GUIDE TO INVESTING:

HOW TO BE AN EMPOWERED INVESTOR

BC SECURITIES COMMISSION | investRIGHT

ARE YOU AN INVESTOR?

Unless you keep your savings under a mattress or buried in the back yard, then the answer is yes! Even if you don't think of yourself as an investor, the decision to put money aside and grow it for the future means you're making an investment. And it's easier than you may think to make the most of your investments. You need a combination of the right information and the right attitude. *The Empowered Investor Guide* points you to both.

If you have savings, you can be sure that someone—your banker, a financial or investment advisor, friends or family, possibly even a fraudster—will want you to listen to their ideas for how you can invest those savings. It's important to know that all investment ideas are not created equal. The investment that works for someone you know isn't necessarily suitable for you.

Attitude

Be skeptical! Take a questioning attitude about every investment opportunity you come across. Then ask questions until you fully understand it. Not just of the person or institution making the offer, although that's important. Do your own research. Use the resources mentioned in this Guide. Get a second opinion. As an empowered investor, you're in charge.

Information

You don't need special software, a system, or somebody you think is smarter than you to make informed investments. You do need to know that the person you are dealing with is properly registered, what each investment will cost you, and—over time—how your portfolio of investments is performing.

UNDERSTANDING RISK & RETURN

As an empowered investor, you need to understand the relationship between risk and return and what returns to expect in today's market environment. Yet research shows that too many Canadians don't. That's a problem when so many are preparing for retirement, or already retired. If you're over 55, then you've reached a stage in life when your vulnerability as an investor is increasing.

Anyone relying on investment returns for income may worry about making ends meet, or running out of money later in life. This can challenge a person's usually prudent approach to investing. It can make investments offering higher-than-market returns look appealing. And when that happens, it's easy to downplay the risks.

You need to know what rate of return to expect in today's market, so you can spot a return that's improbably high. And you need to know that higher returns bring greater risks, including the risk that you could lose your entire investment.

All fees reduce your returns, so you need to know what they are, what you'll get for them, when you'll pay them, and where they'll be deducted. Also, you should regularly assess the performance of your investment portfolio and discuss your investment options with your registered investment advisor.

Skepticism about investment opportunities is never more important than when you're evaluating the relationship between risk and return. There's no such thing as a low-risk, high-return investment. If you hear of one, report it to the British Columbia Securities Commission (BCSC).

WORKING WITH AN INVESTMENT ADVISOR

Is your investment advisor registered? If your answer is yes, how do you know? If you think it doesn't matter because they work for a bank, you've known them forever, or you just can't imagine not trusting them, you might want to tap into your inner skeptic and think again.

Canada's investment industry employs tens of thousands of men and women who hold an array of titles, qualifications, certifications, and licensing or registration. These limit or expand what they can do for you. Knowing the services your advisor is legitimately permitted to offer, and what limitations they work under, is important. It can help you identify someone who's a great talker but doesn't have the training or education to provide appropriate advice. And it can keep you from relying too heavily on someone with a more limited product offering than you need.

ALWAYS USE A REGISTERED ADVISOR

Investment advisors in Canada who buy and sell securities or provide advice about specific securities investments must be registered by the securities regulator in each province or territory where they do business. They must also work for a firm that is registered. In BC, that regulator is the BCSC.

Registration helps protect you because we only register individuals and firms that are properly qualified. Working with a registered investment advisor is the only way to ensure that the laws governing advisor conduct can protect you. If you make the mistake of allowing an unregistered person to sell or advise you about an investment, you forego the protection of those laws. You also run the risk of involving yourself with someone whose intent is not to help you achieve your investment goals, but only to make a sale, suitable or not.

Never write a cheque to your advisor or your advisor's personal corporation. Always make cheques payable to the advisor's registered firm or to the applicable registered mutual fund company.

Never sign a blank form.

Don't expect (and never believe claims) that your investment advisor can better the market by getting you higher, or more consistent, returns than what similar investments are delivering. If the market overall is falling, the chance of your portfolio rising is remote.

ALWAYS CONDUCT A BACKGROUND CHECK

Knowing an advisor's credentials and background is a best practice of empowered investing. Even if you're satisfied with your advisor, we urge you to do it. Knowing what information exists for your benefit will be useful if you ever decide to change advisors. Meanwhile, it's a conversation you can take up with your current advisor. You can encourage others to check registration too—especially family and friends with less experience.

Canada has a national registration search database and a national disciplined persons list that you can access through the internet or by calling BCSC Inquiries.

Get started at the Advisor Check section in Informed Investing at *InvestRight.org*

National Registration Search database Here you can search for advisors by individual name, firm name, or individual and firm name. Is the firm registered? Is the advisor registered? Is their registration active? Make sure that the advisor's registration covers the services you need. An advisor registered to sell only mutual funds, for example, cannot sell you other kinds of securities. If you need help at this stage, including what to do if you can't find the subject of your search on the database, contact BCSC Inquiries.

National Disciplined Persons list Here you'll find out if an advisor was ever disciplined for bad practices. If the advisor you're checking is on this list, read everything! You'll need to decide how relevant the violation is to their ability to give you objective investment advice and meet your service expectations. If they have not been forthcoming about their history, or the violation was for dealing dishonestly with clients, report them to BCSC Inquiries and walk away.

Internet search Doing an internet search can bring you a surprising amount of personal and professional information about someone you're checking. But remember: a senior title or impressive community service record won't tell you if the person is a good fit for you. Also, results for the name you're searching are not a guarantee that you've found the right person. Be sure to evaluate the information you find on the internet with all other sources.

Advisor interview Once you have a short list of at least three registered investment advisors with no disciplinary history, be sure to meet them. Expect to have a two-way conversation. Even in a first interview, an advisor may ask you about your net worth, income and expenses, and investment goals. This isn't prying. The advisor you choose will need to know your financial situation to fulfill their "know your client" obligations. Just remember to go through the whole process, and don't make a hasty decision based on how good you feel about them.

THE ADVISOR-CLIENT RELATIONSHIP

The advisor you choose will work for you. Always remember that they derive their income from you and their other clients. The advisor-client relationship is a partnership of sorts, but you're the senior partner. And you both have responsibilities.

Advisor Your advisor has very specific obligations to you as a client. They include understanding your financial situation and risk profile, understanding the products they offer, recommending suitable investments, and spelling out conflicts of interest that could interfere with their ability to give you the service you need. Overall, they must deal with you fairly, honestly, and in good faith. Know that a good advisor won't dodge your questions. It's their job to explain things in a way that makes sense to you. If they don't, look for another advisor.

Client Your responsibility is to play an active role in understanding your investments. Be prepared to:

- Communicate clearly about your financial situation, investment goals, and risk tolerance and inform your advisor of any changes to this information.
- Ask questions until you fully understand each investment, including the fees you will pay.
- Pay attention to the information you receive from your advisor—account-opening documents, research materials, transaction records, and statements. Make sure the only transactions and fees on your statements are ones that you approved.
- If you're not sure about any investment, ask for a second opinion from another qualified professional, such as a tax accountant, lawyer, or certified financial planner.

Expect your advisor to:

- Make clear and specific recommendations
- Explain how each transaction fits into your portfolio
- Outline the risks involved
- Disclose the fees you will pay

Your advisor will not be able to:

- Recommend investments that are always profitable
- Act on vague or general buy-sell instructions
- Get better returns than comparable investments
- Predict market performance

MAKING INVESTMENT DECISIONS

A suitable investment is appropriate to your risk tolerance and investment goals in view of your life circumstances, investment experience, and overall portfolio. Every advisor registered to buy and sell investment products in Canada is required by law to recommend only suitable investments. Despite this legal obligation, it's still possible for you to end up with unsuitable investments in your portfolio. That's why it's so important for you to involve yourself in decisions about what your advisor buys and sells on your behalf.

Ask questions. Every time you speak with your advisor about buying or selling an investment, you'll want to ask at least these 5 questions:

1. What exactly is it?
2. What are the risks and potential returns?
3. What fees will I pay, now and later?
4. Is it suitable, given my risk profile and portfolio?
5. What will you and your firm earn, now and later?

Know your risk tolerance. Your risk tolerance is a measure not only of your willingness to accept risk but also your ability to lose money. Both you and your advisor need to consider both when assessing how suitable an investment is for you. There's no right answer to the question of how much risk you should take, although the rule of thumb is that the older you are, and the smaller your savings, the less risk you can handle. Never feel obligated or pressured to take on investment risk that makes you feel uncomfortable.

Do your homework. Always ask your advisor for their firm's research report on a proposed investment. You can also do your own research using public information that's online, at your public library, or in public sources such as SEDAR. All public companies are required to publish financial statements and other information to help shareholders make more informed investment decisions. The cardinal rule? Read it! If the investment proposal is for a private company investment, go to InvestRight.org and read our Guide to Investing in the Private Placement Market for Retail Investors.

CHANGES TO SECURITIES LAWS THAT EMPOWER YOU

Research shows that most investors don't have the answers to two basic questions about their investments:

1. What fees did I pay?

2. How did my investments perform?

That's why Canada's securities regulators have introduced new securities laws. Regulation under the Client Relationship Model Phase 2 (CRM2) requires your investment firm to share a new Annual Charges and Compensation Report and an Investment Performance Report with you. One report will provide detailed information on the fees you pay and the other report will illustrate the performance of your investment portfolio.

The goal of the new laws is to empower investors to have more informed relationships with their advisors. Clients should have started receiving the new reports in 2017. But there's no reason why you can't start asking your advisor now for more detailed information about the fees you pay and the annual performance of your investment portfolio.

WHAT TO EXPECT FROM THE NEW LAWS

Fee disclosure

- Before you buy or sell—what the cost will be, both now and later.
- Annually—the dollar amount of fees your account generated for the firm, from both direct charges to your account and fees paid to the firm by outside sources such as mutual fund managers.
- To learn more about the fees you pay, read our Fee Guide and use our Investment Fee Calculator to see how fees impact your returns overtime.

Annual performance report

- How much you deposited to your account and what your account is worth.
- Deposits and withdrawals during the past year and since the account was opened.
- Your personal rates of return over 1, 3, 5, and 10 years and since the account was opened. This information will allow you to assess how you are progressing towards your investment goals. Your advisor will tell you about the calculation method they use and explain to you in plain language what the return calculation takes into account.

EMPOWERED INVESTOR CHECKLIST

ALWAYS

- ☐ Be skeptical!
- ☐ Check to see if your investment advisor is registered.
- ☐ Check to see if the advisor has ever been disciplined for bad practices.
- ☐ Ask what fees you will pay for each transaction and what other compensation your advisor will receive for investments you own.
- ☐ Think of reasons not to buy before you agree to proceed.
- ☐ Ask questions, and keep on asking questions, until you fully understand each investment.
- ☐ Do some of your own research.
- ☐ Read the information you receive from your advisor.
- ☐ Ensure that the only transactions and fees on your statements are ones you have approved.
- ☐ Know the warning signs of investment fraud and report investment fraud to the BCSC if you see or suspect it.
- ☐ Know that higher returns = higher risk.

NEVER

- ☐ Sign a blank form.
- ☐ Write a cheque to your advisor or advisor's personal corporation.
- ☐ Expect your advisor to make investment decisions for you, act on vague buy-sell instructions, or recommend investments that are always profitable.
- ☐ Expect that your investment advisor can get you better returns than what the market is delivering.
- ☐ Feel obligated or pressured to take on investment risk that makes you feel uncomfortable.

BCSC INVESTRIGHT IS HERE TO HELP

The BCSC's InvestRight investor education website gives you the tools to research and assess potential investments, conduct background checks, subscribe to investor news, and more. Through BCSC Inquiries, we welcome your questions about investment advisors, investment firms, or specific investments. If you see or suspect investment fraud, call, email, or go online to report it right away.

INQUIRIES

REFERENCES

British Columbia Securities Commission (BCSC)
www.bcsc.bc.ca

BCSC InvestRight
www.investright.org

Investment Fee Calculator
https://www.investright.org/investing-101/investment-fee-calculator/

Resources
https://www.investright.org/resources/

ABOUT THIS GUIDE

This guide is published by the British Columbia Securities Commission (BCSC) through its InvestRight investor education program. The BCSC is the independent Crown agency responsible for regulating BC's capital markets. We protect investors by overseeing the Securities Act. Our job is to ensure compliance with the Act, take enforcement action when it is breached, and educate British Columbians about how to protect their savings from unsuitable and fraudulent investments.

The Guide provides information for educational purposes only and does not constitute either investment or legal advice. The BCSC is not responsible for any losses or inconveniences suffered by persons using this information. We encourage readers to seek investment advice from a registered advisor, or independent legal advice, as necessary.

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Because the BCSC updates content as changes occur, always check to see if you have the most current version.
If in doubt, contact BCSC Inquiries.