

The value of professional advice

by Peter Intraligi



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Recently, one of our company's core beliefs — that investors are best served by skilled, principled and knowledgeable financial advisors — has come into question in the mainstream media. Some of the commentaries and assertions about advisors have been so outrageous that it prompted me to write this article.

Our business has and always will be guided by putting the interests of investors first. We're passionate about our clients' success and we believe in the continuous pursuit of performance excellence. Putting investors' interests first is not a motto, it's a culture. It drives our decisions and shapes our organization. This is why we:

- Partner with skilled, principled and knowledgeable financial advisors
- Put controls in place to prevent inappropriate fund activities like market timing abuse
- Provide industry-leading investor and advisor education
- Act as an advocate on behalf of investors on important issues like Harmonized Sales Tax and Point of Sale

Invesco recently introduced PowerShares® Funds in Canada as a means of giving Canadians access

to what we believe is an excellent product, Invesco PowerShares exchange-traded funds (ETFs). These hybrid products deliver the key benefits of ETFs in a simple, tax-efficient mutual fund vehicle. As with all of our mutual funds, we included advisor compensation in the management fee for the front-end purchase option (Series A). Advocates of do-it-yourself (DIY) investing are criticizing the new products, claiming that we are raising the costs of ETFs and then using that assertion to launch an assault on the value of advice. Ultimately, their argument is not about whether our product is properly structured, but about fair compensation for financial advisors.

Inflammatory headlines such as "Spoiled advisors want their 1%" that have surfaced are simply egregious. With over 70,000 financial advisors in Canada, perhaps some feel a sense of entitlement when it comes to fees. It's ludicrous, however, to insinuate that all advisors are somehow gouging their clients by being paid a fee for the service they provide. For the most part, trailing commissions or advisor fees are reasonably consistent by purchase option across the Canadian mutual fund industry. In our opinion, this benefits investors because those fees are transparent, predictable and align the interests of both advisor and client. When portfolios grow, an advisor's compensation goes up, while in down markets compensation goes down.

Advisors tackle the complexities of investing

Many DIY advocates suggest an advisor's compensation should be tied solely to the performance of a portfolio. On the surface, paying for performance appears reasonable, but this view is myopic and undermines the value of sound financial planning advice.

First, financial advisors and money managers are, in effect, paid for performance because if performance is inadequate, the investor can and often does walk away from that relationship.

Second, good advisors are not product jockeys. In addition to investment selection and portfolio construction, they help investors develop a comprehensive long-term financial plan, including tax and estate planning, insurance strategies, saving for a child's education, planning for and managing through retirement, providing rational counsel in uncertain times and much more.

The vast majority of advisors do what they do because they're motivated to help their clients achieve financial security. Those who are in it purely for the money rarely achieve success or have longevity in this business.

As I stated earlier, investors are best served by principled and skilled advisors. Financial literacy in this country is frighteningly low. In addition to the complexities of investing and financial planning,

there are thousands of investment solutions, ranging from stocks and bonds to packaged products like mutual funds and segregated funds. In our opinion, there's far too much complexity for most investors to tackle alone.

Advisors, who focus their entire working lives on financial strategies and solutions, have access to proprietary analyst reports and conduct due diligence meetings with the organizations they do business with. They also receive ongoing training and development, gain access to portfolio management tools and hear directly from portfolio managers, all of which puts them in a strong position to determine if a mandate is right for their clients.

Value of advice must remain independent of product

The trailer fee on the front end purchase option for our PowerShares equity funds is 1%. This is consistent with the vast majority of equity funds in Canada that offer this purchase option. Our rationale

is simple: the value of advice should not be based on the product that's being recommended. Doing so would introduce an inherent conflict of interest. For example, imagine a scenario where real estate agents were paid twice the commission for selling you a condominium versus a detached home. This could lead to behaviours that may not be in the best interests of homebuyers. Our pricing structure helps protect investors from this very issue by keeping the fee consistent across all our equity funds for Series A.

Fair compensation: hardly a radical concept

Being a DIY investor is fine if you have the financial acumen and the time for continuous management of a portfolio and financial plan. DIY advocates make it sound easier than it is. We continue to believe in the value of advice, especially in light of the intricacies associated with managing a comprehensive financial plan that must evolve as an investor's needs evolve.

Upon reflection, it's not surprising that DIY advocates try to stir the pot and denigrate the value of advice. Our view is markedly different. I've travelled across Canada to meet with thousands of advisors and their clients; a palpable majority of investors are happy with their advisor and the advice he or she provides, which is the way it should be since we're all in this business to serve investors. The bottom line, however, is that advisors offer great long-term value to their clients and they deserve to be fairly compensated for their efforts. Why should it be any other way?

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5140 Yonge Street, Suite 900, Toronto, Ontario M2N 6X7

Telephone: 416.590.9855 or 1.800.874.6275

Facsimile: 416.590.9868 or 1.800.631.7008

inquiries@invescotrimark.com

www.invescotrimark.com

