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AN 'investorism' RESPONSE TO OSC RULE 81-503

TO: Daniel P. Iggers, Secretary, Ontario Securities Commission
FROM: Joe Killoran
DATE: October 16, 1996

SUBJECT: The Need For Better Unitholder Disclosure That Educates

Attached please find my passionate, *investorism* championing, response on behalf of all mutual fund unitholders to OSC Rule 81-503 covering *Sales Practices Applicable To The Sale of Mutual Fund Securities* that was floated for public comment on 08/29/96. ***“Better disclosure induces ‘investorism’ while enhancing industry integrity.”***

Mutual Fund Sales Practices, OSC Rule 81-503, Omissions & Oversight

- 1. If the licenses of individuals selling securities are held by their employers, i.e. an owner member of the three ‘cartel’ clubs (stock exchanges, now self-regulating IDA and IFIC), shouldn’t investors be provided with a certificate of health that states the advisor / broker / dealer, etc. is free and clear of all financial advice impairing chemical dependencies, i.e. drugs, alcohol, etc. and / or not going through a severe loss of loved one (death or marriage) grieving process, and / or not servicing an unreasonable amount of monthly debt that may subliminally induce more transactions in order to generate commissions, etc. Major league sports have a zero tolerance license to test our sports heroes (NBA, NHL, NFL, MLBB, etc.) without notice, at anytime. When will we recognize (proactively) that our sacred retirement savings advice also deserve and must receive the same financial euthanasia avoiding degree of integrity scrutiny and protection?**
- 2. We live in a world of specialties that are in some instances defined by titles, or specialties, i.e. a podiatrist is a foot doctor, an ophthalmologist is an eye surgeon (is higher qualified than an optometrist), a gynecologist and a urologist are plumbers, etc. But when it comes to disclosure by a financial advisor of their specialties to existing and prospective clients, there is no required disclosure? A detailed, quarterly updated, one page financial practice disclosure snap shot, should be provided. It could state license(s) held since when, total client assets by asset product categories with the top five % subsections, plus most recent annual percentage revenues by category, etc.**

SAMPLE: Financial Advisor / Broker / Dealer Profile As Of (_ / _ / _)

NAME: _____ **License(s):** _____ (_ / _ / _)
TOTAL Client Assets: \$ _____ **GROSS Ann. Comm.: \$** _____

<u>TOTAL Client Assets By \$</u> <u>Within Investment Category</u>	<u>TOTAL \$ % By</u> <u>Asset Category</u>	<u>TOTAL % Of</u> <u>Income & Com.</u> <u>Last 12 Months</u>
Common Stocks (# of stocks _____)	_____ %	_____ %
TSE 35%		
NYSE 24%		
NASDAQ 18%		
BC 15%		
Other 8%		
Total 100%		
Fixed Income	_____ %	_____ %
Strips 35%		
MBS 30%		
Bonds 20%		
GIC's 5%		
Other 5%		
Total 100%		
Short Sales	_____ %	_____ %
Real Estate	_____ %	_____ %
Options & Derivatives	_____ %	_____ %
Covered Calls	100%	
All Other	<u>NIL</u> %	
Total	100%	
Mutual Funds / Wrap Products	_____ %	_____ %
Trimark 24%		
Fidelity 19%		
Templeton 15%		
GT Global 12%		
Other 30%		
Total	100% (Totals: Mutual Funds __, Wrap Products __)	
Tax Partnerships	_____ %	_____ %
Insurance Products	_____ %	_____ %
Annuities 48%		
L & H 22%		
Property 15%		
Disability 8%		
Other 7%		
Total 100%		
TOTALS	100%	100%

<u>Names and # of</u>	<u>Insurance Companies Where Business is Placed</u>			
<u>Annuities</u>	<u>Life & Health</u>	<u>Property</u>	<u>Disability</u>	
Ind. Alliance 45%	TransAmer 65%	ABCD 80%	Paul Rev 100%	
Crown Life 30%	Canada Life 25%	EFGH 15%		
Standard 20%				
Other 5%	Other 10%	Other 5%	Other <u>NIL</u>	
Total 100%	Total 100%	Total 100%	Total 100%	

Is it not oxymoronic to be implementing the mutual fund sales practices cart before the necessary corporate governance horse issues have been addressed, discussed, resolved and disclosed?

With the cold war in remission and the symbolic tearing down of the Berlin wall, the new global war is being fought in the economic trenches of capitalism. It is then oxymoronic that we are willing to define sales practices for a financial product before we first address the investor educating, disclosing, protecting and policing corporate governance mutual fund integrity building issues in order to avoid a capitalism apocalypse induced by *investorism* ignorance!

Mutual fund investors extend discretion to a fund manager / company to hopefully achieve above average returns with limited risk while providing full financial disclosures. How is it then that the following issues still have not been addressed and properly disclosed to unitholders:

- ❶ **A Statement of Investment Policy** that defines asset category investment parameters. Pension managers are required to file formal investment parameters by asset category with the Pension Commission of Ontario. Why then aren't mutual funds required to make the same investor integrity educating disclosures? With 1/3rd of all mutual funds represented by tax deferred (RSP, DPSP, RESP, etc.) savings and with many companies now operating group RRSPs in lieu of a formal pension plan, it seems prescient that mutual funds be required to adopt better disclosure systems! When will we proactively define our retirement savings to be sacred, to be financial euthanasia avoiding, investments?

Canadians have demonstrated a reactive penchant since 1867, the beginning of our time, to spend multiple-millions on Royal Commission autopsies rather than to proactively spend our resources wisely in a timely manner to foresee and enact changes today that are needed for tomorrow.

Our savings are sacred. The movement towards user paid for services is growing. On average, 90% of the total cost of medical services consumed by an individual over a lifetime is during their final 12 months of life. Our savings are the sacred medicine needed to stave off medical and financial euthanasia!

- ② In the U.S., money managers are required by law to vote their cumulative common stock holdings. In Canada, our disneyland north, money managers are neither required to vote the stock nor are they required, when they do vote, to report to the beneficial owners how many shares they have voted, how and why! This is the most serious undisclosed abrogation of power, politics, corporate governance, etc., that has ever been allowed. It is being abused by many money managers who vote shares in their trust in their own self-interest rather than the best interest of the beneficial owners of the securities! It is also a despicable corporate governance travesty that we even have to address a lack of disclosure issue to the beneficial mutual fund unitholders! It is also shameful that no mutual fund manager has proactively stated their philosophy on how they vote shares in their prospectus and / or proactively listed in their quarterly fund portfolio financial statements their cumulative voting record of how many shares they have voted with a justification for how they have voted.

Please note: even the practice of a mutual fund manager giving the management of a company a proxy to vote the shares can mask an undisclosed self-interest / conflict of interest vote by the mutual fund manager! Also, heaven forbid, it can actually be a competitive disadvantage for a mutual fund manager to jump the regulator required starting gun required to provide the beneficial mutual fund unit-holders with more disclosure about what is actually happening to and with their money!

A Real Life 'Obdurate Rump' Lack of Voting Disclosure

On July 22, 1996, Trimark's cumulative (between three funds) 7,590,300 common shares of Southam (STM) were voted against Conrad Black's 'erudite' minority owning rump position to oust five directors representing minority STM shareholders. But, while the story about why Trimark's STM vote was never counted by the trustee and what voting systems Trimark has implemented since then should be communicated by Trimark to all unitholders, there is nothing contained in Trimark's brand new 08/96 prospectus about their philosophy of voting common stock positions in unitholders best interests! And you can bet your ass, that Trimark will not disclose anything about this *investorism* educating, disclosing and protecting corporate governance issue in their September 30, 1996, Quarterly Fund Review publication! Who's at fault for not requiring better unitholder disclosure, Trimark and / or the OSC?

- ③ Better disclosure of the *RISKS* taken by fund managers to achieve the absolute historical return *REWARDS* are required. For example, listing the top 10 performance contributing positions over the reporting period plus a 2nd column with the absolute performance achieved by the individual position should provide better disclosure and educate investors at the same time! Also, fund managers should be required to list several different portfolio *RISK* factors in their quarterly financial statements, including previous portfolio beta, standard deviation numbers, etc., and looking forward - days of portfolio liquidity, etc.

Robert Wilson's comments in the May 20, 1996, issue of Barron's accurately define the daily investment performance pressures and new business acquisition practices that are driving money managers to achieve and maintain superior peer group investment performance rankings on a now daily fused treadmill while at the same time prospecting to grow their base of fee generating clients assets.

“No, no. I have changed managers who haven't been doing well - regardless of their philosophies. But like Walter (Mintz), I'm looking for good managers. I don't really care how they make money, as long as they make it.”

--ROBERT WILSON, Barron's , May 20, 1996

Bottom Line: Mutual fund investors must be told how historical performance returns were made and who got hurt along the way! The pink slip pandemic of the '90s has heightened our values and morals.

- ④ Investors deserve better disclosure of the relative *versus* absolute investment performance bonus remuneration formulas employed by most mutual fund companies, especially when this bonus remuneration formula influences and increases the *RISKS* being taken by the manager to produce the needed performance *REWARDS* to achieve and / or maintain their maximum bonus remuneration!
- ⑤ Canadian citizens investing in Canadian mutual funds deserve immediate protection from a lack of securities regulation to protect their ability to buy and sell Canadian mutual funds in their tax deferred (RSP, RPP, DPSP, RESP, etc.) accounts that must remain in Canada even if the account holder should move to another country, i.e. be temporarily assigned abroad by their employer, moved to another country to retire and / or avoid / evade taxes, etc. It is a travesty that present mutual fund securities laws do not let these Canadians maintain their same Canadian based financial advisor when they move outside the country and that any Canadian citizen with a foreign address is excluded from buying a Canadian mutual fund including in

a tax deferred Canadian account! This lack of security regulator attention means that these Canadians are denied the benefits of Canadian mutual funds, i.e. professional management, portfolio diversification, etc.!

**Jack Welch's Gospel for Business Survival . . .
"Boundaryless Behaviour, Speed and Stretch"**

Jack Welch Jr., the highly respected business futurist at General Electric, began defining our new global world several years ago. GE is already conducting business in the twenty-first millennium. Can mutual fund companies, IFIC and our securities regulators admit that they have truly embraced Jack Welch's philosophies in a timely *investorism* educating, disclosing, protecting and policing manner? Jack Welch's letter to shareholders in GE's 1993 annual report is still prescient.

- ① ***Boundaryless Behaviour:*** is the sole of today's GE. Simply put, people seem compelled to build layers and walls between themselves and others, and that human tendency tends to magnify in large, old institutions like ours. These walls cramp people, inhibit creativity, waste time, restrict vision, smother dreams and, above all, slow things down.

Leaders at GE are now subject to what we call a 360° evaluation, meaning they are rated not just by those above them, but by their peers and subordinates as well. This has become a powerful tool for detecting those who "smile up and kick down." To be blunt, the two quickest ways to part company with GE are, one, to commit an integrity violation, or two, to be a controlling, turf-defending, oppressive manager who can't change and who saps and squeezes people rather than excites and draws out their energy and creativity.

- ② **Speed** - the faster the pace of change, the bigger the advantage. Focusing on the speed of our Order-to-Remittance cycle - from the time of order to when we get paid - has increased our inventory turns 27% in two years, throwing off almost \$2 billion in cash in the process. Every single-digit improvement in inventory turns produces \$1 billion in cash to reinvest for tomorrow.
- ③ **Stretch** is a concept that would have produced smirks, if not laughter, in the GE of three or four years ago, because it essentially means using dreams to set business targets - with no real idea of how to get there. If you do not know how to get there -- it's not a stretch target. We certainly didn't have a clue how we were going to get 10 inventory turns when we set the target. But we're getting there, and as soon as we become sure we can do it -- it's time for another stretch. The CEO of Yokogawa, our Japanese partner in the Medical Systems business, calls this concept "bullet-train thinking," i.e. if you want a ten-miles-per-hour increase in train speed, you tinker with horsepower - but if you want to double speed, you have to break out of both conventional thinking and conventional performance expectations.

Stretch allows organizations to set the bar higher than ever dreamed possible. Whether it be a 100-fold improvement in quality, 10-fold reduction in product development time or margin rates never before dreamed of - the openness, candor and trust of a boundaryless behaviour, fast company allows us to hang those dreams out their, in view of everyone, so that we can all reach for them together.

We run this Company on a single premise: the only way to win, in the brutally competitive global environment in which we operate, is to get *more output* from *less input* in all 12 of our businesses and, by doing so, become the lowest-cost producer of high-quality goods and services in the world.

Please see the exhibit section for a complete copy of Welch's letter to GE shareholders in their 1993, 1994 and 1995 annual reports. Can our governments say with honesty that they have provided our securities regulators with the financial resources to employ, remunerate and bonus a proactive entrepreneurial *investorism* educating, informing, protecting and policing culture of capitalism abusing crime stoppers? The following compensation section of Jack Welch's 1995 annual report letter to shareholders best illustrates what is missing, besides a national securities body, from our Canadian securities regulators.

GE Compensation

To reinforce the boundaryless and stretch behavior taking root across the Company, we adapted our compensation system. When we began our journey in the 1980's, about 400 of the senior people at GE received stock options. Today, 22,000 individuals, at all levels, have options, and thereby have a clear financial incentive for driving total Company performance by doing everything they can to help their colleagues in their own, or another, GE business.

Today, stock option compensation, based on total GE performance, is far more significant than the salary or bonus growth associated with the performance of any individual unit or business. This aligns the interests of the individual, the Company and the share owner behind powerful one-company results.

Sales Practices versus The Management of Wealth

OSC Rule 81-503 presently only covers Mutual Fund Sales Practices. Shouldn't Rule 81-503 be expanded, in the best interests of *investorism* education, disclosure and protection, to also encompass the responsibilities entailed in the management of wealth? For example, how many different individual stock positions and / or mutual funds (excluding money market funds) can an individual financial advisor / broker / dealer, etc., be expected to know intimately?

Truth be known, the sale of securities are a commission transaction generated business where success is measured and rewarded (with titles, fancy offices, peer chart listings, etc.) by commissions generated

and success in prospecting, i.e. growing assets under administration, etc., not by the actual investment / wealth management performance achieved by an advisor / broker / dealer on behalf of individual clients!

There must also be better disclosure to investors of the amount of time spent by a financial advisor / broker / dealer on a day to day basis to stay abreast of products, portfolios, research, continuing financial education, etc.; the amount of time spent prospecting for new clients; and the amount of time actually spent managing existing assets. Proof of the lack of disclosure of the latter premise is the failure by the employer broker / dealers to produce, at least quarterly, statements for their investor clients with individual, cumulative category and total rolling annualized portfolio returns that are net of all commissions, MER and advisor fees and compared to relevant benchmark indices!

As consumers, we are free to ask and / or be told by lawyers and accountants what their gross per hour billing rate is. But, the same is not true for an investor. Investors don't necessarily know the total commissions that they pay, i.e. strip coupons, DSC acquisition commissions paid, mutual fund trailer fee commissions, etc., are undisclosed and not listed on client statements. It is almost impossible for an investor to equate how much time they can expect / should expect their financial advisor / broker / dealer to spend with them over the course of a year. The converse to this is also true. There are many small investors who expect, demand and take an inordinate amount of their advisor / broker / dealer's time for the revenues they generate!

How do we proactively educate investors to the following universal lawyer, accountant, financial advisor / broker / dealer Gross Billings per Hour annualized chart? The following chart illustrates the cost difference between financial advice dispensed over-the-counter *versus* advice dispensed in a private office or boardroom over a gourmet lunch and coffee served with elegance on china and antique silver tea services.

The Hourly Rate To Bill and / or Earn Gross Revenues (thousands -\$000s)

Hours

<u>/Year</u>	<u>\$300</u>	<u>\$400</u>	<u>\$500</u>	<u>\$600</u>	<u>\$700</u>	<u>\$800</u>	<u>\$900</u>	<u>\$1,000</u>
1,600	\$188	\$250	\$313	\$375	\$438	\$500	\$563	\$625
1,700	\$176	\$235	\$294	\$353	\$412	\$471	\$529	\$588
1,800	\$167	\$222	\$278	\$333	\$389	\$444	\$500	\$556
1,900	\$158	\$211	\$263	\$316	\$368	\$421	\$474	\$526
2,000	\$150	\$200	\$250	\$300	\$350	\$400	\$450	\$500
2,100	\$143	\$190	\$238	\$286	\$333	\$381	\$429	\$476
2,200	\$136	\$182	\$227	\$273	\$318	\$364	\$409	\$455
2,300	\$130	\$174	\$217	\$261	\$304	\$348	\$391	\$435
2,400	\$125	\$167	\$208	\$250	\$292	\$333	\$375	\$417
2,500	\$120	\$160	\$200	\$240	\$280	\$320	\$360	\$400
2,600	\$115	\$154	\$192	\$231	\$269	\$308	\$346	\$385
2,700	\$111	\$148	\$185	\$222	\$259	\$296	\$333	\$370

Integrity: The Need To Induce Education On Investors

“My experience is that individual investors -- to paraphrase an old and tired cliché -- have little interest in learning how to fish and are most interested in having fish served to them perfectly deboned.”

--LASZLO BIRINYI JR., Forbes Magazine, page 331, July 15, 1996

A key undisclosed to the investor piece of information in the mutual fund sales process is who actually owns the client account? Is it owned by the employer broker / dealer or can the investor's account be sold by the individual financial advisor / broker / dealer when the individual representative (estate sale) and / or retires?

3. **“Better Disclosure, A Better Way” Sales Disclosure Document**
The need for a one page point of sale / purchase ‘better disclosure’ mutual fund document that contains the most salient items from the prospectus. The Province of Ontario dictates both the uniform new car sales contract disclosure agreement that must be used plus the penalties when it is not completed properly. It is an investorism facade to leave specific mutual fund transaction details only in the prospectus for investors to read and comprehend! Tom Hockin is on record stating that “mutual fund prospectuses are actually written by lawyers to hide things!” The mutual fund companies are also allowed to monotonously present their prospectus(es?) in such a way as to actually intimidate and dissuade investors from taking the time to read them!. And of course, the transaction sales invoice printed by the mutual fund distributors fails to disclose any specific financial transaction details, i.e. acquisition commissions paid, DSC redemp-

tion terms, conditions (book versus market values), annual ___ % MER that includes ___% trailer fee, etc.!

4. **An Industry Standard 'Know Your Client' (KYC) Document**
The need for an industry standard KYC that does not infringe upon the privacy of investors and that does not allow the KYC information gathering process to be used as a ruse to gather additional nonrelevant information that will be used to facilitate the cross selling of other products and services. This is especially critical if the broker / dealer is owned by a Bank or Trust Company. Also, a copy of the new client KYC must always be sent to the investor for verification.

5. **One Page KYC Suitability Leverage Scenarios Disclosure Document**
The need for an industry standard leverage agreement that columnizes the potential financial scenarios in black and white, with blanks to be filled in for the good, the bad and the ugly financial scenarios. As well, how long should the leverage be for and are DSC mutual funds appropriate vehicles to be used for leverage purposes? Do we need a better in black and white leverage release document? Yes, because society failed to teach generations of Canadians about either the plus and/or minus multiplier consequences of leverage, we now have a moral obligation to spell out the financial '*caveat emptor*' protecting leverage possibilities. Having done this, both society and securities regulators will have done their job. We are not and can not be expected to protect individuals from self-inflicted stupidity!

6. **One Page Mutual Fund Redemption / Switch Disclosure Document**
The need for a simple one page *investorism* protecting mutual fund redemption / switch disclosure document. There is excellent merit in cloning the insurance industry practice of completing a detailed documentation when a new insurance policy sale will replace and cancel an existing policy.

7. **Need To Create A Mutual Fund / Securities Ombudsman Position**
The need to create an industry non-related 'Lone Ranger' Mutual Fund / Securities Ombudsman position that will be empowered to:
 - a) resolve, adjudicate and / or provide information on the choice of legal avenues available to an abused investor.
 - b) to always passionately champion with a proactive entrepreneurial flair for the timely implementation of always evolving new *investorism* educating, protecting and policing disclosure systems. It's a fact of life, anything to sell financial prod-

ucts happens yesterday, while better disclosures to educate and protect investors take too many years to implement!

8. **Appoint Investor Protecting Members To The IFIC Board Of Directors**

No mutual fund sales practice code will ever be complete and fully *investorism* friendly, educating and protecting until IFIC appoints individuals to represent unitholders (consumer advocates, etc.) to its board of directors. IFIC's letterhead motto "*Serving the investment fund industry in the interest of the investing public,*" is a facade without truly independent and unrelated IFIC board members who represent and champion the best interests of all unitholders!

There are several *investorism* deceiving word use allowances and misnomers that must be restricted and / or changed. They include:

- a) **'Mutual' and 'Fund'** The use of the words 'mutual' and 'fund' must be restricted to protect investors from the smoke and mirrors illusions found circling kitchen tables. All financial products using the words 'mutual' and 'fund' do not necessarily meet the same regulatory rules and regulations. For example, how are uneducated investors to know the differences between a mutual fund, a segregated fund, a pooled fund, a labour fund, a closed-end fund, etc.?
- b) **'Institute' versus 'Cartel'** Is it not *investorism* deceiving to allow a trade association that creates, produces and sells financial products to represent themselves as an educational 'institute'? A better choice of title would be **The Investment Funds Cartel of Canada!**

9. **Canadians Would Rather Pay More Than Ask To Pay Less**

Is the deferred sales charge (DSC) nonnegotiable process of selling mutual funds actually legal under our federal Competition Act? It's a shame, too many Canadians are so timid and shy, they would rather pay more than ask to pay less! They willingly accept the one size fits all DSC pantyhose '*5% sales solution*' process that lacks economies of purchase scale and that also lacks a nonnegotiable acquisition commission fees paid with resulting redemption period DSC mutual fund sales process. These Canadians lack the education, knowledge and / or courage to ask, to negotiate to pay less, to purchase a front-end load fund at a reduced to zero commission acquisition fee!

Bottom Line: If Canadians can legally negotiate to purchase economies of scale size Canada Post stamp purchases for less than the face amount (i.e. 10% off prior to GST calculation) from a Canada Post franchisee, surely our Federal Competition Bureau has ensured that Canadians can negotiate economies of scale DSC and MER mutual fund costs! If not, then what is the name of the *inves-*

torism patron protecting saint at the Competition Bureau that mutual fund investors should be praying homage to?

10. **The Trailer Fee Commission - A Sophisticated Form Of 'Tied Selling'**
The mutual fund 'trailer fee commission' is the most sophisticated form of financial 'tied selling' ever devised and the federal 'Competition Act' is blatantly out of date and not protecting mutual fund investors! Please see my attached July 12, 1996, MEMO to Tracy Lemay, the (unsigned and undisclosed) writer of The July 12, 1996, Financial Post editorial. Lemay told me towards the end of August that my memo letter was not published by The FP because it was addressed to him rather than as a *Letter to The Editor of The FP!*

11. **Mutual Fund Trailer Fee Grid versus Distributor Grid Remuneration**
While OSC Rule 81-503 effectively will eliminate the previous trailer fee commission grid system paid by and fully disclosed in the prospectuses by the mutual fund companies, Rule 81-503 fails to address the advice skewing commission payout grid systems employed by the employer broker / dealers. While a 50% improvement is better than nothing, failing to eliminate all remuneration grid systems associated with mutual fund sales, will be an integrity facade!

12. **Misleading Financial Advertising & Media Performance Comparisons**
The need to discuss and evolve better financial comparison disclosures, i.e. risk / reward, portfolio turnover, what investments contributed to previous performance returns, book plus market values (% of capital gains in the portfolio), etc. Based upon the recent abysmal lack of product knowledge results of studies done on mutual fund investors, a case can be made that the presently allowed "arouse and entice" advertising done by the fund companies and the monthly financial comparison charts printed by the media are both forms of Misleading Advertising under Industry Canada's Federal Competition Bureau's Bulletin (4 - 1995) attached. Based upon the lack of investor knowledge, the financial advertising, comparative advertising and monthly investment performance rankings meet the Misleading Advertising guidelines of the Federal Competition Bureau when the following decision making information is not included:
 - the MM/DD/YR that the fund has been under the present manager's direction.
 - a separate Trailer Fee column beside the MER column.
 - portfolio turnover plus dividend history for each absolute historical investment performance period listed.

- both book and NAV unit values plus a % Capital Gains column. Do investors really understand that for taxable pools of money, this is a classic example of the famous “you can pay me (capital gains taxes) now” Fram oil filter commercial!
- for fixed income funds, minimum credit ratings, yield and average term to maturity plus duration columns.
- a quartile ranking for the fund that relates to the term and time period used to calculate the fund managers investment performance remuneration bonus, etc.

13. **Monitoring Mutual Fund Seminar Transaction Inducing \$hill\$**

The need to discuss and establish the licensing, accreditation and monitoring of mutual fund seminar transaction-inducing \$hill\$.

“There is something rotten in the State of Denmark”

when no consumer / investor medium (newspapers like The FP, The Globe, The Toronto Star, etc.) would touch Lisa Grogan-Green’s July / August 1996 Investment Executive article on the (mail order “dr.”) pedigree of Jerry White, especially when two of Lisa Grogan-Green’s first three complimentary article phone calls were from Ellen Roseman at The Globe & Mail and Bruce Cohen at The FP! Why did Rod McQueen’s 10/12/96 article on “dr.” Jerry White take so long?

While many people may be complimenting Harold Hands, the incoming Chairman of IFIC, for his comments to the media on September 27, 1996, on the above issue, IFIC’s response is too little and too late. IFIC knew about a planned fall 1996 program by the *CBC Fifth Estate* on the mutual fund \$hill\$ on April 22, 1996. Why did IFIC wait five months to publicly acknowledge the questionable credibility, pedigrees and conflicts of interest of the mutual fund company (IFIC member) bought and paid for transaction inducing seminar \$hill\$?

14. **The Next Phase of Mutual Fund Sales Morality Issues Are Here Now!**

The need to publicly disclose the subliminal legitimization and advertorially compromised power of media to induce mutual fund sales, the practice of undisclosed trickle reprint fees to writers, the seduced and compromised by cash speaking fees, etc. During the 1996 RRSP hunting season, Ellen Roseman was paid \$2,500 to speak at a Burlington seminar. When asked by the seminar organizing / paying broker, Roseman agreed and did speak positively about one particular fund group *versus* another fund group. Did this speaking

act for money by Roseman breach the years of subliminal Globe and Mail make-up of her as a to be trusted consumer advocate?

While OSC Rule 81-503 should finally bury the despicable practice of third party mutual fund sales incentive seducing *FREE* trips, a practice that was buried by the late Charles Salter's 'moral suasion' prior to his early 1990s death from cancer, Rule 81-503 may finally allow the will and soul of Salter to rest in peace. While this burial of mutual fund free trips is six years too late, when and how long will better *investorism* integrity have to wait for the securities regulators to address the subliminal media inducing sales practices being bought and paid for by the mutual fund manufacturers / distributors?

Mutual funds have quickly risen to become the patron saint of the historical Holy Trinity (i.e. automotive, real estate and grocery) of untouchable advertisers shielded from any negative editorial stories.

15. The Lack Of Fine Print Integrity, Ease Of Readability, Comprehension, etc.

The need to clinically demonstrate and show the lack of readability and integrity of the 8" to 13" one column wide fine print disclaimers and how their monotonous presentation allowed in / by National Policy 39, is an *investorism* facade, especially for our demographically aging population! Who will provide the funding (OSC or IFIC?) so that I can prove the above claims with the following qualified individuals:

- a) my esteemed father-in-law, Dr. James F. Ballantyne, ophthalmologist and past-President of the self-regulating Ontario College of Physicians and Surgeons (1979-80), and
- b) professors at my alma mater Western Business School.

Is The Globe and Mail advertorially compromised from analyzing the fine print in their September 19, 1996, mutual funds section? Ads by RB Action Direct, TD Green Line, Altamira, Scotiabank and Trimark, all appear to abuse editorial readability copy guidelines! Who passes judgement on these ads and for example, the lack of readability integrity of Nesbitt Burn's KYC Terms and Conditions and Focus mutual fund disclaimers? Do these examples represent Ed Waitzer's comment that, "The key is to ensure that the interests of investors come first in the minds and actions of market participants."

Also, what is the correlation in The Globe and Mail between the full two page centre spread ad by BPI Mutual Funds in the September 19th issue and the BPI editorial articles on page C2 of that same issue and on page B20 of the September 28, 1996, Globe? Who is educating, disclosing, protecting, policing and championing the subliminal mutual fund media sales practices on behalf of *investorism*?

Finally, is Nesbitt Burns' (NB) undisclosed to their clients' practice of charging the 38 mutual funds on their recommended list a fee of \$15,000 each to defray marketing and seminar costs morally ethical? Should NB be allowed to justify this practice by hiding behind their internally constructed '*Chinese walls*?' On behalf of *investorism*, who's qualified and / or under what jurisdiction does the passing of judgement on the ethics, morality and integrity of this NB example of undisclosed to the client mutual fund sales practice fall?

16. **Where's The Beef - The Mutual Fund Crime Stopping Police!**
 No proposed Mutual Fund Sales Practices Code will ever be complete until it also documents details of the creation of a dedicated investorism protecting and policing *Crime Stoppers* unit that will act upon anonymous tips and that will have the power to enforce the rules with punitive publicly disclosed fines, suspensions and permanent banishment from ever working again in the financial industry. This *Crime Stoppers* unit must also be empowered to use computer neuron screening of all mutual fund sales data to proactively identify anomalies that require immediate further investigation.
17. **Stromberg Equivalent To Cash Sales Seducing Incentive Awards**
 In order to ensure that the terms and conditions of OSC Rule 81-503, Section 5.4 is not abused, i.e. that limit the provision of "non-cash promotional items" of minimal value reminder type advertising items to an annual maximum aggregate value of \$150 per representative and that Rule 5.5, i.e. allowable items like occasional meals or drinks, tickets to sporting events, concerts, etc., are not abused, we must create 'The Annual Stromberg Equivalent To Cash Sales Seducing Incentive Gold, Silver and Bronze Awards.' Winners and honourable mentions will all go straight to jail, will not be allowed to pass GO and collect their annual bonuses and they will be fined \$250,000 (gold), \$200,000 (silver), \$150,000 (bronze) and \$100,000 (each honourable mention) with 50% of the fine being paid income tax free to the may remain anonymous nominator, i.e. the snitch!

I would like to proudly begin the nominations for the first Annual Stromberg Equivalent To Cash Sales Seducing Incentive Awards with the following publicly disclosed nominations:

- **Trimark Mutual Funds for their September 24, 1996, "invites you and a guest" to join us for an evening beginning with a gourmet dinner at il Fornello followed by front row seats to see André-Phillippe Gagnon at the Royal Alexandra Theatre.**

- GT Global Mutual Funds for their \$50 long-distance, equivalent to cash, dialing card that is sent out to all mutual fund sales representatives (broker / dealers) as soon as they reach \$500,000 in sales in the GT Global Telecommunications Fund.

18. **A Lack of Confidentiality = A Pre-Emptive Strike Against Responses**

The lack of confidentiality in the terms of reference for responses to the OSC's Proposed Rule 81-503 are a pre-emptive strike against every gainfully employed financial industry participant with a conscience who may wish to respond truthfully with what is really needed to improve the integrity of the mutual fund sales practices rule. The terms of reference for responses has effectively muzzled honesty with the knowledge of identification which carries with it fear of being permanently labeled a snitch with immediate job / career termination and a permanent financial industry loose canon label with a forever employment chain and blackball for being a conscientious, financial campsite improving, truthsayer!

The need to generate *investorism* educating, disclosing, protecting and policing responses to the proposed OSC Rule 81-503 deserved more consideration, better understanding and job / career protecting confidentiality for respondents from and by the OSC! If a majority of the broker / dealers employers have policies that sanction their employees with immediate termination of employment if they speak to the press, imagine the consequences when the same employee responds, without anonymity, to a request by the OSC to provide the OSC with truthful comments about the proposed new Mutual Fund Sales Practices Rule 81-503!

The Bottom Line On Being A Truthsayer

“Our real slice of life faces show that we're all afraid to say or do anything about any indiscretions, illegalities, and / or morality issues that we see, (unknowingly) participate in and / or know about.

Our mirrored facades have been compromised.

We can't tell the truth for fear of leaving, through a process of elimination, our own distinctive truthsayer finger print. We also fear that our identification will lead to guilt through association.

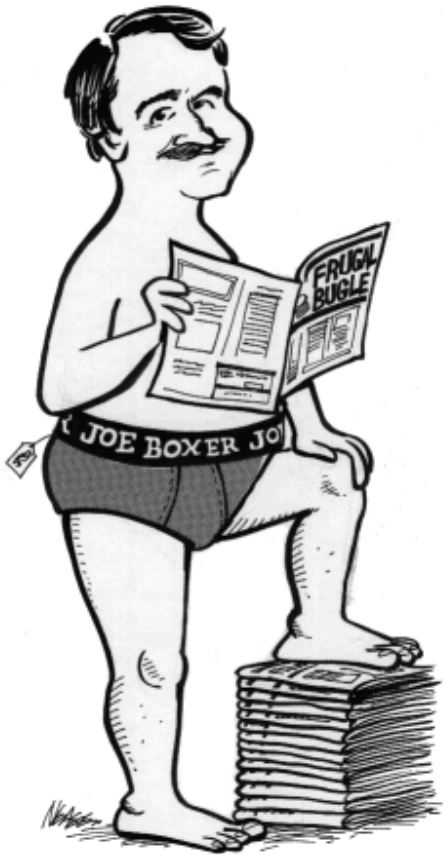
The “I don’t know” syndrome has been ingrained in us since our childhood. Why aren’t we willing, why don’t we report and tell the truth about financial indiscretions and improprieties that we see? Why? Because we value our jobs, our families, our safety, our lives, etc.

--THE FRUGAL BUGLE, November 1995 and October 1996

In conclusion, while

“Sunshine is the greatest disinfectant!”

. . . . without the proper anonymity guaranteeing crime stopping mechanism, being a truthsayer is a permanent form of employment suicide!



Clean Fresh Underwear

Best regards and Hie Silver,

**c.c. Honourable Jean Chrétien
Honourable Paul Martin Junior
Honourable John Manley
Honourable Doug Peters
Honourable Senator Michael Kirby
Ed Waitzer, Chairman, OSC
Glori Stromberg, Commissioner, OSC**

Harold Hands, Chairman, IFIC

Tom Hockin, President, IFIC

Joe Oliver, President, IDA

Rolie Fleming, President, TSE

Ross Archibald, UWO Ivey School of Business

Mike Leenders, UWO Ivey School of Business

Arthur Labatt, President, Trimark

Media Embargoed Until Nov. 2, 1996

Lisa Grogan-Green, Investment Executive

Dale Ennis, Canadian Money Saver

Paul Moore, CBC Market Place

Chevreau, Cohen & Lemay, The FP

Mayers & Hemeon, The Toronto Star

Howlett, Bell & Roseman, The Globe & Mail

Ross Laver, Maclean's Magazine

Deirdre McMurdy, CTV Canada AM

Ron Chalmers, The Edmonton Journal

Michael Kane, The Vancouver Sun

Ken McQueen, The Ottawa Citizen