

INVESTOR ADVISORY PANEL

A MEASURE OF ADVICE:

How much of it do investors with small and medium-sized portfolios receive?

July 29, 2019

Introduction

The members of the Investor Advisory Panel (IAP) are pleased to present the results of a survey of Canadian investors regarding advice they receive from investment advisors and portfolio managers.

The IAP is an initiative by the Ontario Securities Commission to enable investor concerns and voices to be represented in the Commission’s rule development and policymaking process.

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Purpose of this Survey

Canadian securities regulators are currently finalizing fundamental policy decisions on the use of trailing commissions and other forms of embedded compensation payments in the investment industry. The essential question is whether these types of compensation practices should be prohibited – particularly in light of research conducted for the Canadian Securities Administrators that identified significant harms caused to investors and to capital markets by the payment of trailing commissions.¹

Some commentators warn that a ban will trigger an “advice gap” – i.e., a loss of access to beneficial advice for small and mass-market investors. This assumes investors in these categories currently receive, and therefore potentially stand to lose, a meaningful measure of advice that meets their needs.

We could find no empirical studies that either validate or refute this assumption – so we commissioned a survey of more than 3,000 Canadians to find out how much investment advice they currently receive. The survey focused on investors who have an advisor or portfolio manager (“advised investors”)², and the results were segmented by portfolio size to compare the responses of those in the small portfolio (under \$50k), mass-market (\$50k to under \$100k), mass-affluent (\$100k to under \$250k) and affluent (\$250K+) segments.

Our aim in conducting this survey was to obtain data to better assess the likely impact of banning the payment of trailing commissions. We hope this data will assist policymakers in arriving at an evidence-based decision on whether to implement such a ban.

1 Douglas Cumming, Sofia Johan and Yelin Zhang – “A Dissection of Mutual Fund Fees, Flows and Performance” (October 22, 2015). See also CSA Consultation Paper 81-408 – Consultation on the Option of Discontinuing Embedded Commissions (January 10, 2017). The IAP provided a comment letter in response to this consultation on May 31, 2017. Available here: https://www.osc.gov.on.ca/documents/en/Securities-Category8-Comments/com_20170531_81-408_iap.pdf

2 In this report we use the term “advisor” to include both investment advisors and portfolio managers.

Survey Methodology

We engaged Innovative Research Group (Innovative) to conduct an online survey of Canadian adults during March 2019. The 3,083 survey participants were randomly selected from a panel of Canadians maintained for polling the public. This sample was representative of the Canadian population by age, gender and region.³ Participants had the option to take the survey in English or French.

As noted above, the survey's core questions were directed only to those participants who reported owning investments and reported having an investment advisor or portfolio manager.

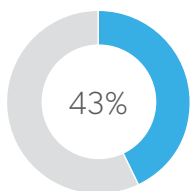
Innovative's full presentation of the survey findings can be found at the end of this report.

³ A margin of error cannot be calculated because the online survey was not a random probability-based sample. It is not statistically valid to apply margins of error to most online samples.

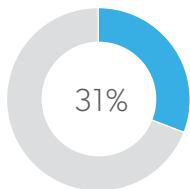
Key Findings

The survey results reveal the following information that we consider particularly significant:

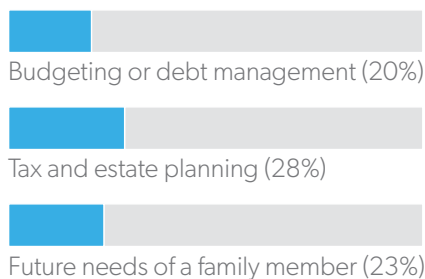
While most advised investors have received some advice from their advisors on important investment topics, in many cases basic topics are not addressed in the advice that is provided. For example:



43% of advised investors did not agree that their advisor had provided them with educational advice about financial concepts.

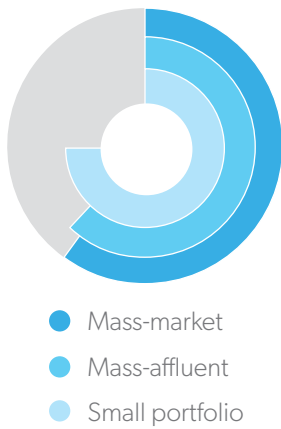


31% were unable to say their advisor had ever spoken to them about planning for financial goals such as retirement, education or buying a home.



Only a small minority reported they'd received advice about budgeting or debt management (20%), tax and estate planning (28%), or planning for the future needs of a family member (23%).

Frequency of communication from advisors appears to be low in most cases:

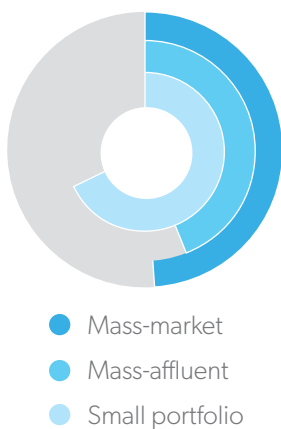


60% of mass-market investors reported that their advisor communicated with them in the past year only “once or twice” or not at all.

62% of mass-affluent investors said this was their experience, too.

75% of investors with small portfolios said the same thing.

Also, duration of this communication from advisors appears to be quite limited in many cases:



49% of mass-market investors said their advisor spent less than an hour, in total, communicating with them during the past year or didn’t communicate at all.

68% of small investors and 44% of mass-affluent investors said the same thing.

Commentary on the Results

While the survey results show that most advised investors have received some information from their advisors on specific key topics, the results also indicate this is not so in a large percentage of cases. More than 2 in 5 advised investors (43%) did not agree that education about financial concepts was something their advisor had provided, nearly a third (31%) did not recall ever receiving advice about planning for financial goals, and the vast majority indicated they received no advice about budgeting, debt management, tax and estate planning, or planning for the future needs of a family member.

This pattern was reflected in responses from advised investors in both the mass-market and mass-affluent segments,⁴ but it was even more pronounced in responses from those with portfolios under \$50k.⁵

In our view, these survey results raise important concerns about the scope of advice currently being provided to investors with small and medium-sized portfolios: while many are getting some advice on highly-relevant matters, a number of key topics seem to be left unaddressed in many cases. This leads us to question whether the advice being provided to these investors is sufficiently comprehensive to meet their needs.

The survey results relating to frequency and duration of advisor communication raise similar concerns. Those results indicate that, in most cases, communication from advisors to clients with small and medium-sized portfolios occurred just “once or twice” or did not occur at all during the year preceding the survey. Nearly 60% of advised investors reported this to have been their experience, and fully 75% of advised investors with portfolios smaller than \$50k reported either no contact or only one or two contacts during the year. Moreover, duration of contact in total throughout the year was reported as “less than an hour” for nearly half of advised investors in the mass-market and mass-affluent segments, and more than two-thirds of those with small portfolios.

Needless to say, where contact is completely absent, so, too, is advice. Where contact is infrequent, advice is not necessarily inadequate; but we do believe low frequency of contact tends to diminish advice effectiveness – since it makes it less likely the advisor will be able to discern what advice might be beneficial at a particular moment, and thus less likely the advice will be provided in a timely manner. Low frequency of contact also makes it less likely the advice will be repeated often enough and in quick enough succession to produce positive, sustained behavioral change.

4 41% of mass-market investors and 42% of mass-affluent ones reported no advice educating them about financial concepts. And among both mass-market and mass-affluent investors, 26% and 29% respectively reported no advice about planning for financial goals such as retirement, education or buying a home.

5 Nearly half (49%) of investors with portfolios under \$50k reported no education from their advisor on financial concepts, and 40% reported no advice on planning for financial goals.

Furthermore, while some measure of important advice undoubtedly can be conveyed in a short period of time, we note that the time an advisor spends communicating with a client normally will not be devoted entirely to giving advice. General discussions about the client's circumstances are bound to take place during most, if not all, contacts; and it can be expected that the advisor will devote a portion of each discussion to listening and probing for indications of changes in the client's financial needs, investment objectives, risk tolerance or other matters pertaining to updating knowledge of the client's circumstances and KYC information.

Accordingly, in situations where communication with advisors occurs only once or twice in the course of a year, and where total duration of that communication is less than an hour for the entire year, we question not only whether investors are receiving reasonable value in exchange for what they pay for advice, but also whether they are truly receiving much advice at all and, most importantly, whether they are receiving the measure of advice necessary to meet their needs.

The survey results indicate a large proportion of investors with small and medium-sized portfolios find themselves in this situation. They do not seem to be receiving a robust measure of timely and relevant advice – despite the current pervasiveness of embedded compensation schemes, including trailing commissions.⁶ In our view, therefore, it is not at all clear that preserving the availability of trailing commissions will ensure investors with small and medium-sized portfolios get access to advice that meets their needs.

By contrast, we believe the survey results offer clarifying evidence, as outlined above, about significant shortfalls in the scope, timeliness and effectiveness of the advice many of these investors receive. We hope policymakers will use this evidence to assess the degree of risk actually posed by a ban on trailing commissions, and to assess whether that risk is outweighed by the benefits to be gained from eliminating known harms caused through the use of trailing commissions.

⁶ In the survey, nearly 7 in 10 advised investors (68%) reported that advice fees are deducted from their investments.

Appendix: Survey Results



INNOVATIVE
RESEARCH GROUP

Ontario Securities Commission
Investor Advice Study

OSC ONTARIO
SECURITIES
COMMISSION

May 2019

STRICTLY PRIVILEGED AND CONFIDENTIAL

Methodology & Demographics

Survey Methodology



Overview

The Ontario Securities Commission’s (OSC) Investor Advisory Panel engaged Innovative Research Group (INNOVATIVE) to conduct quantitative research to better understand the mass market of investors in Canada. More specifically, this research aims to understand the extent of investor-advisor relationships and financial knowledge of investors in Canada.

Methodology

This survey was conducted online among a sample of 3,083 Canadians, 18 years or older in English and French. Respondents had the option to take the survey in either English or French, with 2575 respondents opting for English and 508 responding in French. The survey was in field between March 25th and 28th, 2019.

An online panel is a group of profiled individuals who have agreed to take surveys in exchange for a reward. Respondents were randomly selected from within the larger panel, and quotas were set for age, gender and region to obtain a sample that is representative of the Canadian adult population. INNOVATIVE provides each panelist with a unique URL via an email invitation so that only invited panel members are able to complete the survey and panel members can only complete a particular survey once.

The sample has been weighted down to n=3,000 by age, gender and region using the latest Statistics Canada Census data to reflect the actual demographic composition of the adult population 18 years or older residing in Canada. Unless otherwise noted, the n-sizes reported in this deck are the weighted n-sizes.

This is a representative sample. Targets were set to ensure a proper reflection of key regional and demographic distribution and then weights were used to ensure an accurate reflection of the target provinces. However, since the online survey was not a random probability based sample, a margin of error can not be calculated. It is not statistically valid to apply margins of error to most online samples.

Note: Graphs may not always total 100% due to rounding values rather than any error in data. Sums are added before rounding numbers.

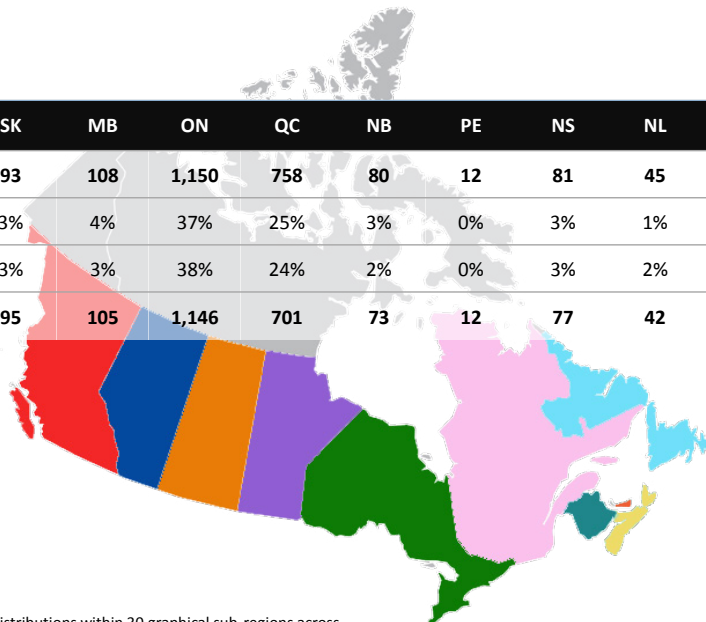


Sample Design

	BC	AB	SK	MB	ON	QC	NB	PE	NS	NL	Total
Unweighted Sample (n)	411	345	93	108	1,150	758	80	12	81	45	3,083
Unweighted Sample (%)	13%	11%	3%	4%	37%	25%	3%	0%	3%	1%	100%
2016 Census Population (%)	13%	11%	3%	3%	38%	24%	2%	0%	3%	2%	100%
Weighted (n)	408	340	95	105	1,146	701	73	12	77	42	3,000



n=3,000
National Weighted Sample



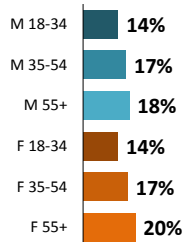
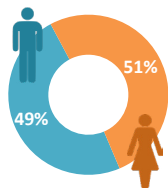
Note: The sample has been weighted by the population, age and gender distributions within 30 graphical sub-regions across Canada, using the latest available Census data. This weighting convention was used to ensure representative data at both the national- and provincial-levels of analysis.

Respondents from the territories are grouped with those in the nearby province for weighting purposes and regional analysis. Those from Yukon, Northwest Territories, and Nunavut are grouped together with BC, Alberta, and Manitoba respectively.

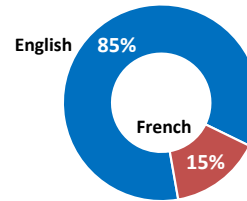


Demographics: Respondent Profile

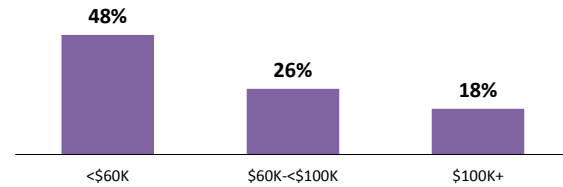
Gender & Age



Survey Language



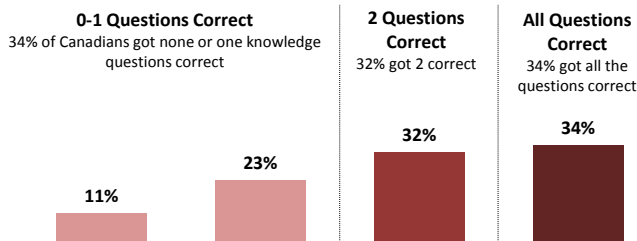
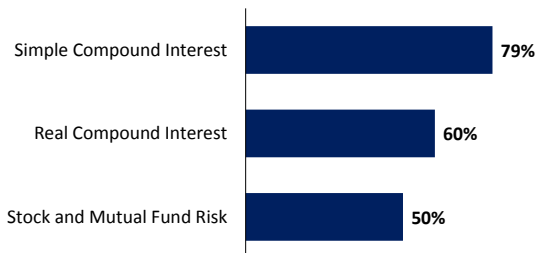
Household Income



Note: 8% prefer not to say

Investment Knowledge

Percentage Choosing Correct Answer [asked of all 3,000 respondents]



Financial Literacy Around the World:

These three questions make up the *Investment Knowledge Index* and allow us to group Canadians by level of knowledge when it comes to investing.

The graph on the top left of the slide shows the percentage of respondents who chose the correct answer to each question. The graph below shows the distribution of the number of correct answers and groups respondents by knowledge category.

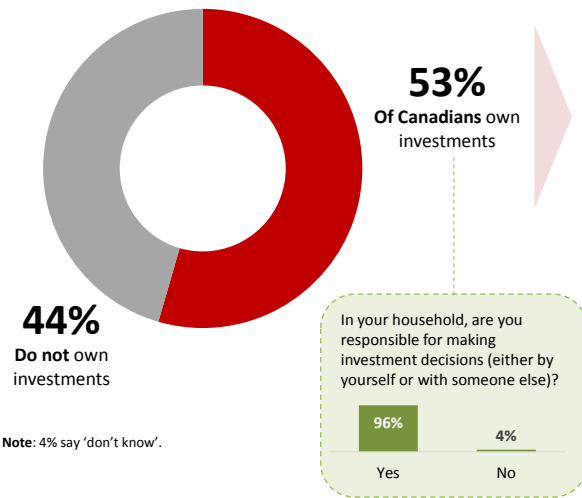
The Questions:

- Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow? [More than \$102 | Exactly \$102 | Less than \$102]
- Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy...[More than today | Exactly the same as today | Less than today]
- Do you think the following statement is true or false? "Buying a single company stock usually provides a safer return than a stock mutual fund." [True | False]

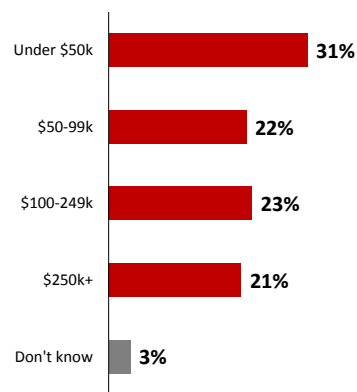
Note: A representative online study conducted by INNOVATIVE for the Ontario Securities Commission in October 2018 showed similar results for investment knowledge (None correct: 11%, 2 questions correct: 28%, All correct: 42%).

Investments

Q Do you own investments, such as stocks, bonds, mutual funds or ETFs?
[asked of all respondents; n=3,000]

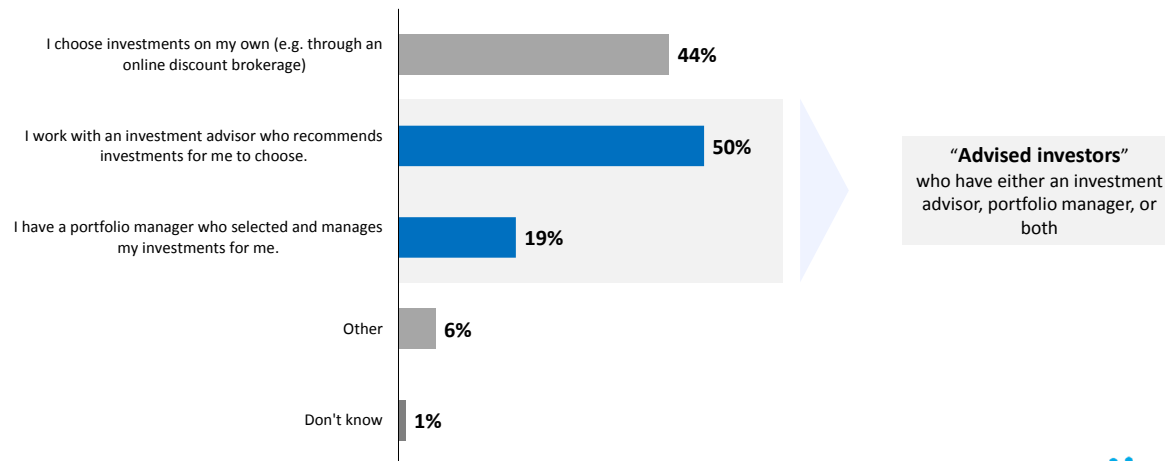


Q What is the approximate value of your investment holdings?
[asked of those who are responsible for making investment decisions in household; n=1,505]



Investment Methods

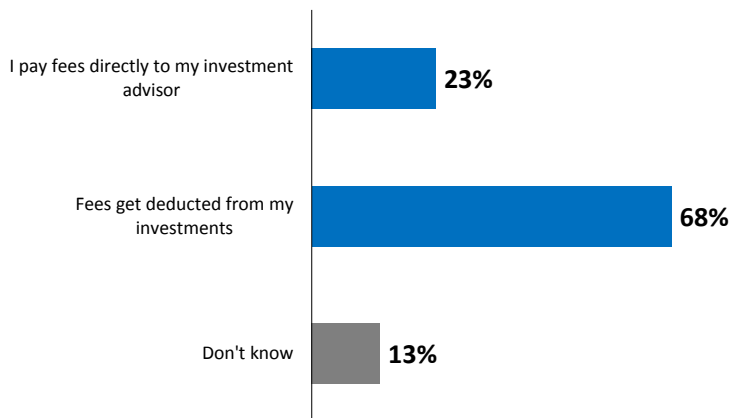
Q How do you invest?
[asked of those who are responsible for making investment decisions in their household; n=1,505]



Note: Multiple mention. Percentages may add up to over 100%.

Fee Management

Q Investment advice costs money. How do you pay for investment advice?
[asked of those who have an investment advisor or portfolio manager; n=961]



Note: Multiple mention. Percentages may add up to over 100%.

Portfolio Value by Investment Method

Q What is the approximate value of your investment holdings?
[asked of those who are responsible for making investment decisions in their household; n=1,505]

		Investment Method			All respondents
		Invest on my own	Work with an investment advisor	I have a portfolio manager	
Approximate Value of Portfolio	Under \$50,000	33%	25%	27%	31%
	\$50,000 to less than \$100,000	25%	23%	17%	22%
	\$100,000 to less than \$250,000	22%	25%	25%	23%
	\$250,000 or more	17%	25%	28%	21%
	Don't know	3%	3%	4%	3%

Financial Knowledge by Investment Method



How do you invest?

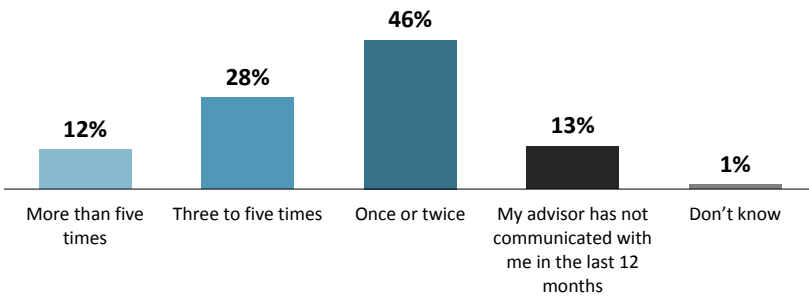
[asked of those who are responsible for making investment decisions in their household; n=1,505]

		Investment Method			All respondents
		Invest on my own	Work with an investment advisor	I have a portfolio manager	
Financial Knowledge Index	0-1 Questions Correct	24%	24%	25%	34%
	2 Questions Correct	28%	30%	31%	32%
	All Questions Correct	48%	45%	44%	34%

Advised Investors:
Nature & Level of Service Provided

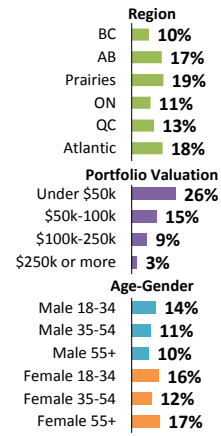
Communication Frequency

Q Approximately how many times has your investment advisor communicated with you in the last 12 months?
[asked of those who have an investment advisor or portfolio manager; n=961]



Segmentation

Respondents who say no communication



Communication Frequency by Portfolio Valuation

Q Approximately how many times has your investment advisor communicated with you in the last 12 months?
[asked of those who have an investment advisor or portfolio manager; n=961]

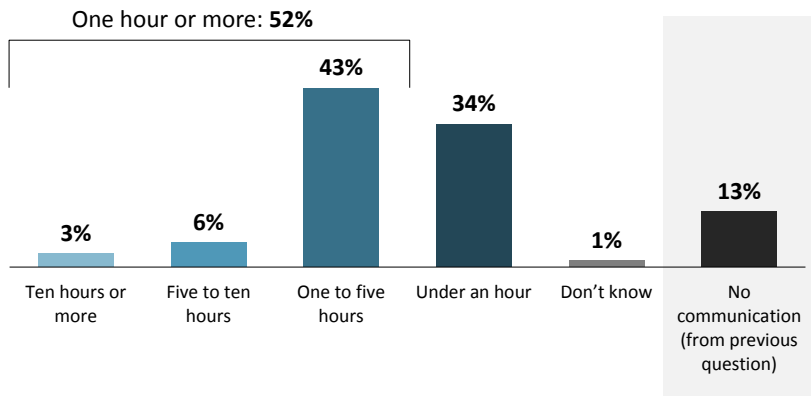
	Approximate Value of Portfolio			
	Under \$50k	\$50k to Under \$100k	\$100k to less than \$250k	\$250k or more
More than five times	7%	9%	8%	22%
Three to five times	16%	30%	30%	38%
Once or twice	49%	45%	53%	36%
No communication	26%	15%	9%	3%



Note: Don't know not shown.

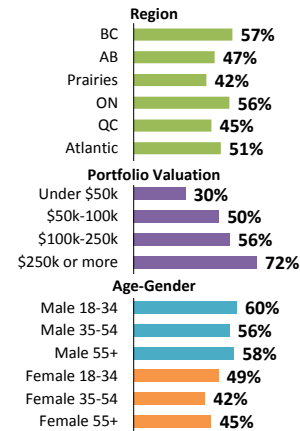
Time Spent Communicating

Q Approximately how much time in total has your investment advisor spent speaking with you (in person, by phone, or online) over the past 12 months?
[asked of those who have had communication with their investment advisor in the past 12 months; n=835]



Segmentation

Respondents who say more than one hour



Time Spent Communicating by Portfolio Valuation

Q Approximately how many times has your investment advisor communicated with you in the last 12 months?
[asked of those who have an investment advisor or portfolio manager; n=961]

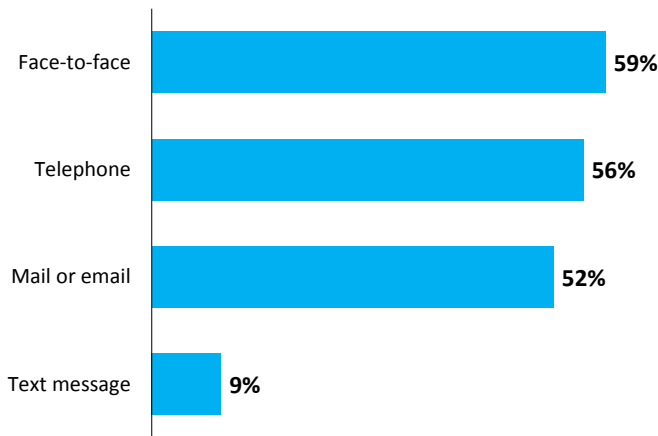
	Approximate Value of Portfolio			
	Under \$50k	\$50k to Under \$100k	\$100k to less than \$250k	\$250k or more
Ten hours or more	1%	3%	2%	6%
Five to ten hours	1%	5%	8%	10%
One to five hours	27%	42%	46%	56%
Under one hour	42%	34%	35%	24%
No contact in the last 12 months	26%	15%	9%	3%



Note: Don't know not shown.

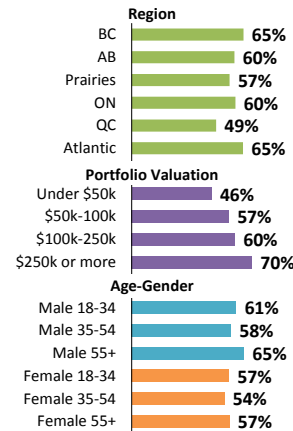
Communication Method

Q How has your investment advisor communicated with you in the last 12 months?
[asked of those who have had communication with their investment advisor in the past 12 months; multiple mention, n=835]



Segmentation

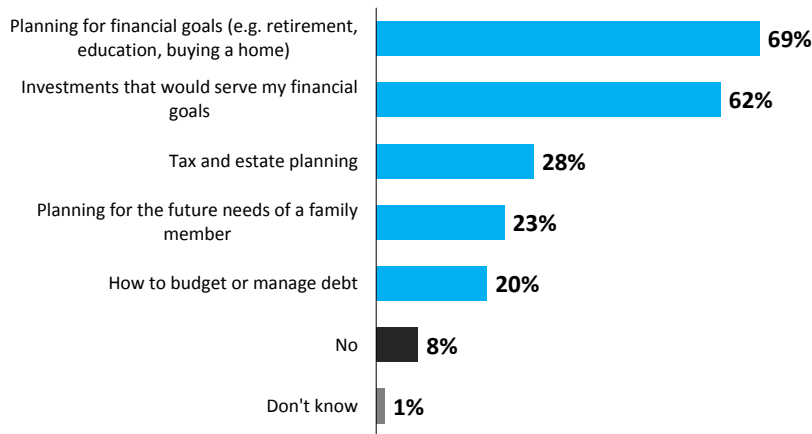
Respondents who say "Face-to-face"



Note: Multiple mention. Percentages may add up to over 100%. Other and Don't know not shown (<1% each)

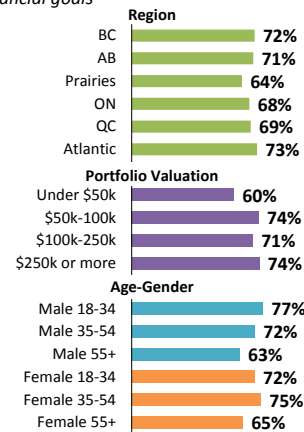
Topics of Conversation

Q Have you ever discussed any of the following with your investment advisor?
[asked of those with an investment advisor or portfolio manager; multiple mention, n=961]



Segmentation

Respondents who say "Planning for financial goals"



Note: Multiple mention. Percentages may add up to over 100%.

Topics of Conversation by Portfolio Valuation

Q Have you ever discussed any of the following with your investment advisor?
[asked of those who have an investment advisor or portfolio manager; n=961]

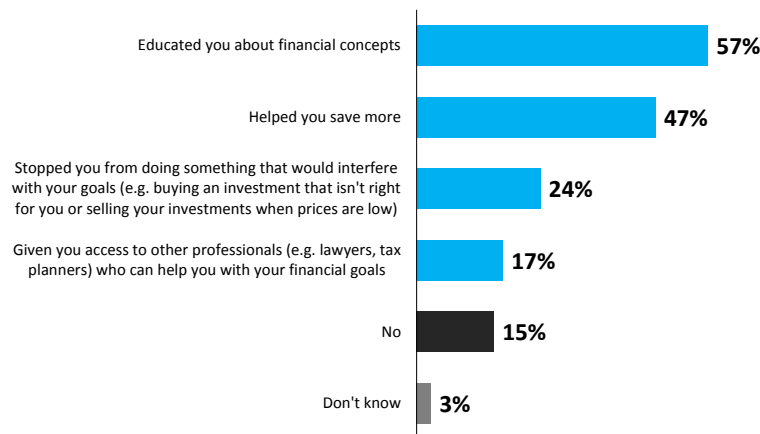
		Approximate Value of Portfolio			
		Under \$50k	\$50k to Under \$100k	\$100k to less than \$250k	\$250k or more
Topics of Conversation	Planning for financial goals	60%	74%	71%	74%
	Investments that would serve my financial goals	46%	57%	72%	75%
	Tax and estate planning	15%	33%	30%	36%
	Planning for the future needs of a family member	20%	23%	26%	25%
	How to budget or manage debt	21%	25%	19%	16%
	No	14%	7%	3%	7%

Note: Multiple mention. Percentages may add up to over 100%. Other and Don't know not shown.



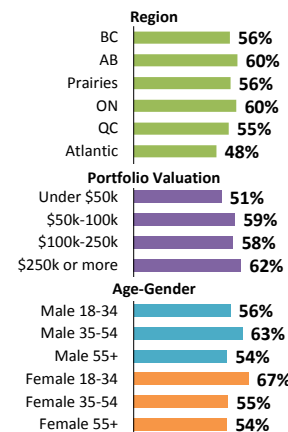
Advisor Role

Q Has your investment advisor done any of the following for you?
[asked of those with an investment advisor or portfolio manager; multiple mention, n=961]



Segmentation

Respondents who say "Educated..."



Note: Multiple mention. Percentages may add up to over 100%.



Advisor Role by Portfolio Valuation

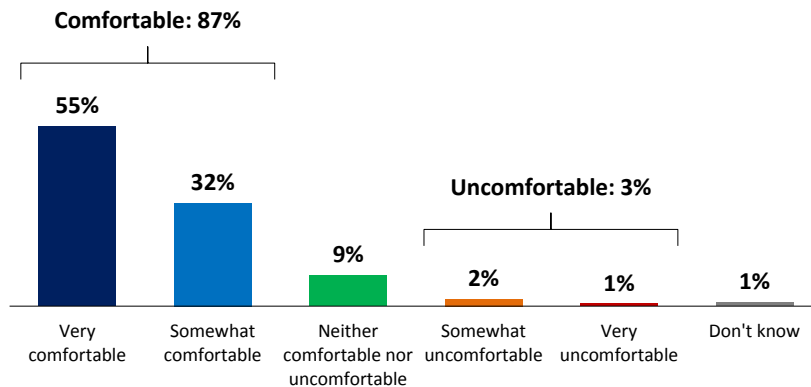
Q Has your investment advisor done any of the following for you?
[asked of those with an investment advisor or portfolio manager; multiple mention, n=961]

		Approximate Value of Portfolio			
		Under \$50k	\$50k to Under \$100k	\$100k to less than \$250k	\$250k or more
Advisor Role	Educated you about financial concepts	51%	59%	58%	62%
	Helped you save more	43%	45%	53%	48%
	Stopped you from doing something that would interfere with your goals	17%	29%	25%	28%
	Given you access to other professionals (e.g. lawyers, tax planners) who can help you with your financial goals	12%	18%	14%	25%
	No	21%	11%	14%	14%



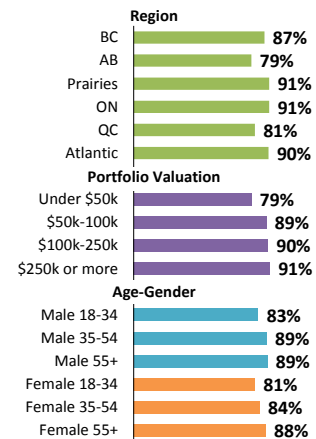
Level of Comfort

Q How comfortable do you feel when speaking with your investment advisor?
[asked of those who have an investment advisor or portfolio manager; n=961]



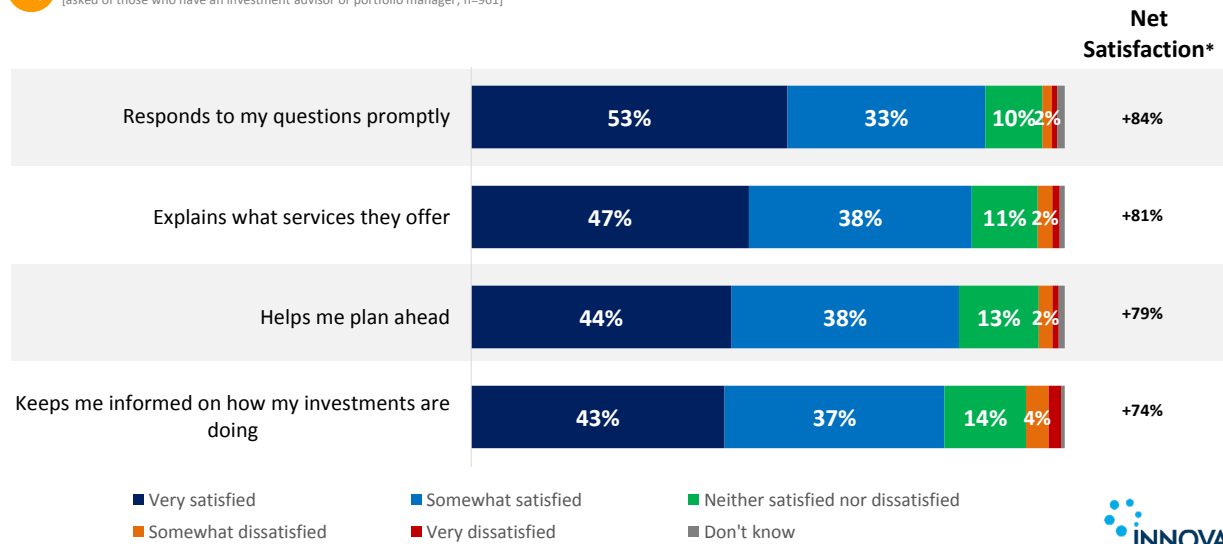
Segmentation

Respondents who say "Comfortable"



Satisfaction with Advisor

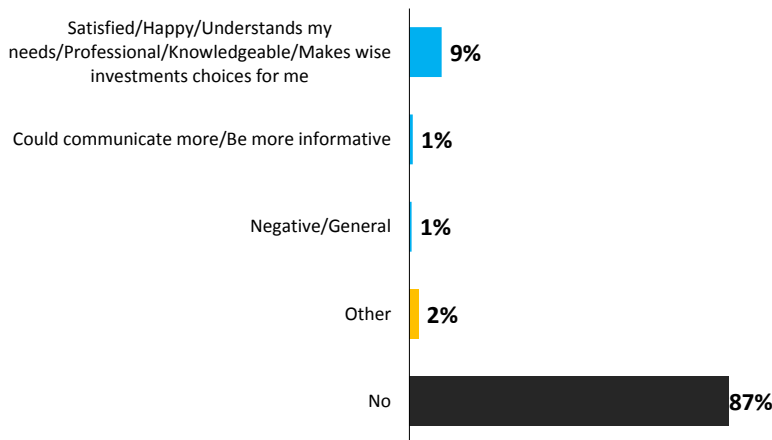
Q How satisfied or dissatisfied are you with your investment advisor in each of the following areas?
[asked of those who have an investment advisor or portfolio manager; n=961]



* NOTE: Net satisfaction is calculated as total *satisfied* ("very" + "somewhat") minus total *dissatisfied* ("very" + "somewhat")

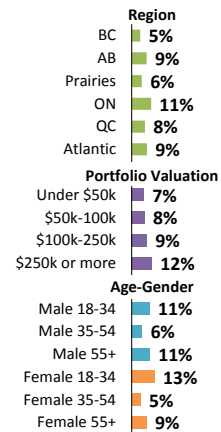
Additional Comments

Q Are there any other additional comments you would like to add about your interactions with your investment advisor?
[asked of those who have an investment advisor or portfolio manager; open-ended, n=961]



Segmentation

Respondents who say "Satisfied/Happy..."



Appendix



Investment Knowledge

	Region						Household Income			Age-Gender					
	BC	AB	Prairies	ON	QC	Atlantic	< \$60k	\$60-100k	> \$100k	M 18-34	M 35-54	M 55+	F 18-34	F 35-54	F 55+
Total															
0-1 Correct 34%	28%	28%	28%	36%	37%	37%	38%	28%	25%	38%	26%	17%	53%	41%	33%
2 Correct 32%	27%	36%	40%	30%	34%	31%	34%	32%	28%	32%	28%	34%	30%	31%	35%
All Correct 34%	44%	36%	32%	34%	30%	32%	29%	40%	47%	30%	46%	49%	16%	28%	31%
Column Total %	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%



Investor Profile: Investors vs. Non-Investors

		Region						Household Income			Age-Gender					
		BC	AB	Prairies	ON	QC	Atlantic	Less than \$60k	\$60k-\$100k	Over \$100k	M 18-34	M 35-54	M 55+	F 18-34	F 35-54	F 55+
Total																
Investors	53%	61%	58%	52%	53%	44%	50%	38%	66%	79%	52%	63%	57%	41%	48%	52%
Non-Investors	44%	37%	39%	43%	43%	50%	46%	58%	32%	20%	43%	35%	41%	54%	48%	44%
Don't know	4%	2%	2%	5%	3%	5%	4%	4%	2%	1%	4%	2%	2%	5%	4%	4%
Column Total %		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%



Investor Profile: Investment Methods

		Region							Portfolio Valuation					Age-Gender						
		BC	AB	Prairies	ON	QC	Atlantic	Row Total %	Under \$50k	\$50-\$100k	\$100-\$250k	\$250k or more	Row Total %	M 18-34	M 35-54	M 55+	F 18-34	F 35-54	F 55+	Row Total %
% of Investors																				
On my Own	44%	18%	14%	5%	38%	20%	5%	100%	33%	25%	22%	17%	100%	21%	26%	16%	11%	15%	11%	100%
Investment Advisor	50%	16%	14%	8%	38%	17%	6%	100%	25%	23%	25%	25%	100%	14%	18%	20%	10%	17%	21%	100%
Portfolio Manager	19%	14%	12%	5%	39%	22%	8%	100%	27%	17%	25%	28%	100%	13%	19%	23%	8%	14%	23%	100%



Investor Profile: Fee Management

	Region							Portfolio Valuation					Age-Gender							
	BC	AB	Prairies	ON	QC	Atlantic	Row Total %	Under \$50k	\$50-\$100k	\$100-250k	\$250k or more	Row Total %	M 18-34	M 35-54	M 55+	F 18-34	F 35-54	F 55+	Row Total %	
% of Investors																				
Pay fees directly	23%	16%	15%	4%	44%	15%	6%	100%	22%	30%	22%	24%	100%	26%	18%	15%	14%	16%	12%	100%
Fees get deducted	68%	15%	13%	7%	38%	19%	7%	100%	22%	19%	27%	28%	100%	10%	18%	24%	8%	16%	24%	100%



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