



Mutual Funds Dealer Association of Canada
Association canadienne des courtiers de fonds mutuels

Selecting an Advisor



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Like many people you may find an advisor through a friend or family Member, through internet searches, or advertisements or you may be assigned an advisor by a financial institution. However, finding an advisor is only a first step. This guide sets out information to help you determine whether an advisor is right for you and how to get the most from your relationship with an advisor.

Content

Your First Meeting	3
Ask About Your Advisors Experience and Qualifications	3
Ask About the Advisor’s Dealer	3
Ask About Products and Services Offered by the Advisor ...	4
Discuss Compensation	4
Before Investing	5
Perform a Review	5
Check the Advisor’s Registration and Disciplinary History	5
Going Forward – The Advisory Process	6
Your Advisor’s Responsibilities	6
Your Responsibilities	7

Your First Meeting

The first meeting with an advisor should be about sharing information and ensuring that you and the advisor are a proper fit. You should not hesitate to meet several advisors to find the one that is best for you.

You should never feel that you need to make any financial decisions or commitments, or that you need to open an account, at your first meeting. Use the first meeting to discuss your goals and objectives and ask any questions you may have. Below are some examples of the types of questions you may want to ask an advisor when you first meet. It may be a good idea to take notes so you can recall what was discussed at a later date.



1 Ask About Your Advisors Experience and Qualifications

Inquire about the advisor's experience and qualifications and select an advisor that fits best with your financial service needs and level of investment knowledge. An investor with \$15,000 to invest may require a different level of service than someone with \$250,000 to invest. You should also consider that the cost of service may vary from one advisor to the next depending on their qualifications, experience and service provided.

You should understand the meaning of any titles or designations that the advisor uses. A useful glossary of financial certifications and their meaning can be found at www.iiroc.ca/investors/understandfincert.

2 Ask About the Advisor's Dealer

All advisors are either agents or employees of a dealer. You may notice the dealer's logo and name displayed on signage at the advisor's premises and on the letterhead of various documents. Knowing about the dealer is important because the dealer is responsible for supervising the activities of its advisors, sets various policies and procedures which its advisors are required to follow, and approves the securities that advisors can offer. Ask questions about the dealer such as how long it has been in business and how long your advisor has been with the dealer.

Ask whether the dealer is a member of a self-regulatory organization ("SRO"). SROs are regulatory bodies which regulate dealer and advisor conduct, monitor compliance with rules, conduct disciplinary hearings and require dealers to be part of a protection plan to cover client losses in the case of a dealer insolvency.

! Not all dealers offer the same products or services to clients. Ask the advisor about the dealer's range of investment products and whether the products offered are limited to proprietary or "in-house" products. Use this information to help determine whether the products and services offered by the dealer will meet your needs.

3 Ask About Products and Services Offered by the Advisor

Not all advisors offer the same investment products and advisory services. For example, some advisors may offer comprehensive financial advice beyond investments, such as tax advice and estate planning. Think about your financial needs, and discuss them with the advisor to determine whether the range of products and services offered by the advisor is right for you.

! Ask the advisor whether any products or services offered by the advisor are conducted outside the dealer. What outside the dealer means is that you are dealing with the advisor directly, and not his or her dealer. All securities related business must be conducted through the dealer but a service or product that is not a security might be sold or offered outside the dealer. This is important to understand because products and services offered outside the dealer do not fall under the direct supervision of the dealer, and may not be subject to the same regulatory protections as securities related activity. Examples of investment products that may be sold outside the dealer include segregated funds and GICs. Services that may be conducted outside the dealer include tax preparation and financial planning. Advisors are required to disclose any outside business activity to clients and their dealer in writing, and require their dealer's approval to engage in an outside business activity. You can ask for a copy of an advisor's outside business disclosure to determine if any of the products or services offered by the advisor are outside business activities.

4 Discuss Compensation

Investment advice is never free and it is important that you understand how much the advisor is compensated for services, how this compensation is paid and how much it will cost you. All these factors can vary and may depend on the services provided and the qualifications and level of experience of the advisor.

Advisors who trade in mutual funds are generally compensated in one of two ways:

- 1 **Through commissions** they receive from mutual funds you invest in. You pay this compensation fee indirectly to your advisor as the costs of these commissions are built in to the price of the mutual fund.
- 2 **Through charging clients a fee directly**, usually based on a percentage of the value of the assets invested with the advisor. For example, an advisor may charge an annual fee of 1% of all monies which you invest, and which you would pay directly to the advisor's dealer.

In addition, advisors may also charge additional fees for the other services that they offer to clients such as financial planning. Inquire as to what services are included in the compensation fee the advisor charges and whether there are any other costs for additional services you may require.

It is important to have a fulsome discussion about compensation with your advisor so that you fully understand how the advisor is compensated, and are comfortable with the level of costs, for the products and services provided.

! You should be aware that in addition to the compensation you pay an advisor, there may also be other operating and management costs associated with an investment product. For example, the company that manages a mutual fund is paid a management fee. These costs impact your performance return so it is important to fully understand all the costs of an investment product, and to ask questions of your advisor if you do not have a full understanding of these costs.

For further information on costs applicable to mutual funds, please refer to <http://www.getsmarteraboutmoney.ca/en/managing-your-money/investing/mutual-funds-and-segregated-funds/Pages/Mutual-fund-fees.aspx>

Before Investing

Once you have found an advisor that you believe you would like to work with there are several steps you should take before you invest your money.

1 Perform a Review

Review any notes that you took and ask yourself questions about the meeting with the advisor.

- Did you feel comfortable talking with the advisor?
- Did he or she answer all your questions clearly and completely?
- Does the advisor have the qualification and offer the range of products and services required to meet your needs?
- Do you understand how the advisor is compensated?

If you answered “no” to any of these questions then the advisor may not be right for you, and you may want to consider meeting with other advisors.



2 Check the Advisor’s Registration and Disciplinary History



In order to trade and advise on securities, advisors must be registered with the relevant securities regulatory authority of the Province or Territory in which you live. You can check whether an advisor is registered at: www.aretheyregistered.ca. If an advisor’s name is not found in the database or is not registered in your Province or Territory then he or she cannot advise on or offer you securities. You should never do business with an advisor who is not properly registered.

You should also check to see if your advisor has been disciplined by an SRO or other securities regulatory authority. If an advisor has a disciplinary history it will appear with the advisor’s registration information when you perform the registration search through www.aretheyregistered.ca. You can also perform internet searches on the advisor which may reveal relevant information on the advisor’s background, such as any disciplinary hearings which are on-going.

Going Forward – The Advisory Process

In order to make the most of your relationship with your advisor you should understand both your own and the advisor's responsibilities.



1 Your Advisor's Responsibilities

All dealers and advisors are required to abide by securities rules and regulations, and the requirements of their SRO. One of the most important requirements under the rules that you should be aware of is the advisor's obligation to make investment recommendations that are suitable for their clients by performing a suitability assessment whenever:

- An advisor recommends a trade or accepts a trade instruction from you.
- A client moves to a new advisor or transfers assets to another dealer.
- There has been a material change in client circumstances, particularly where there has been a significant decrease to income or increase in expenses. For example, a job loss, retirement or divorce.

The requirement that all investment recommendations be suitable for the client, and to perform a suitability assessment at the above mentioned points in time, helps clients to maintain an investment portfolio that is in alignment with their risk tolerance, investment objectives and financial means. Additionally, the suitability obligation applies to the advisor's dealer and the dealer must supervise the advisor's activities for compliance with the suitability obligation.

There are several elements to performing a proper suitability assessment, and the main elements are set out below:

Know-Your-Product

An advisor must know the essential facts and features of any mutual fund or investment product that is recommended to a client. This would include but is not limited to understanding the risks and costs associated with an investment.

Know-Your-Client

An advisor must know the essential facts about a client. This should be done through a discussion with clients about investment needs and goals, capacity to withstand losses and attitude towards risk, among other factors. This discussion should form the basis for assisting clients in completing the information, often called Know-Your-Client Information or KYC Information, required on the new account application form. Further detail on the KYC Information required to open an account and why it must be provided is available in the Opening your Investment Account Information Sheet at www.mfda.ca/investors/brochure/ClientInfoSheet.pdf

Going Forward – The Advisory Process continued

Explain
features and
risks

An advisor is expected to disclose material negative and positive factors involved in a recommended investment to the client for the purpose of assisting a client in making an informed decision about whether to proceed.

In addition to the suitability requirement, advisors have several other primary responsibilities which protect investors such as the duty to resolve any conflicts of interest having regard to the best interests of clients, the duty to deal fairly, honestly and in good faith with clients, and the requirement to report any client complaints to the dealer which has an obligation to deal with the complaint promptly and fairly.

2 Your Responsibilities

You always have the final say on any investment decision. As with any professional advice the goal is to ensure that you can make an informed decision. Below are some steps you can take to ensure that you and your advisor both have all the information needed during the advisory process.

Take your time making decisions and consider the advice you receive.

Ask questions if you don't understand the response do not hesitate to ask for clarification. If you don't have a general understanding of an investment even after asking questions it is likely not the product for you.

Inform your advisor whenever there has been a material change in your circumstances. Any change should prompt an update to your KYC Information and will require your advisor to perform a new suitability assessment which may result in your advisor recommending changes to your investment portfolio.

Keep an open dialogue with your advisor. This is particularly important to help your advisor learn about your financial situation and needs.

Review all your account statements and trade confirmations. You should receive account statements at least quarterly and a trade confirmation for every purchase or redemption of an investment product. Account statements tell you valuable information about the investments you are holding, their performance and the costs you pay for the investment. Contact the dealer's compliance department directly if you do not receive account statements or trade confirmations, or if the information on a statement or confirmation is inconsistent with your records.

Read and review all the documentation you receive. If there is something in a document that concerns you, or that you do not understand, do not hesitate to discuss this with your advisor or dealer.