Sent via email April 3, 2015

C. Reed Comment Letter

Robert Day
Senior Specialist, Business Planning and Performance Reporting
Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8
(416) 593-8179
rday@osc.gov.on.ca

Regarding: Notice 11-771 2015-2016 OSC Draft Statement of Priorities - request for comment

Who I am
I am a retail investor early in retirement with only my own savings (plus eventually CPP and OAS) to support my retirement. I have academic training in accounting, finance and economics, and have 30 years of stock/bond investing experience. So I consider myself to be much more knowledgeable than the typical retail investor. I was a good saver during my working life and earned great investment returns, so my wealth will support a middle-class retirement.

My concern with this document
You are making an assumption, all through this document, that you can legislate 'investor protection' AND ENFORCE IT.

I have no problem with most of your motherhood issues in this area. But they will not be enforced, nor are they enforceable. This will result in the retail investors' wrong perception that they are being protected - when in fact they are not. They are not, because the rules are not enforceable. Retail investors would be better served to appreciate the rough truth that they are NOT protected and must take FULL responsibility for their choices.

An example of this effect comes from the long-standing OBSI Ombudsman for Banking Services and Investments' promise to enforce fairness in disputes between investors and brokers. It is only recently that the public has been made aware that these claims are false because there is no enforcement on the Ombudsman. After decades of promises many of us only recently have been told how the system is rigged and will continues to be rigged.

Let me give you two more examples of promised 'protections' that are false.

#1
The SROs in Canada supposedly issue credentials in exchange for validating the technical knowledge of their members. The objective is that when seeing credentials, retail investors rest assured that the advice they get is correct.

It is rare that we can see exactly what technical knowledge is being taught, tested, and accredited

by these SROs ... but recently there was a course published on the web, with the SRO's accreditation noted for continuing education credits. Included in one course was a false claim made about a financial metric (the tax cost ratio) being used to prioritize assets in tax shelters (vs taxable accounts) - the Asset Location (AL) decision.
http://www.cecorner.ca/en/Lesson_Information.cfm?LessonID=1913

Be clear that this metric has a stated calculation, using two variables, but I do not dispute anyone's chosen variables. I prove that the metric itself does NOT prioritize assets for AL. (the tab called " CumulativeBenefit" on the spreadsheet http://www.retailinvestor.org/Challenge.xls) It is a math issue. The two variables in the metric are the same variables that determine the future value of any asset, so you can compare the metric of any asset with the outcomes assuming those same variables. The metric does not work. This is not subjective. It is factual. The course material is wrong. The advise given in the future by the professionals taking the course will be wrong - diametrically wrong in fact.

So I contacted the three SRO's who accredited the course. Let me give you of their responses.

- The publisher of the course dismissed me with the claim that the issue is subjective, not factual. He restates the issue from the metric itself to the variables chosen in one example of the metric. He never mentions the issue I had raised.
- The IAFE dismissed me by relabeling 'their error' as 'my question'. They restate the issue from the tax-cost-ratio to the after-tax-return-calculation. The never mention the issue I had raised.
- The IIROC took 3 weeks before they emailed a request for my phone number 'to discuss the issue'. Obviously they want to dismiss me without putting anything in writing.
- The FPSC took 2 weeks before they claim they will get back to me 'within the next couple of weeks'. 2012 correspondence with FPSC regarding the wrong factual knowledge of their teaching/accrediting (see point #2 below) prompted the following disavowal of all responsibility ...."The FPSC does not have a curriculum as we do not teach students. We set the technical knowledge topics required for the designation in Canada, and education providers, independent from ourselves, develop curriculum to meet our learning objectives".

No one from any of the parties involved ever mentions the issue I raised, much less identifies any of my math they consider to be wrong. These organization falsely promise technical competence to mislead the public into a false sense of security. In fact they take no responsibility for technical competence. The retail investor would be better off knowing the harsh truth that these 'professionals' may well know less than the retail investor himself.

#2

You have directed funding toward the education of retail investors, and continue to promise more action. But is the information you are teaching correct.? Do you have any method to enforce corrections when errors are found? No and No. Retail investors are being taught false information that will lead to disfunctional choices ... all while believing the fairytale that the OSC is looking out for them and ensuring the information is correct.

I have taken screenshots of the educational material on the benefits of RRSPs from all the 'official' websites at http://members.shaw.ca/PublicAccess/ScreenShots/published.html . You can see your own Getting Smarter website included. All the claims by all the sites are false. Never have those claims been calculated and verified. Once measured you can see they are false. Please watch at least the 2nd of my videos at https://www.youtube.com/channel/UCYf70uCj5q4GRWYC0wVtdxg . It proves an accurate decomposition of the main benefit, and shows why the 'professional's' claims are false. The 3rd video adds on the remaining costs/benefits. You can use the top tab of the spreadsheet linked above to see this analysis in action for whatever variable assumptions you want.

What happens when your Getting Smarter website is contacted with the warning of false information? You are dismissed without any discussion of the points raised, or any errors found in the math proof provided. You never even get an email address of anyone involved in the validation process. I can only presume there IS not validation process.

The retail investor would be better off WITHOUT that website. There are lots of educational sites on the web from which they can choose and browse. There are lost of discussion forums where competing opinions must be justified. There the public won't simply 'accept' what they read - they question it and find validation on other sites, etc. They do due diligence. By putting public money toward an 'official' finance education site gives it credibility - making the public 'trust' it. That trust is not deserved because the validity of the information is not subject to any oversight - at least not by anyone with an open mind.

Conclusion:
Please restrict yourself to very concrete quantifiable policies like .... disclosure rules, account statement format, compensation disclosures, etc. E.g. Make rules that put the retail investor on the same level as industry players who can now hide their stock trading with iceburg orders. E.g. Prioritize changes to the forced 'mediation' of disputes with brokers.

Don't waste money on initiatives that won't be validated by enforcement and valid oversight. Although well-intentioned, promises to 'protect' the retail investor can have a negative value when they cause the public to let down their guard and simply 'accept' what the 'experts' say. Even enforcement of the KYC rule is slightly ludicrous. Example - I use a discount broker for my stocks, and go to a full service brokerage for individual bonds. This broker does not know about my other account (because I refuse to tell him) so he must buy my 100% bond portfolio in violation of my KYC form ((high risk tolerance). By the rules, he SHOULD refuse to buy my bonds and insist I buy some stocks.

Please forget ideas like fiduciary duty. How on earth would that be enforced? Don't claim to be 'protecting the public' when you restrict our access to products and markets. The poor are no more stupid than the rich. E.g. We have just as much right to own futures contracts as the rich do. Especially don't put more money into investor education material. The evidence coming in is that this education does not 'stick' and is most likely to result in overconfidence and more risky investing behavior. Your material will be wrong - without any system to correct it.

Chris Reed