MFDA Investor *Bulletin*

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JUNE 2017 **SENIORS MONTH**

June is Seniors' Month and to mark the occasion the MFDA is issuing an Investor Bulletin with a focus on protecting seniors and seniors' issues.

Protecting Seniors

The protection of seniors from financial harm is a priority for the MFDA under its Strategic Plan. As part of its initiative to protect seniors, the MFDA places a priority on cases involving senior investors, and provides assistance to seniors in documenting and filing their complaints with the MFDA. In addition to the assistance seniors receive in documenting their complaint, all complainants receive a phone call from MFDA case assessment staff to explain the MFDA's complaint process and the services offered by the Ombudsman for Banking Services and Investment ("OBSI"). OBSI can make a non-binding recommendation for compensation (up to $350,000) if it determines that an investor has been treated unfairly, taking into account the criteria of good financial services and business practice, relevant codes of practice or conduct, industry regulation and the law. For seniors or otherwise vulnerable clients who wish to pursue a claim through OBSI, MFDA staff are able to directly transfer their calls to OBSI staff. This direct transfer process limits the need for complainants to make multiple phone calls to various organizations, and helps to simplify the complaints process for those investors.

MFDA

Mutual Fund Dealers Association of Canada
Association canadienne des courtiers de fonds mutuels

Investor Alerts

POWERS OF ATTORNEY

Putting in place a power of attorney is an important part of planning and managing your future financial affairs. When deciding who you would like to act as your attorney **it is important that you select someone that you trust.** When selecting a person to act as a power of attorney or as an executor, it is best to consult with a lawyer, notary or another professional who deals in estate matters.

MFDA rules prohibited mutual fund advisors from acting upon any power of attorney or similar authorization. **You should never name your mutual fund advisor as your power of attorney because it is contrary to MFDA rules, and may put your advisor in an irreconcilable conflict of interest.**

BORROWING TO INVEST

Borrowing money to invest is often referred to as "leveraging" and is a risky investment strategy. When you invest your own money your potential loss is limited to the amount of money that you invest. However, when you borrow to invest you can lose more money than you have personally invested, and can end up in debt. This is why leveraging is risky, because it can magnify investment losses. The risks are higher for senior investors who may have less time to recover from a loss, and who may be more likely to require money from their investments unexpectedly.

Let's look at a simple example involving Investor A who has invested her own money and Investor B who has invested some of her own money and borrowed a further amount of money to invest:

	Investor A: Invested Own Money	Investor B: Borrowing to Invest
Own Money Invested	$1000	$1000
Borrowed Money Invested	$0	$4000
Total Money Invested	$1000	$5000
Percentage Decline in Investment	30%	30%
Value of Investment After Decline	$700	$3500
Investment Loss	$300	$1500
Investor's Own Money Remaining	$700	– $500

As we can see in the example above not only has Investor B lost all of her original $1000 investment, she also now **owes** $500 more than she has in her account. If her leveraged investments continue to decline she may end up owing even more than $500, and depending on her overall financial circumstances this can have a significant impact on her financial future.

Compare the situation of Investor B to Investor A. Both investors invested the same amount of their own money and experienced the same 30% investment loss. Yet, Investor B has lost her own money of $1000 and owes $500, while Investor A has only lost $300, still has $700 in her account, and owes no debt.

There are further risks when employing a leveraging strategy including:

- ✓ You can lose any collateral used to secure the loan, such as your home.

> Even with low interest mortgage rates that are available today investing borrowed money from a home equity line of credit is a risky strategy. Because such loans are secured by the equity in your home you risk losing your house if the investment strategy fails. This is a serious risk that should be considered before ever using borrowed funds secured by the equity in your home to invest.

- ✓ The value of any distributions from the investments could fluctuate downwards and may not always provide enough money to cover monthly loan payments.

Be cautious of any one who tells you any of the following statements regarding a leveraging strategy:

- ✓ It's what rich people do
- ✓ The strategy is guaranteed to succeed
- ✓ The strategy will pay for itself
- ✓ It's a "No Brainer"
- ✓ All my clients are doing it

> **!** Any statement that implies that leveraging is low risk or guaranteed to succeed is simply not true.

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