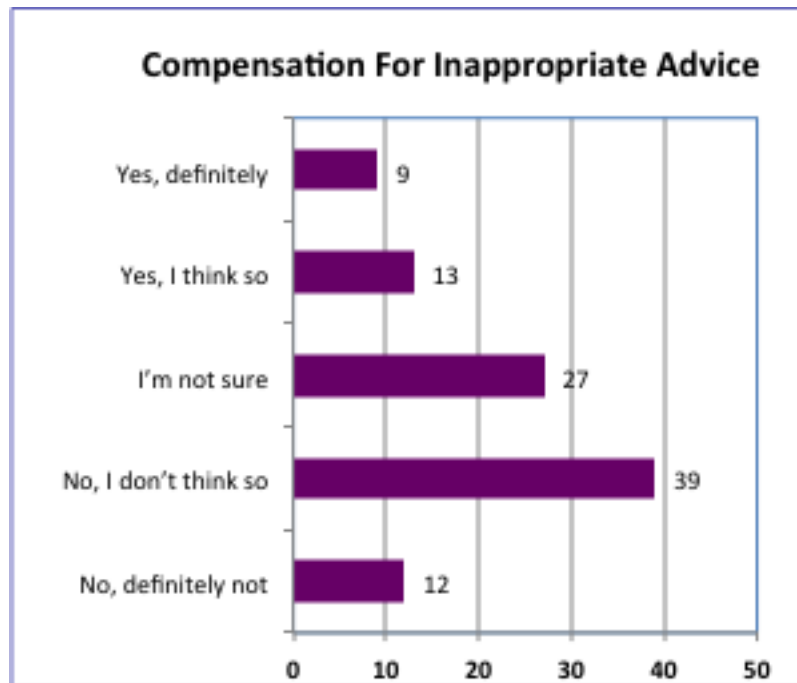
Both negative attitudes decline with age but remain significant factors in investor behaviour.

Compensation for Loss

While not an attitude question of the same kind, we asked investors whether they believed there was an organization or safety fund that would compensate them in the event that they received inappropriate advice from their advisor.

Since such a fund doesn’t exist, it is good to know that just over half of investors do NOT believe it exists. Another 3 out of 10 are not sure. **The concern is greatest for the 2 out of 10 investors who erroneously believe they will be compensated if they lose money as a result of bad advice.**

Belief in this type of compensation is strong at 3 out of 10 in the 20-39 age group. It declines to 2 out of 10 in the 30-49 group and 1 out of 10 for the age 60+ investors. Contrary to what we would expect, the belief in compensation for poor advice is strongest in the group with \$250k or more invested, where one-third believe they can be compensated for inappropriate advice through a safety fund.



Now we turn to Investor Decision-Making and consider the findings in light of what we have learned about advisor relationships.

3.0 FINDINGS: INVESTOR DECISION-MAKING

Highlights

The Investor Decision-Making (DM) survey is divided into two broad content areas.

- (3.1) **Factors that Influence Investment Decisions** describes the sources of information that investors rely on to make their buying decisions, as well as the selection criteria that influence choosing or opting not to buy an investment.
- (3.2) **Fees Associated with Mutual Funds** describes investor awareness of different kinds of mutual fund fees and the factors that influence them. Disclosure of fees is also discussed, as well as investor perceptions of potential conflicts of interest.

Key findings and observations from this survey are as follows.

- Buying decisions about stocks and mutual funds are informed by similar sources and driven by similar selection criteria.
- The advisor's opinion dominates all other sources as a factor in buying decisions. Opinions of friends and family members are somewhat influential, as are independent print materials. Online sources are particularly influential with younger investors.
- Performance and portfolio mix are the most critical factors for selecting investments. Risk of losing money is more likely to drive a decision "not to buy".
- Knowledge of mutual fund fees and what affects them is minimal. Their complexity makes it difficult for investors to assess potential conflict of interest. Those with an opinion mostly believe the advisor looks out for their best interests regardless of compensation.

- Disclosure of fees is inconsistent. When fees are disclosed, investors want disclosure in both dollars and percentages.

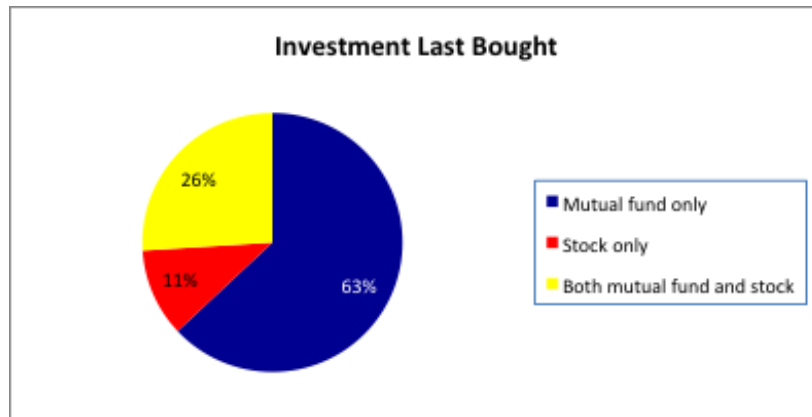
3.1 FACTORS THAT INFLUENCE INVESTMENT DECISIONS

In contrast to the Advisor Relationship study, all participants in the DM study have advisor relationships that require their active decision-making. As well, the AR study only required an advisor relationship, while the DM study only includes people who buy stocks and/or mutual funds as some of their investments.

Half of the sample has bought either a mutual fund or a stock through an advisor in the past six months – some 7 out of 10 within the past year. The 3 out of 10, who did not buy stocks or mutual funds within the past year, may well have bought GICs or bonds, but we did not count that.



Some 9 out of 10 respondents bought a mutual fund, while only 4 out of 10 bought stock. One-quarter bought both investments in their last purchase from their advisor.

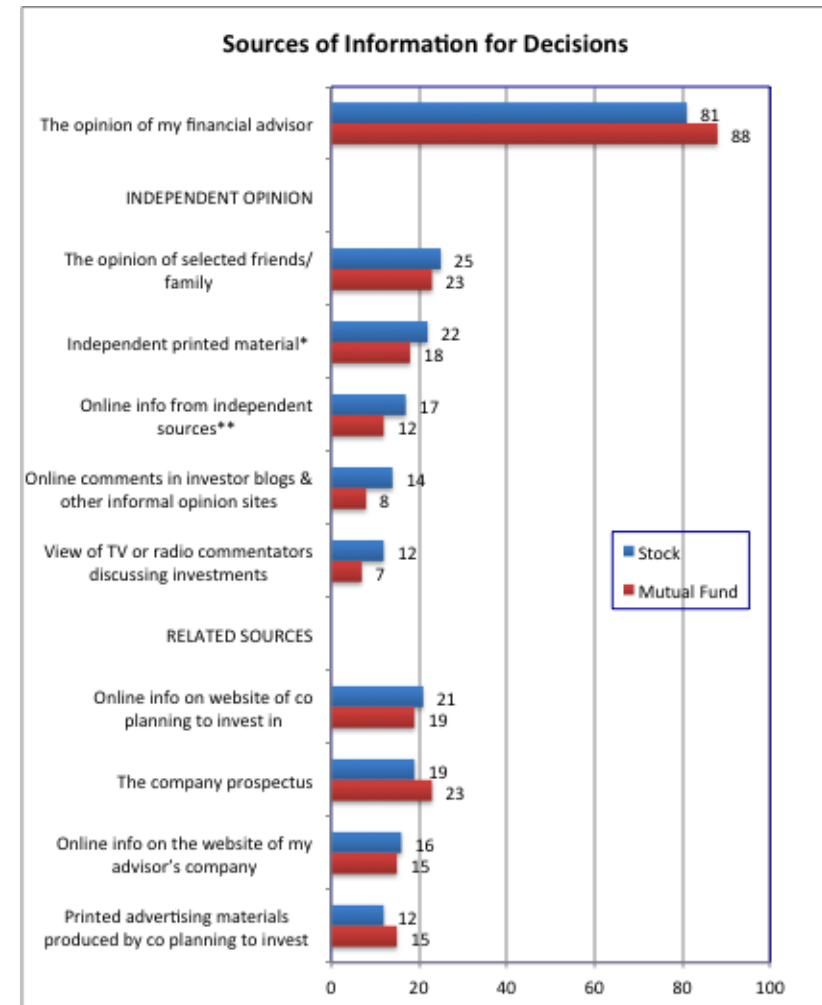


Sources of Information for Buying Decisions

Investors reviewed a number of information sources and indicate which of the sources they used to make their buying decision. They were also asked to identify the first source they used and the last source they used.

The advisor was the dominant source of information for buying stocks or mutual funds. The advisor was most likely to be the first source used and the last source used by more than a 6-to-1 ratio over any other source. Advisors were an information source for more than 8 out of 10 investors. The next most used sources were chosen by less than one-third as many as sought advice from advisors.

As expected from previous research for the IEF, the number of information sources used declines with age, except for financial advisors. For online sources, the age 20-39 group uses three times as many as the 60+ with the 40-59 group in the middle.



With so many sources of information and such diffuse usage, we turned to factor analysis to identify whether there were any patterns in selection of information sources. From the analysis we learned that there were two preference patterns:

- **Independent Opinion:** People who seek information from the five independent sources of information shown in the exhibit; and
- **Related Sources:** People who prefer to seek information emanating from their advisor's company and the company whose securities they plan to buy.

For the most part the preference among these sources is psychographic, with some 4 out of 10 seeking independent opinion and 4 out of 10 using related sources. There is a preference for seeking independent opinion in the 20-39 age group, as well as among university graduates. Those with more than \$250k invested generally seek information from their advisor's company or the company whose securities they plan to buy.

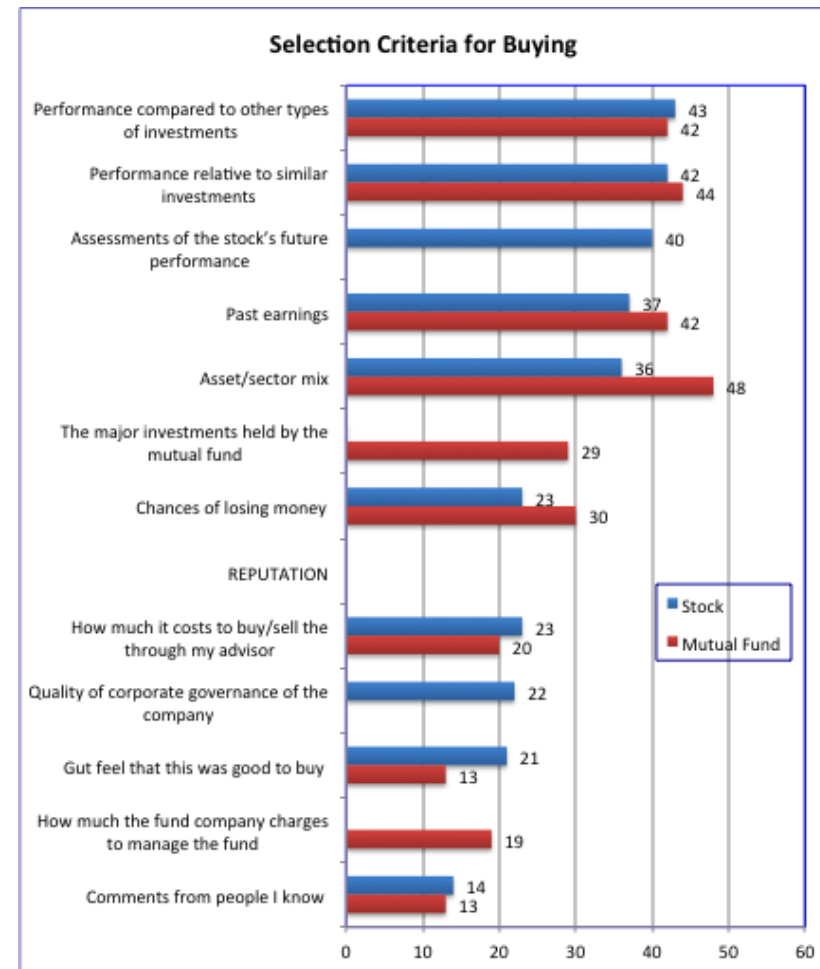
Selection Criteria for Buying Decisions

Performance and portfolio mix dominate investment decisions, whether buying or deciding not to buy. Performance relative to similar investments, alternative investments and past earnings are all major considerations. Portfolio mix is also a considerable factor. Risk of loss is a major factor only for deciding NOT to buy.

Cost of buying is a factor for 2 out of 10, but almost never a decisive factor. Management fees get similar treatment. Costs may deter some 1 out of 6 from buying.

Once again we turned to factor analysis to uncover any patterns in the choice of selection criteria. **Two factors emerged, one related to performance and the second oriented toward reputation.**

Those focused on reputation were also most concerned about cost.



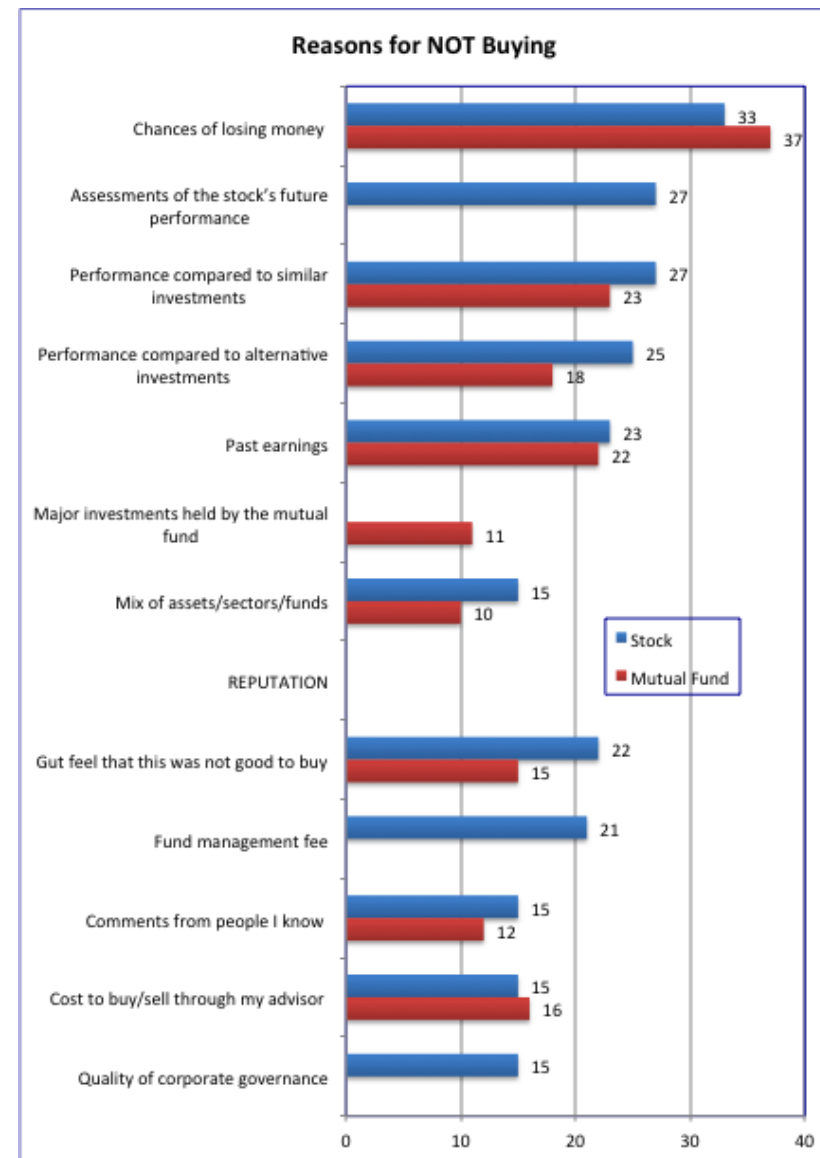
Virtually everyone (94%) looks at some kind of Performance criteria, but only 4 out of 10 are concerned about Reputational factors. This is true whether costs are included in the Reputation factor or not. While a Reputational focus may be psychographic, those who focus on reputation are more likely to be: French-speaking, younger, better educated (postgraduate degree), and accredited investors. Of course, they are unlikely to be all of these things at the same time.

When choosing a single criterion that most drives stock-buying decisions, **Assessment of the stock's future performance** was chosen over any other criteria by at least a 2-to-1 ratio. For mutual funds, **How much the fund earned in the past** was selected most often. **Performance compared to similar investments** was the #2 criterion followed by **Chances of losing money**. For both types of investments, an average of three criteria influence the decision.

Deciding NOT to Buy

Poor prospects for earnings are critical for deciding NOT to buy, but the strongest criterion is simply the **Chances of losing money**. Reputation plays a bigger role in deciding not to buy a stock than it does for mutual funds. And overall, cost is a factor in only 1 out of 6 decisions and then it is just one of the factors at work.

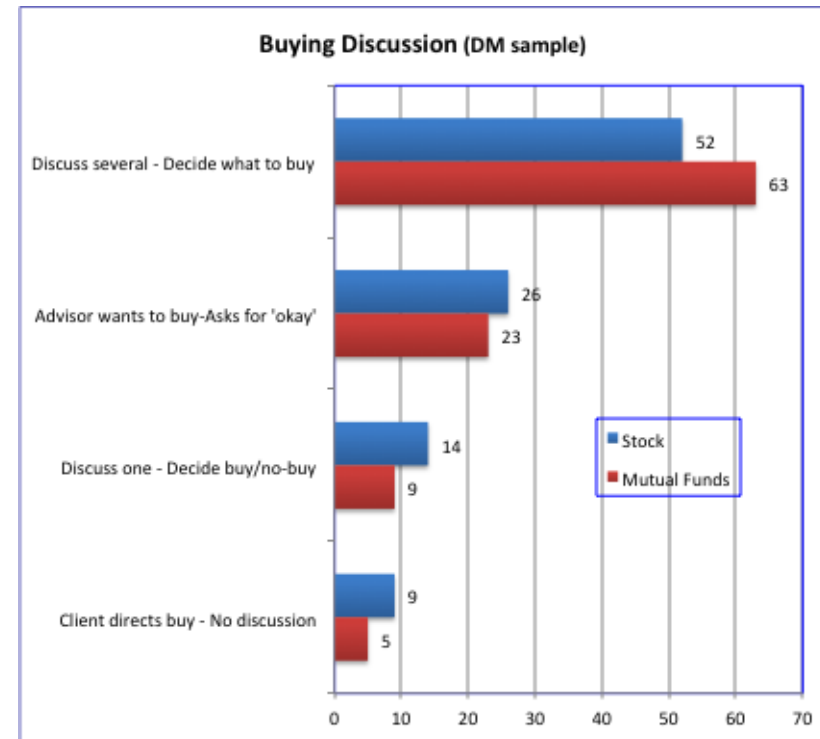
More criteria come into play for deciding not to buy a stock in comparison to a mutual fund with an average of 2.4 criteria for stock and 1.6 for mutual funds.



Choices Offered by the Advisor

This is an exact replication of a question asked in the Advisor Relationship survey, but the sample is quite different. This sample is restricted to individuals who bought mutual funds or stocks, and as well, investors who have delegated day-to-day investment decisions to their advisor are excluded here. The difference alters the second and third place choices, but the overall message from the two samples is similar.

Whether stocks or mutual funds were discussed, advisors most typically offered investors more than one choice of investment. Roughly 5-6 out of 10 discuss multiple investments and work with the client to decide what to buy. Another 2-3 out of 10 is an advisor suggesting a single investment they are ready to buy for their client, and then, just calling to “ask for an okay” without real discussion. Just over one out of 10 discussed just one investment with their advisor and decided whether to buy or not. Finally, 1 out of 10 just call their advisor and tell the advisor what to buy on their behalf.



3.2 FEES ASSOCIATED WITH MUTUAL FUNDS

The questions about mutual fund fees were a series of grouped statements about fees that investors were asked to read. For each statement, they were asked to rate their agreement with the statement on a 1-5 scale with 1 meaning 'strongly disagree' and 5 meaning 'strongly agree'.

Following standard practice, we grouped the five response points into three categories: Agree (4-5), Neutral (3), and Disagree (1-2). The three categories highlight the nature of the responses more effectively than more detailed responses.

The ordering of the grouped statements was important. There was an intentional effort to build knowledge of fees through the questioning process and there was clear evidence that the strategy worked. The progression of issues was:

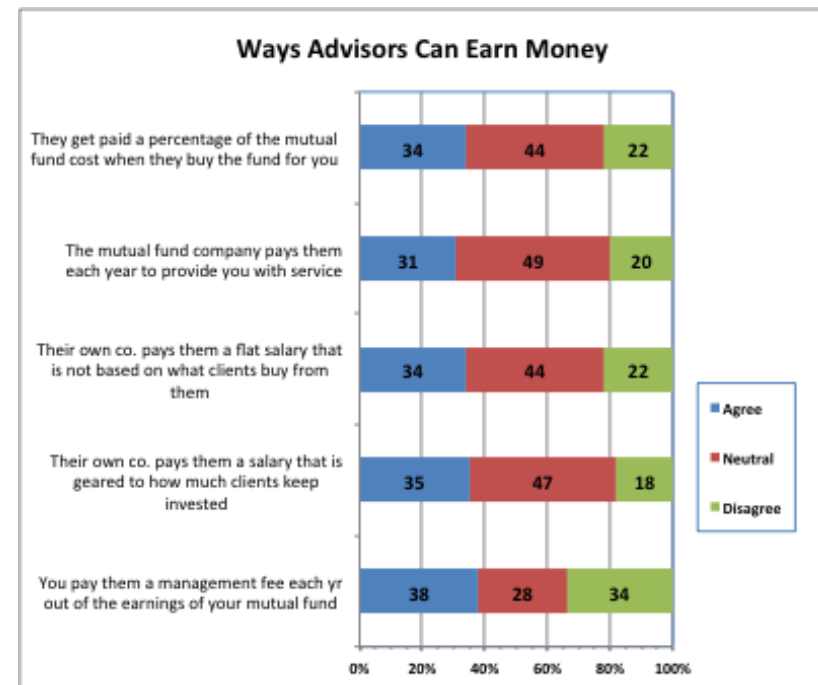
- Awareness of how advisors are compensated for fund sales;
- Views on up-front (front-end) commissions;
- Views on trailing commissions; and then
- Awareness of potential conflict of interest based on fees.

In addition to questions about fees and conflicts, investors were also asked about the choices they are offered about payment. Looking at reporting about these fees, we also looked at investor appetite to know the dollar amount of fees.

How Advisors Get Paid

Investors were asked to review five statements describing how advisors might potentially earn money from mutual funds. They were asked to rate whether they agreed that this was a method that might be used to compensate advisors.

The results demonstrate that investors have little or no idea about how advisors can get paid. The fact that the percentage agreement was so similar for all five alternatives points to a set of responses that reflect guesswork rather than knowledge. The percentage disagreement is also quite similar for most alternatives.



Views on Front-End Commissions

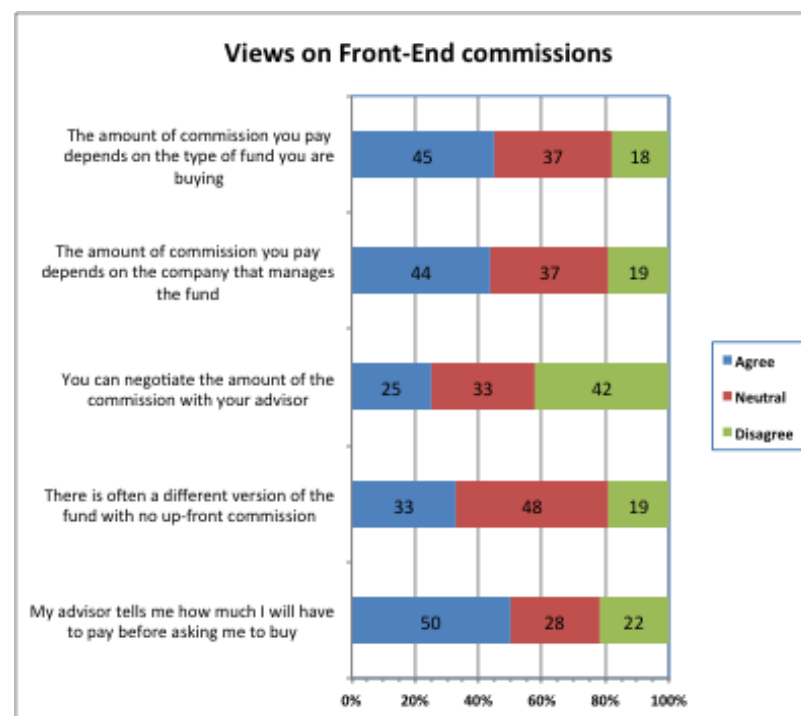
The views on front-end commissions are a more varied set of questions. The differences in response reflect the diversity of the statements. As well, this set of statements begins with an introduction that essentially tells investors that front-end loads exist. **For two-thirds of the mutual fund investors in our sample, this is the first time they have truly understood that some of the front-end commission goes toward paying their advisor.**

The first two statements reflect factors that may affect the amount of front-end load an investor has to pay. With their new found knowledge about front end commissions (in some cases), **roughly 4 out of 10 investors believe the amount of those commissions will be affected by the type of fund they buy and the company that manages the fund.** Most of the remainder are not sure, but 2 out of 10 investors do not believe these amounts will vary.

Only one-quarter of investors believe that front-end commissions are negotiable. It is our understanding that front-end commissions are sometimes negotiable, yet **more than 4 out of 10 do not believe they can negotiate commissions like this.**

When we ask investors whether they are aware that funds often have a version with no front-end commission, half are uncertain how to respond. At best, **only one-third thinks that a no-load version of a fund with front-end commissions might be found.**

One-half indicate that their advisor tells them how much they will have to pay before asking them to buy. Note that this context is limited to funds with a front-end load, so disclosure is likely even higher than that.



Following up on these statements, investors were asked if their advisor gave them a choice about how they wanted to pay. The question described front-end load, deferred sales charge and no-load as alternatives. Given these choices, just a little over one-third said their advisor gave them a choice of how to pay. Another one-third said they weren't sure or didn't remember, so correcting for this uncertainty, **it is reasonably likely that half of mutual fund investors were offered a choice of how to pay for their mutual fund.**

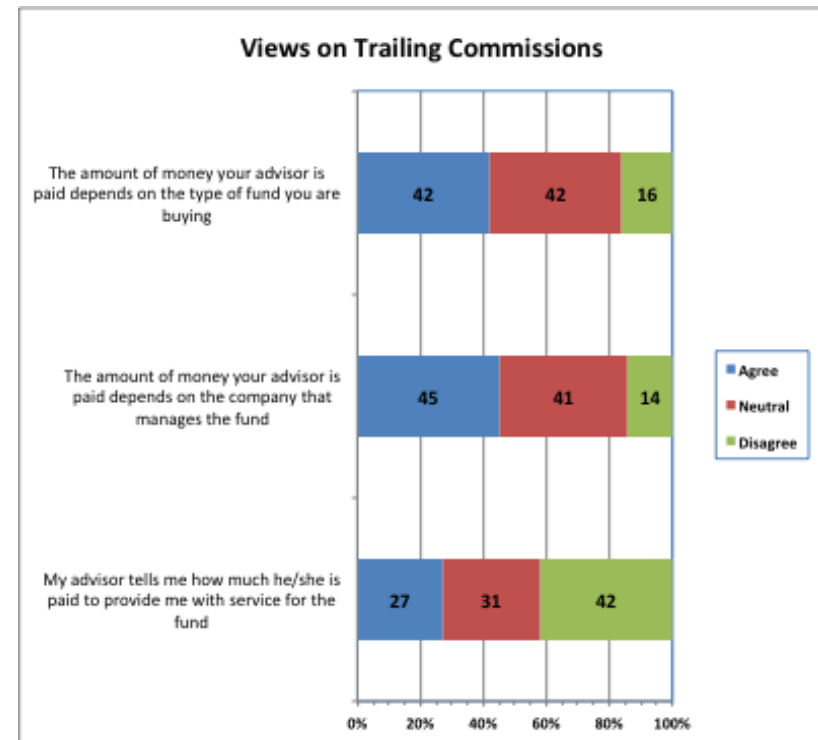
Views on Trailing Commissions

The most important part of these questions is that investors are told about trailing commissions before these questions are asked. Specifically, the survey states “Most mutual fund companies pay your advisor each year to provide you with service. This is called a trailing commission.” The statements asking agreement follow this. Agreement would not be so high without this introduction, since only one-third were aware of trailing commissions before taking part in this study.

Once aware of trailing commissions, about 4 out of 10 agree that they may be affected by the type of fund bought and the fund management company. Another 4 out of 10 are not sure. The percentages are similar to those we saw for front-end commissions. For both types of commission, the key message is that **unless investors are told what affects the amount of fees they pay, they are unlikely to reach an accurate conclusion on their own.**

When asked about disclosure of trailing commissions, only one-quarter believe these commissions were disclosed. This is far lower than the half who indicated disclosure of front-end commissions. The lower agreement is further reinforced by the 4 out of 10 who disagree that trailing commissions were disclosed.

Disclosure of trailing commissions declines as the age of the investor increases. Some 40% of 20-39 year olds agree that trailing commissions were disclosed versus 24% for age 40-59 and 18% for age 60+. Conversely, 54% of the older group says they were not informed. This drops to 43% and 27% respectively for middle and younger age groups.



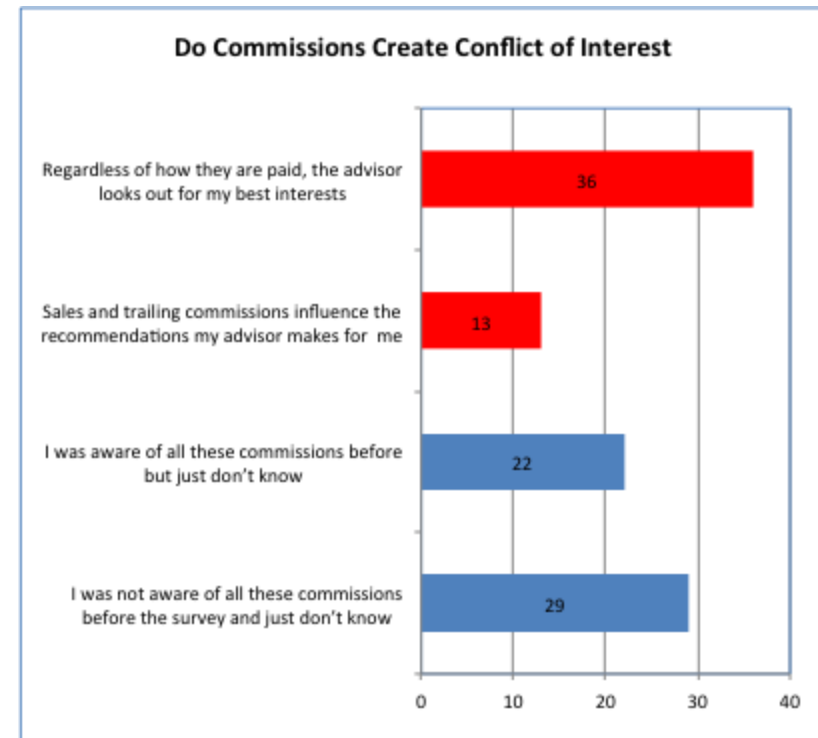
Views on Conflict of Interest

Having been informed about these various commissions and fees, investors were asked to read four statements and indicate which ONE of the statements best represented their views. The statements aimed to identify their perception that commissions could potentially create a conflict of interest.

Half of investors (51%) had no view as to whether there was a conflict of interest or not. Among this group, the majority (29% not aware, 22% aware) indicated that they were not aware of all these commissions prior to the survey. Others said they were aware, but hadn't formed an opinion.

Among the half of investors with an opinion on conflict of interest, three-quarters believed that their advisor would look out for their best interest regardless of how the advisor was paid.

Views on conflict of interest vary by age of investor. Willingness to trust the advisor increases from 26% to 44% with age. This is mainly due to the fact that investors are more likely to develop an opinion about conflict of interest over time, and as the opinion forms, it is increasingly likely to favor trusting the advisor.



Reporting on Mutual Fund Fees

Investors were asked to read three statements explaining how much their advisor's company was paid in trailing commissions for their mutual funds. One statement only contained percentages, a second only contained dollar amounts and the third contained both.

The conclusion is that **both dollar amount and percentages are needed to meet the needs of investors**. Some three-quarters of investors endorsed each of percentages and dollar amounts, but more to the point, almost half of investors wanted both forms of reporting.

When percentages are used, **there is no preference between reporting a single blended estimate of the percentage versus a range of percentages**. The numbers are virtually identical for the two approaches. It is our sense that investors will need to become more used to getting this information (in one form or the other) in order to better gauge the advantage of an alternative approach.

When asked why percentages were preferred, few people offered any real comment. Most of those responding generally said they had no particular reason or it just made more sense to them.

Views on reporting are clearly personal preference. They are unrelated to either the age of the investor or the amount they have invested.

4.0 SUMMARY AND CONCLUSIONS

In the Introduction, we identified nine issues that these studies aimed to address.

1. How advisor relationships are formed and maintained;
2. The products people buy, as well as other products they believe they can buy;
3. Advisory services which advisors are expected to provide;
4. Types of advice sought and received;
5. Fiduciary duty in the advisor relationship;
6. Working with advisors to make investment decisions;
7. Reliance on advisor advice versus other information;
8. Major influences on investment decisions; and
9. The role of fees and their disclosure in investor decision-making.

In this chapter we would like to comment on each of these issues. We will relate the key findings on the issue and provide our views about the meaning of those findings.

1. How Advisor Relationships are Formed and Maintained

Two-thirds of investors know little about their advisor when they enter into a relationship with that advisor. Only one-third get to an advisor through a referral from another client. The most common way to get an advisor is to have one assigned by a bank or financial institution. In fact, half of younger investors get their advisor this way. Investors are content to trust this assigned advisor, because they trust their financial institution to do what is best for them.

Relationships are maintained by regular contact. Virtually all investors have met or spoken with their advisor over the past two

years. Two-thirds have contact at least 2-4 times each year, and a portion of this group have contact even more often.

Both products buying and advisory services are mainstays of the relationship.

2. Products People Buy... and Think They Can Buy

Investors don't understand or consider different types of advisor registration and licensing. They don't distinguish between the products their advisors are individually licensed to sell and the products the adviser's firm can provide.

The numbers reported are far off the actual incidence of the related licenses for financial advisors, leading us to conclude that people are not certain what their advisor sells directly (i.e., is licensed to sell) versus the products an advisor can secure for them through their firm. Over-estimation is particularly common for life insurance and equities. Past research tells us that people are not aware of the licenses or registrations held by their advisor or the limitations that the licenses imply.

3. Services Advisors are Expected to Provide

Services that people expect from their advisor are clear. Planning and asset mix (**types** of investments to buy) are the leading themes in their discussions.

There are some differences in service expectations by age. **Types of investments to buy** are one of the top two services for all age groups. **Building a financial plan** is one of the top two up through

age 59, but **Regular reports on progress** is the second choice for 60+.

For those just getting started with less than \$50k invested, the most critical need is **Help in figuring out financial needs for the long term**. As the amount invested increases to the \$50-99k range, the top service shifts to **Building a financial plan**. After that, **Advice on types of investments to buy (not specific stocks or funds)** is the leading choice of service expected.

4. Types of Advice Sought and Received

Client initiation of contact is quite common. Some 8 out of 10 investors contacted their advisor over the past two years to ask for their advice. **Asset mix** and **planning** are the most frequently sought services, followed closely by **Type of investments to buy**. Some 4 out of 10 also sought advice on dealing with recent life events, which potentially require a restructuring of finances and not just a shift in investment. This type of advice is most often sought during the peak investment years of 40-59.

When talking about buying specific investments, discussions were quite similar for stocks and mutual funds. In 5 out of 6 investment discussions, the risk of losing money was discussed. In 3 out of 4 cases, they also discussed alternative types of investments such as GICs or bonds.

5. Fiduciary Duty in the Advisor Relationship

An advisor is said to have a 'fiduciary duty' to a client when the advisor has a legal duty to put the client's best interest ahead of their own. It

also means doing what is best for the client even if it means less money for the advisor.

At the core of our look at fiduciary duty, we note that 7 out of 10 investors believe their advisor has a legal duty to put the client's best interests ahead of his or her own personal interests. It is also clear that most people believe the advisor will give the best advice they can, and in turn, they can rely on their advisor to decide which investments are best. The extent of this reliance was demonstrated in chapter 3. The confirmation of these other beliefs comes from investor agreement that "My advisor will recommend the best product for me even if it means less money for them".

6. Working with Advisors to Make Decisions

First, we need to recognize that not everyone wants a discussion with his or her advisor. About one-quarter prefer an advisor to decide what to buy on their behalf, and then buy it either with or without explicit permission for that single decision. For those people who want to talk about what to do, advisors typically give them several choices to discuss and they jointly come to a decision. Those who don't want to talk will either call the advisor to tell the advisor what to buy for them, or alternatively, listen to what the advisor wants to buy on their behalf and give them an "okay".

Consistent with those who want discussion, we find that three-quarters of advisors will tell the client how they can make or lose money with an investment and they will give the client the reasons behind their investment recommendations. They will also discuss alternative investments, talking about mutual funds or GICs as alternatives to stocks, or alternatively, stocks and mutual funds as alternatives to GICs.

Most advisors will also discuss the out-of-pocket costs of buying an investment. Fewer than half will discuss how they are paid for selling an investment.

As we will see shortly, people rely on their advisor for advice about what to buy more than any other source. Regardless of the availability of independent research reports and other online or print sources of advice, the advisor's advice is the core value-add in the investment decision.

7. Reliance on Advice versus Other Sources of Information

Two-thirds of investors agree that they rely on their advisor to decide what investments are best for them, and only 1 in 10 actively disagree with that assertion.

This level of reliance is borne out when we ask investors about the sources of information they use to make decisions. The advisor's opinion dominates all other information sources as a factor in buying decisions by a wide margin. For many investors over age 60, the advisor is the only source of information they consider.

In addition to advisors, opinions of friends and family members are somewhat influential, as are independent print materials. Online sources are particularly influential with younger investors, who are three times more likely to use an online source as older investors (60+).

Taking a closer look at information sources used in addition to the advisor, we find two patterns. There are people who look for opinions from completely independent sources (newspapers, blogs,

media) and those who look for information from their advisor's company or the company whose securities they plan to buy (related sources). Younger and better-educated investors are more likely to seek independent opinion, while older investors with more than \$250k invested are more likely to look at related sources. Despite these demographic shadings though, the preference for one type of source over another is fundamentally psychographic. We speculate that convenience and trust are the drivers of choice, since these regularly underpin buying decisions.

8. Major Influences on Investment Decisions

Performance and portfolio mix dominate investment decisions, whether buying or deciding not to buy. Performance relative to similar investments, alternative investments and past earnings are all major considerations. Portfolio mix is a comparable factor. Risk of loss is a major factor only for deciding NOT to buy, and then, it is the single biggest factor in the decision.

When choosing a single criterion that most drives stock-buying decisions, assessment of the stock's future performance was chosen over any other criteria by at least a 2-to-1 ratio.

Cost of buying is a factor for 2 out of 10, but almost never a decisive factor. Management fees get similar treatment. Costs may deter some 1 out of 6 from buying.

More in-depth analysis shows two factors play a role in decisions, one related to performance and the second oriented toward reputation. People focused on reputation were also most concerned about costs including management fees.

While everyone looks at performance, fewer than half look at reputation (governance, opinion of others, personal sense of company suitability, etc.). Those who look at reputation and cost are typically younger and better educated, but we also note that this is more likely among accredited investors.

9. Role of Mutual Fund Fees and Disclosure in Investor Decision-Making

Investors have little or no idea about how advisors can get paid. Only one-third of investors typically recognize several common arrangements for payment.

Unless investors are told what affects the amount of fees they pay, they are unlikely to reach an accurate conclusion on their own. Even when the full range of fees and what affects them is identified, it is difficult for investors to assess the implications of what they have learned. Issues of potential conflict of interest are particularly difficult to consider, since they are counter to the high level of trust that underpins their advisor relationship.

Having been informed about these various commissions and fees, half of investors could not form a view about conflict of interest. The majority of 'no opinion' indicated that they were not aware of all these commissions prior to the survey. Among the half of investors with an opinion on conflict of interest, three-quarters believed that their advisor would look out for their best interest regardless of how the advisor was paid.

Requiring disclosure of fees will ensure that the one-quarter to one-half of investors that learn about fees now will extend to everyone.

Once fees are disclosed, it will give investors the time and information to understand what they are paying for.

Given the broad range of planning and investment advice provided by advisors and the reliance that investors place on this advice, we do not believe that disclosure will be detrimental to the industry in the long run. In fact, it could help establish the principle of paying for advice rather than transactions – a principle that is beneficial when dealing with an aging population that is likely to transact less in the future.

When reporting advisor fees to investors, responses suggest that both dollar amount and percentages are needed to meet the needs of investors. When percentages are used, there is no preference between reporting a single blended estimate of the percentage versus a range of percentages. Based on other research done by The Brondesbury Group (Canadian Securities Administrators, "Performance Reporting and Cost Disclosure," September 2010, we can confirm that there is an appetite for reporting in dollar values.

Closing

Advisors are the key influence in investor decision-making. Investors rely upon their advisor for planning and asset mix advice, as well as advice on what specific investments to buy. Other sources of information are secondary to the advisor's opinion. Investors trust their advisor to provide advice that benefits the client first. This trust is underpinned by a belief that their advisor has a legal responsibility to 'put the client first'. With this as a foundation of investor belief, investors find little reason to be concerned about fees, which they have little knowledge of.

A. APPENDICES – ONLINE SURVEYS

Note: Numbers in the attached appendices, both for questions and for answers, do not actually appear in the survey that investors completed. The same is true for 'skip instructions' and other comments. All of this information is only used to program the survey.

INVESTOR EDUCATION FUND – ADVISOR RELATIONSHIP STUDY (9 December 2011)

This survey is being done on behalf of a provincial government agency that is responsible for some special types of consumer education and financial protection. The survey will take about 15 minutes of your time and your responses will be kept completely confidential. What you tell us can make a major difference to the kinds of information available to you in the future.

A. Qualifying Question

- 1a. Do you or does anyone in your household work in...
- 1 Any organization in the financial services industry such as a bank, credit union, mutual fund company, life insurance company or a financial planning company [Terminate]
 - 2 A federal or provincial regulatory body or agency [Terminate]
 - 3 A financial education organization [Terminate]
- 1b. Do you have a person who acts as your financial advisor, giving you advice on your savings and/or investments?
- 1 Yes
 - 2 No [Terminate]
 - 3 Don't know/Not sure/Refuse [Terminate]
- 1c. Which of the following relationships do you have for investments? Please indicate all that apply.
- 1 An advisor who makes recommendations which you consider and then decide what to do

- 2 An advisor who chooses investments and buys them on your behalf without having to ask permission each time
- 3 An investment account with no advisor at all such as a discount brokerage account or an RRSP account with an employer

[IF '1' is NOT selected in A1c, Terminate the Interview; Else continue]

2. Where do you live? [SET QUOTAS PER REGIONAL DISTRIBUTION – BC, AB, MB/SK, ON, QC, Other]

- 1 Greater Vancouver Area
- 2 Other British Columbia
- 3 Alberta
- 4 Manitoba / Saskatchewan
- 5 Greater Toronto Area
- 6 Other Ontario
- 7 Greater Montreal Area
- 8 Other Quebec
- 9 Atlantic Region (NB, NS, NF, PE)
- 10 Other Canada
- 11 Outside of Canada [Terminate]

3. What was your age on your last birthday?
[Record exact age. Each of the following groups must have a minimum of 500 respondents: age 20-39, age 40-59, age 60 and over. If respondent won't state exact age, use 3 categories for quota]

4. [Ask only if age is 55 or over] Are you currently...?
- 1 Working full time (at least 30 hours per week)
 - 2 Working part-time
 - 3 Retired
 - 4 Not retired but currently not working
5. Are you...?
- 1 Male
 - 2 Female

B. About Your Advisor

*The questions that follow are about your relationship with a financial advisor, who makes recommendations that you consider, and then asks you to decide what to do. If you have more than one financial advisor like this, please answer all of the questions for the person you consider your **main** financial advisor. If you don't have a main financial advisor, answer for the advisor that gives advice on the largest dollar amount of your savings and/or investment? These questions are being asked on behalf of a provincial government agency and your responses will be kept confidential.*

1. Which one of the following best describes how you got your financial advisor?
- 1 My bank or financial institution assigned an advisor to me
 - 2 I was referred to the advisor by a friend, family member or co-worker
 - 3 The advisor contacted me without anyone else involved
 - 4 I contacted a firm on my own to get an advisor
 - 9 Other (please explain)

- 2a. Which of the following financial products have you ever bought from your financial advisor?
- 2b. [If not chosen in B2a, ask] Can your advisor directly buy the following products for you?

	<u>2a-bought</u>	<u>2b-can buy</u>		
GICs and/or term deposits	1	Yes	No	Not Sure
Mutual funds	2	Yes	No	Not Sure
Stocks/equities (other than mutual funds)				
	3	Yes	No	Not Sure
Life insurance	4	Yes	No	Not Sure

3. Besides buying financial products on your behalf, what other services do you expect to get from your advisor? Please choose all that apply. [Randomize order – except for 'None of the above']
- 1 Help in figuring out my financial needs for the long-term
 - 2 Help in building a financial plan to achieve my financial goals
 - 3 Advice on balancing debt and investment
 - 4 Advice on the types of investments I should buy (for example, stocks, mutual funds)
 - 5 Suggestions for the specific stocks or mutual funds I should buy
 - 6 Regular reports on my progress toward reaching my financial goals
 - 7 Regular discussions on how I should change what I am doing financially
 - 8 NONE OF THE ABOVE

C. Advisor Contact

1. Over the past two years, roughly how often have you either met with your financial advisor or spoken to them over the phone? Would you say?

- 1 Never
- 2 Once or twice over the past two years
- 3 Roughly 2-4 times each year
- 4 More than four times each year

2a. Have you contacted your financial advisor to ask for their advice over the past two years?

- 1 Yes
- 2 No [Skip to C3a]
- 3 Not sure / Don't remember [Skip to C3a]

2b. Which types of advice were you looking for? Choose all that apply. [Randomize order]

- 1 Help in figuring out my financial needs for the long-term
- 2 Help in building a financial plan to achieve my financial goals
- 3 Advice on balancing debt and investment
- 4 Advice on the types of investments I should buy (for example, stocks, mutual funds)
- 5 Suggestions for the specific stocks or mutual funds I should buy
- 6 What I should do to deal with recent events in my life

3a. When was the last time you spoke with your financial advisor about buying an investment? Was it?

- 1 Within the past 3 months
- 2 More than 3 months ago but within the past 6 months
- 3 More than 6 months ago but within the past year
- 4 More than one year ago [Skip to section D]

3b. Which of the following types of investments were you discussing?

- Y N ? Mutual funds or other investment funds
- Y N ? Stocks
- Y N ? GICs or term deposits
- Y N ? Bonds (not including Canada Savings Bonds)
- Y N ? Other types of investments

4a. [Ask if 'yes' to mutual funds in C3b, else skip to C5] Which of the following statements best describes your most recent mutual funds discussion with your advisor?

- 1 We discussed one mutual fund only and decided whether to buy or not
- 2 We discussed several mutual funds and decided which one(s) I should buy
- 3 I simply told my advisor what I wanted to buy and there was no real discussion
- 4 My advisor told me what he/she planned to buy on my behalf and asked for my okay
- 5 Other (explain)

4b. Did your discussion also include making choices about the following things?

- Y N How you wanted to pay for buying your mutual funds (load)
- Y N What type of mutual fund you should buy (e.g., equity, balanced, money market)

- | | | | | |
|---|---|--|-----------|---|
| Y | N | Your risk of losing money on your investment | 1. _____ | I can trust my advisor to give me the best possible advice they can. |
| Y | N | Whether you should be buying another type of investment instead of a mutual fund | 2. _____ | My advisor clearly explains the reasons behind the investments they recommend. |
| 5a. [Ask if 'yes' to stocks in C3b, else skip to section D] Which ONE of the following statements best describes your most recent discussion about buying stocks? | | | 3. _____ | My advisor clearly explains how I can make or lose money on the investments we discuss. |
| | | | 4. _____ | My advisor will recommend the product that is best for me even if it means less money for them. |
| | | | 5. _____ | There are some things about my finances that I just won't tell my advisor. |
| | | | 6. _____ | My advisor has a legal duty to put my best interests ahead of his or her own. |
| | | | 7. _____ | My advisor tells me <u>all</u> the costs before asking me to buy or sell an investment. |
| 4 | | My advisor told me what he/she planned to buy on my behalf and asked for my okay | 8. _____ | My advisor tells me how much they get paid for the investments I buy on their recommendation. |
| 5 | | Other (explain) | 9. _____ | The best way to know if your advisor is looking out for your best interests is by looking at how much money you made or lost. |
| 5b. Did your discussion also include making choices about the following things? | | | 10. _____ | I rely on my advisor to decide which investments are best for me |
| Y | N | Your risk of losing money on your investment | | |
| Y | N | Whether you should be buying another type of investment instead of a stock | 11. | Sometimes people decide that their advisor is not acting in a way that puts the clients' interests first. If you feel that you have lost money as a result of inappropriate advice, do you believe there is an organization or a 'safety fund' of some kind that will pay you back for your losses? |

D. Advisor Expectations

Here are a number of statements that describe what people might expect or get from their financial advisor. For each statement, please rate how much you agree with the statement using a 5-point scale where 1 means you 'strongly **disagree**', 5 means you 'strongly **agree**', and 3 means you 'neither agree nor disagree'. [Randomize order of statements]

[Alternate ascending and descending order]

- | | |
|---|----------------------|
| 5 | Yes, definitely |
| 4 | Yes, I think so |
| 3 | I'm not sure |
| 2 | No, I don't think so |
| 1 | No, definitely not |

E. About You

Now, we would like to ask a few final questions for classification purposes.

1. What is the highest level of education that you have completed?
 - 1 Elementary and/or some secondary school
 - 2 A secondary school (high school) diploma
 - 3 A college diploma or certificate program
 - 4 An undergraduate degree from a university
 - 5 A graduate degree from a university
2. Considering all savings and investments, whether in an RRSP or not, what is the total amount you have saved and/or invested?
 - 1 Less than \$50,000
 - 2 At least \$50,000 but less than \$100,000
 - 3 At least \$100,000 but less than \$250,000
 - 4 At least \$250,000 but less than \$1 million
 - 5 \$1,000,000 or more
3. What is your total annual household income before taxes? Is it?
 - 1 Less than \$40,000 per year
 - 2 At least \$40,000 but less than \$60,000 per year
 - 3 At least \$60,000 but less than \$80,000 per year
 - 4 At least \$80,000 but less than \$100,000 per year
 - 5 At least \$100,000 but less than \$300,000 per year
 - 6 At least \$300,000 but less than \$1 million
 - 7 \$1 million or more

Thank you for taking part in this study. The results of the study will be available on the website of the Investor Education Fund sometime in the spring. To find this and other research reports, please visit

<http://www.getsmarteraboutmoney.ca/research/Pages/default.aspx>
[x](#)

INVESTOR EDUCATION FUND – INVESTOR DECISION- MAKING STUDY (9 December 2011)

This survey is being done on behalf of a government agency that is responsible for some special types of consumer education and financial protection. The survey will take about 15 minutes of your time and your responses will be kept completely confidential. What you tell us can make a major difference to the kinds of information available to you in the future.

A. Qualifying Questions

- 1a. Do you or does anyone in your household work in...
- 1 Any organization in the financial services industry such as a bank, credit union, mutual fund company, life insurance company or a financial planning company [Terminate]
 - 2 A federal or provincial regulatory body or agency [Terminate]
 - 3 A financial education organization [Terminate]
- 1b. Do you have a person who acts as your financial advisor, giving you advice on your savings and/or investments?
- 1 Yes
 - 2 No [Terminate]
 - 3 Don't know/Not sure/Refuse [Terminate]
- 1c. Which of the following relationships do you have for investment? Please indicate all that apply.
- 1 An advisor who makes recommendations which you consider and then decide what to do

- 2 An advisor who chooses investments and buys them on your behalf without having to ask permission each time
- 3 An investment account with no advisor at all such as a discount brokerage account or an RRSP account with an employer

[IF '1' is NOT selected in A1c, Terminate the Interview; Else continue]

- 2a. When was the last time you bought a mutual fund or stock through a financial advisor? Was it?
- 1 Within the past 3 months
 - 2 More than 3 months ago but within the past 6 months
 - 3 More than 6 months ago but within the past year
 - 4 More than one year ago
 - 5 Never [Terminate]
- 2b. And which type of investment did you buy at that time?
- 1 Mutual fund only
 - 2 Stock only
 - 3 Both mutual fund and stock

3. Where do you live? [SET QUOTAS PER REGIONAL DISTRIBUTION – BC, AB, MB/SK, ON, QC, Other]
 - 1 Greater Vancouver Area
 - 2 Other British Columbia
 - 3 Alberta
 - 4 Manitoba / Saskatchewan
 - 5 Greater Toronto Area
 - 6 Other Ontario
 - 7 Greater Montreal Area
 - 8 Other Quebec
 - 9 Atlantic Region (NB, NS, NF, PE)
 - 10 Other Canada
 - 11 Outside of Canada [Terminate]
4. What was your age on your last birthday?
[Record exact age. Each of the following groups must have a minimum of 500 respondents: age 20-39, age 40-59, age 60 and over. If respondent won't state exact age, use 3 categories for quota]
5. Are you...? [SET QUOTA TO MINIMUM 900 PER GENDER]
 - 1 Male
 - 2 Female

B. Investment Decisions

*The questions that follow are about your relationship with a financial advisor, who makes recommendations that you consider, and then asks you to decide what to do. If you have more than one financial advisor like this, please answer all of the questions for the person you consider your **main** financial advisor. If you don't have a main financial advisor, answer for the advisor that gives advice on the largest dollar amount of your savings and/or investment. These questions are being asked on behalf of a provincial government agency and your responses will be kept confidential*

[If A2b is 'mutual fund only', skip to B5a. If A2b is 'both mutual fund and stock', randomly skip half of respondents to B5a. EACH RESPONDENT ANSWERS FOR EITHER STOCK OR MUTUAL FUNDS BUT NOT BOTH]

- 1a. Thinking about when you last bought a stock through your advisor, please focus on the point in time when you decided exactly which stock you would buy. which of the following information sources had you checked **before** you decided? Choose all that apply. [Randomize order of print (1-3) versus online (4-7) versus other (8-10)]
 - 1 Printed advertising materials produced by the company I planned to invest in
 - 2 The company prospectus
 - 3 Print material from independent sources -- newspapers, magazines & investor newsletters
 - 4 Online information on the website of my advisor's company
 - 5 Online information on the website of the company I planned to invest in

- 6 Online information from independent sources like ROB Online or investment analysts
- 7 Online comments in investor blogs and other informal opinion sites
- 8 View of TV or radio commentators discussing investments
- 9 The opinion of my financial advisor
- 10 The opinion of selected friends or family members
- 11 Other sources (explain)

[Pipe in sources used from 1-10 in B1a, then ask B1b and B1c]

- 1b. Which one of these sources was the first source you used?
- 1c. And what was the last source you checked before making your decision?

2a. What helped you decide which stock to buy? Choose all that apply. [Randomize order]

- 1 How much the stock has earned in the past
- 2 Assessments of the stock's future performance
- 3 Chances of losing money with this stock
- 4 How this stock performs relative to other stocks like it
- 5 How much it costs to buy or sell the through my advisor
- 6 Quality of corporate governance of the company
- 7 How this stock performs compared to other types of investments
- 8 Gut feel that this was a good stock to buy
- 9 Comments from people I know
- 10 Mix of stocks/industry sectors in my portfolio
- 19 Other (explain)

[If only one answer chosen in B2a, skip to B4]

2b. Which ONE kind of information had the biggest impact on deciding which stock to buy?

[All items from B2a are included again as a double check on accuracy of answers in B2a – Please block the 'back' button from this point through B4 at the least]

3. Some kinds of information are best for deciding what is NOT right for you to buy. What helped you decide NOT to buy some stocks? Choose all that apply. [Randomize]

- 1 How much the stock has earned in the past
- 2 Assessments of the stock's future performance
- 3 Chances of losing money with this stock
- 4 How this stock performs relative to other stocks like it
- 5 How much it costs to buy or sell the through through my advisor
- 6 Quality of corporate governance of the company
- 7 How this stock performs compared to other types of investments
- 8 Gut feel that this was not a good stock to buy
- 9 Comments from people I know
- 10 Mix of stocks/industry sectors in my portfolio
- 19 Other (explain)

4. Which of the following statements best describes how you like to talk with your advisor about which stock to buy? [Randomize order]

- 1 We discuss one stock only and decide whether to buy or not
- 2 We discuss several stocks and decide which one(s) I should buy

- 3 I simply tell my advisor what I want to buy and they do it without much discussion
- 4 My advisor tells me what he/she plans to buy on my behalf and asks for my okay

- 5b. Which one of these sources was the first source you used?
- 5c. And what was the last source you checked before making your decision?

[SKIP TO SECTION D – SECTION C]

5a. Thinking about the point in time when you decided exactly which mutual fund you would buy, which of the following information sources had you checked **before** you decided? Choose all that apply. [Randomize order of print (1-3) versus online (4-7) versus other (8-10)]

- 1 Printed advertising materials produced by the mutual fund company
- 2 The mutual fund company prospectus
- 3 Print material from independent sources -- newspapers, magazines & investor newsletters
- 4 Online information on the website of my advisor's company
- 5 Online information on the mutual fund company's website
- 6 Online information from independent sources like ROB Online or Morningstar
- 7 Online comments in investor blogs and other informal opinion sites
- 8 View of TV or radio commentators discussing investments
- 9 The opinion of my financial advisor
- 10 The opinion of selected friends or family members
- 11 Other sources (explain)

[Pipe in sources used from 1-10 in B5a, then ask B5b and B5c]

6a. What helped you decide which mutual fund to buy? Choose all that apply. [Randomize order]

- 1 How much the mutual fund has earned in the past
- 2 The major investments held by the mutual fund
- 3 Chances of losing money with this mutual fund
- 4 How this mutual fund performs relative to other mutual funds like it
- 5 How much it costs to buy or sell the mutual fund through my advisor
- 6 How much the fund company charges to manage the fund
- 7 How this mutual fund performs compared to stocks, GICs and other types of investments
- 8 Gut feel this was a good fund to buy
- 9 Comments from people I know
- 10 Mix of different types of funds in my portfolio
- 19 Other (explain)

[If only one answer chosen in B6a, skip to B8]

- 6b. Which ONE kind of information had the biggest impact on deciding which fund to buy?

[All items from B6a are included again as a double check on accuracy of answers in B6a – Please block the 'back' button from this point onwards at the least]

7. Some kinds of information are best for deciding what is NOT right for you to buy. What information helped you decide NOT to buy some mutual funds? Choose all that apply.

[Randomize]

- 1 How much the mutual fund has earned in the past
- 2 The major investments held by the mutual fund
- 3 Chances of losing money with this mutual fund
- 4 How this mutual fund performs relative to other mutual funds like it
- 5 How much it costs to buy or sell the mutual fund through my advisor
- 6 How much the fund company charges to manage the fund
- 7 How this mutual fund performs compared to stocks, GICs and other types of investments
- 8 Gut feel this was not a good fund to buy
- 9 Comments from people I know
- 10 Mix of different types of funds in my portfolio
- 19 Other (explain)

8. Which of the following statements best describes how you like to talk with your advisor about buying a mutual fund?

[Randomize order]

- 1 We discuss one mutual fund only and decide whether to buy or not
- 2 We discuss several mutual funds and decide which one(s) I should buy
- 3 I simply tell my advisor what I want to buy and they do it without much discussion
- 4 My advisor tells me what he/she plans to buy on my behalf and asks for my okay

C. Fees Associated with Mutual Funds

1. Listed below are a number of ways that advisors can potentially earn money from the mutual funds you buy. For each source listed below, please indicate whether you believe your advisor gets paid this way using a 1-5 scale, where 1 means 'definitely NOT' 3 means 'Not sure' and 5 means they 'Definitely' get paid that way. [Randomize order]
- a. ____ They get paid a percentage of the mutual fund cost when they buy the fund for you
 - b. ____ The mutual fund company pays them each year to provide you with service
 - c. ____ Their own company pays them a flat salary that is not based on what clients buy from them
 - d. ____ Their own company pays them a salary that is geared to how much clients keep invested
 - e. ____ You pay them a management fee each year out of the earnings of your mutual fund

[Note: The questions that follow will give the correct answers to many of the ratings in C1. Please block the 'back' button for this section]

2. Some mutual funds charge a commission at the time that you buy their funds (front-end load). Thinking only about funds that charge this up-front commission. Please rate your agreement with each of the following statements using a 1-5 scale with 1 meaning 'Strongly disagree' and 5 meaning 'Strongly agree'. [Randomize order]
- a. ____ The amount of commission you pay depends on the type of fund you are buying

- b. ____ The amount of commission you pay depends on the company that manages the fund
- c. ____ You can negotiate the amount of the commission with your advisor
- d. ____ There is often a different version of the fund with no up-front commission
- e. ____ My advisor tells me how much I will have to pay before asking me to buy

- 2f. When you buy a mutual fund you may be offered a choice of how you want to pay for the fund. You can pay a commission up-front (front-end load), pay a penalty if you withdraw early (deferred sales charge), or opt for a no-load fund that requires no visible payment. Thinking about the last time you bought a mutual fund through an advisor, were you given a choice about how you wanted to pay?

- 1 Yes
- 2 No
- 3 Not sure / Don't remember

3. Most mutual fund companies pay your advisor each year to provide you with service. This is called a 'trailing commission'. Thinking only about trailing commissions, please rate your agreement with the following statements using the same 1-5 scale. [Randomize order]

- a. ____ The amount of money your advisor is paid depends on the type of fund you are buying
- b. ____ The amount of money your advisor is paid depends on the company that manages the fund
- c. ____ My advisor tells me how much he/she is paid to provide me with service for the fund

3d. There are several ways of telling people how much their advisor's company was paid in trailing commissions. Below are three statements that might be used to explain how much was paid on an account with \$25,000 split equally between an equity fund and a bond fund. Please tell us which of the three you find most useful [Rotate order]

- 1 We received \$187.50 in trailing commissions on the mutual funds you held during the past year.
- 2 We received a trailing commission ranging between 0.50% and 1.00% of the value of each mutual fund you held during the past year.
- 3 We received a total of \$187.50 made up of trailing commissions ranging between 0.50% and 1.00% of the value of each mutual fund you held during the past year.

3e. [Ask only if Q3d=2 or 3] There are two ways to report percentage of trailing commission. Which of the two methods do you prefer? [Rotate 1 and 2]

- 1 a trailing commission ranging between 0.50% and 1.00% of the value of each mutual fund you held
- 2 a trailing commission of 0.75% based on the value of the mutual funds you held
- 3 Both are equally good

3f. [Ask only if Q3d=2] Why do you prefer percentages rather than dollar amounts?

4. Advisors are paid a commission when they sell new funds and they are paid a trailing commission when you keep your money with a fund. Which of the following statements best describes your views. [Randomize order]

- 1 Regardless of how they are paid, the advisor looks out for my best interests
- 2 Sales and trailing commissions influence the recommendations my advisor makes for me
- 3 I **was** aware of all these commissions before but just don't know
- 4 I **was not** aware of all these commissions before the survey and just don't know

D. About You

Now, we would like to ask a few final questions for classification purposes.

1. What is the highest level of education that you have completed?
 - 1 Elementary and/or some secondary school
 - 2 A secondary school (high school) diploma
 - 3 A college diploma or certificate program
 - 4 An undergraduate degree from a university
 - 5 A graduate degree from a university
2. Considering all savings and investments, whether in an RRSP or not, what is the total amount you have saved and/or invested?
 - 1 Less than \$50,000
 - 2 At least \$50,000 but less than \$100,000
 - 3 At least \$100,000 but less than \$250,000
 - 4 At least \$250,000 but less than \$1 million
 - 5 \$1,000,000 or more
3. What is your total annual household income before taxes? Is it?
 - 1 Less than \$40,000 per year
 - 2 At least \$40,000 but less than \$60,000 per year
 - 3 At least \$60,000 but less than \$80,000 per year
 - 4 At least \$80,000 but less than \$100,000 per year
 - 5 At least \$100,000 but less than \$300,000 per year
 - 6 At least \$300,000 but less than \$1 million
 - 7 \$1 million or more

Thank you for taking part in this study. The results of the study will be available on the website of the Investor Education Fund sometime in the spring. To find this and other research reports, please visit

<http://www.getsmarteraboutmoney.ca/research/Pages/default.aspx>