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Choosing an Investment Dealer or Representative



**AUTORITÉ
DES MARCHÉS
FINANCIERS**



ABOUT THE AMF

The Autorité des marchés financiers (AMF) is the body mandated by the Québec government to regulate Québec's financial sector and assist consumers of financial products and services. The AMF is an integrated regulator, ensuring oversight of the insurance, securities and derivatives sectors, deposit institutions (other than banks) and the distribution of financial products and services.

NOTICE

The AMF and its management and staff do not assume any responsibility or liability for any consequences of any errors that may have been made in preparing this brochure. It is for your information only. The AMF does not provide any advice regarding the purchase or use of specific financial products or services.

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This brochure sets out four steps to help you:

- assess your needs Page 4
- choose a firm and a representative able to help you invest Page 9
- prepare for meetings with your representative Page 14
- stay on top of things Page 17

Take the time to carefully choose a firm and a representative to help you manage your investments.



1.

Assess your needs



Do you just want to invest small amounts of money in your RRSP or TFSA from time to time, or do you need financial planning for your retirement, including strategies to minimize your taxes and maximize your estate? Do you want investment advice, or are you looking for a website you can use to invest on your own? How much are you prepared to pay for the services you want?





What not to expect from your representative

Even the best representative can't:

- guarantee market performance
- recommend investments that will always pay off
- meet unrealistic return expectations

What type of firm is right for you?

When choosing a firm, think about the kinds of products and services you need and how much you're prepared to pay for advice.

Not all firms offer the same products and services. Some specialize in a small number of investment products, whereas others offer a wide range of products and services.

While not exhaustive, the list on the next page will give you a good overview of the professionals most investors deal with.

PROVIDER	SERVICES
Investment dealers	Offer a wide variety of investments, including stocks, bonds, mutual fund units. Some investment dealers offer advice and a full range of services: analysis, securities recommendations, portfolio management. Others are more like intermediaries: they buy or sell securities based on your instructions but don't give advice (discount brokerage).
Mutual fund dealers	Offer mutual funds.
Scholarship plan dealers	Offer only units in scholarship plans. The periodic contributions made by investors to a Registered Education Savings Plan (RESP) are pooled and used to purchase plan units.
Exempt market dealers	Offer investments or securities that are exempt from prospectus requirements to accredited investors (institutional investors or individuals with substantial assets).
Portfolio managers	Manage your investment portfolio according to a mandate you entrust to them. They make investment decisions and trade securities on your behalf.
Financial planners (F.Pl.)	Help you manage your finances by preparing an action plan based on your needs, constraints and goals. Financial planners are registered with the AMF, unless they are exclusively regulated by a professional order.* However, they must also be registered with the AMF as dealing representatives if they want to recommend or trade in securities.

* The Ordre des administrateurs agréés du Québec and the Ordre des comptables professionnels agréés du Québec have agreements with the AMF, and their members may use the title of financial planner if they meet the conditions under those agreements and the requirements of the Institut québécois de planification financière (IQPF).



Dealers and portfolio managers are firms. They hire representatives—the people you’ll deal with, unless you choose to do your own trading. Representatives must meet specific qualification criteria. They must also be registered with the AMF under the category of products or services they’re allowed to offer. For example, a dealer who is registered solely for mutual funds and works for an investment dealer can only sell units in mutual funds and can’t offer stocks. You can learn more about investments in the *Choosing Investments* brochure.



Check whether the representative and firm are registered with the AMF

Representatives usually work for firms—investment dealers, for example. Consult the *Register of firms and individuals authorized to practise* on the AMF website at lautorite.qc.ca or contact the Information Centre. Check the register once a year to make sure they are still registered. Doing business with a firm or representative that is not authorized to offer the product or service you're interested in may result in financial or legal problems. If problems do occur, the remedies available to you are limited.

Should you do your own trading or seek advice?

Ask yourself the following questions:

- How much do I know about investing?
- How much time can I devote to researching and managing my investments?

Some investors elect to forgo advice and go it alone using a brokerage firm's on-line trading platform. Although it costs less, do-it-yourself investing isn't for everyone.

To invest on your own, you'll need to:

- be fairly knowledgeable about investing
- spend more time researching the stocks you want to buy or already own.

You'll be responsible for your successes but also for your setbacks. If you don't think you have enough knowledge or time to handle your investments yourself, you're better off with a representative.

2.

Choose a firm and a representative



Now that you've defined your needs, you can look for a firm and a representative.

How to find a firm or representative

You have different options. For example, you can:

- rely on word-of-mouth and personal referrals, keeping in mind that what's good for one person may not be good for somebody else, or
- use the financial institution you already do business with.

Questions to ask when screening representatives

The following questions can guide you in making a decision.

- How will you help me reach my goals?
- What products and services are you licensed to offer?
- What are your qualifications?
- How are you paid?
- What fees will I have to pay?
- Are you familiar with the products and services I need?
- Do you have other clients with the same profile as mine? Some advisers require you to have a minimum amount to invest.
- How will my portfolio be monitored?
How often will we meet?
- How will you update me on the performance of my investments?
- How quickly will my phone calls and e-mails be returned?



Make sure you feel comfortable raising questions and discussing suggested strategies and recommendations with the representative.

How is your representative paid?

Representatives are usually paid by commissions, fees or a salary. Some are paid a combination of these: for example, a representative may receive commissions on top of a base salary.

Commissions

With this form of compensation, representatives are paid an amount based on the financial product sales they make. For example, when you're charged 1% to 5% on a transaction, the representative receives a portion of this fee as a commission.

Fees

Some representatives, such as financial planners, charge fees. You and your representative might, for example, agree upon an hourly rate that will then be used to calculate, based upon a specified number of hours, the fee that will be charged to analyze your portfolio.

Salary

Representatives working in financial institutions are usually salaried employees. Sometimes they also receive sales-based bonuses on top of their base salary. They earn bonuses by meeting sales targets set by the financial institution.



How much are the fees?

Different types of fees apply when you buy, sell or hold investments or receive advice.

Fees may vary depending on the firm and the scope of the services provided. Shop around. Generally, fees are charged per transaction or as a percentage of your portfolio's value and are usually negotiable.

For example, many investment dealers offer fee schedules based on the transaction method used (through one of their representatives or via the Internet).

Transaction fees (or commission)

Also called brokerage fees, a transaction fee is the amount you pay when you buy or sell investments. These fees or commissions are calculated on a sliding scale, and you should take the time to understand them. They can vary depending on a number of factors, including:

- the amount of the transaction;
- the value of the security;
- the number of units traded;
- the type of investment;
- the firm you are dealing with;
- the value of the portfolio you hold with the firm.

Some firms will offer you a specific number of free transactions per year based on the value of your account. There are also fee plans for frequent traders.

You pay fees for the services you receive. However, higher fees do not necessarily translate into better returns. Check the fees and compare them before choosing an investment firm or deciding to invest. More importantly, remember that every dollar you pay in fees is a dollar less in returns.



You want to handle your own investments and use a discount broker

First, decide whether you'll be doing a little bit of trading (fewer than 10 trades per month) or a lot (more than 10 trades per month). This will help you find the best discount broker for your needs. For example, if you plan on doing a lot of trading, some brokers have advantageous fee schedules for "active traders." However, don't base your decision on fees alone.

Make sure you're getting the service you need

Is there a service to explain the platform's features and how it works? Can they serve you in your language? Are the transaction statements clear?

The on-line transaction platform

Is the site easy to use? Can you find things readily? For example, is it easy to find user-friendly information and track the markets in real time?

On-line advisers (robo-advisers)

On-line advisers are often called “robo-advisers” or “automated advisers.” On-line advisers are firms that offer investment advice via an interactive website. You can usually authorize them to carry out transactions on your behalf.

How do on-line advisers operate?

First you fill out questionnaires to determine your investor profile, objectives and risk tolerance. Typically, a software program determines your investor profile and the composition of your investment portfolio.

In most cases, an on-line adviser recommends an investment portfolio from a set of pre-built portfolios. Ask about the types of securities your money will be invested in and the fees that will apply.

Advisers have the same legal obligations whether they deal with you on-line or in person. Among other things, they must pursue their activities through a natural person known as an “advising representative.” They must also make certain the investor profile generated for you is appropriate and consistent with your answers to the questionnaires. For example, the representative must ensure that a conservative investor does not invest in a portfolio that is too aggressive. When dealing with an on-line adviser, you usually never meet the adviser in person. However, you can always contact a representative by telephone, e-mail, on-line message, webcam or other means of communication.





When you meet with a representative, he or she will ask you a series of questions to help pinpoint your needs.

Your representative's biggest responsibility is to get to know you

Representatives must follow rules of professional conduct that require them, among other things, to place the client's interests first when selling products and services. Your representative should therefore be available to answer your questions.

The representative you deal with must follow the "Know Your Client" rule. Before making any recommendations, the representative must understand your current financial situation, know your financial goals and determine your investor profile.

In practice, that means your representative will complete an account application with you. The answers you provide will be used by the representative to get to know you and assess your needs, objectives and risk tolerance. This is an extremely important step. Because the application form will be referred to in resolving any disputes with your representative, it is important you read it carefully before signing it.

The representative should also sign the form and give you a copy for your files.

The application form gives your representative information about:

Your investment knowledge

How much do you know about investing? How have you invested your money up to now? Never put money in an investment you don't understand.

Your personal and financial circumstances

Do you have family obligations? How much money do you have to invest? What are your sources of income? Do you have steady employment income? Is all your income derived from investments?

Your financial goals

When you're retired, do you plan to travel abroad more than once a year?

Your investment horizon

Are you looking to invest so you can buy a home in two years or so you can pay for your children's university education 10 years down the road?

Your risk tolerance

How would you react if the value of your investments dropped 10 to 20 percent overnight? Do you lose sleep when the markets go down? Your representative should make sure that you're comfortable with the level of risk of your investments. As your situation will change over time, a conscientious representative will update your personal information regularly. Make sure to inform the representative of any change or event that could affect your financial situation, such as the loss of a job or the birth of a child.

When you get together with your representative, take notes to avoid misunderstandings and so you can follow up on what was discussed. Jot down the date and location of the meeting, the recommendations, the amount of the transaction, the reasons given for the recommendations, any documents received during the meeting and that you will receive at a future date, your instructions to the representative, and any other relevant information.



Tell your representative when your personal or financial circumstances change.

Major life changes such as the birth of a child or a significant increase in income could affect your investment objectives and risk tolerance.

Your responsibilities as an investor

After you set up an appointment with your representative:

Come to the meeting prepared and provide your representative with detailed information

The more detailed and complete the information, the better equipped the representative will be to help you. Know what income, expenses, assets and debts you have. The *Reviewing Your Personal Finances* brochure can help you in gathering this information. Take some time before the meeting to review your investments and jot down what you want to discuss. Bring all relevant documents, such as your most recent account statements.

Ask questions and take notes

Make sure you fully understand the investments your representative is recommending and why. Don't be afraid to ask questions about the expected return, the availability of the invested money, the risks associated with the investment, and all the applicable fees. All these factors must be considered in order to make an informed decision. If you don't understand something, ask for clarification. Note down the details of your conversations and points agreed upon with your representative.

Stay informed

Read the documents you receive about the investments you're considering making. Learn as much as you can about the investment world by, for example, taking courses, reading books and visiting recognized websites.

4.

Stay on top of things



Monitor your investments

Review your transaction confirmations and account statements as soon as you get them. Make sure they reflect the decisions you made and contact your representative right away if there's a problem.

If you have problems with your representative

- Write down all the facts giving you reason to suspect there may be a problem.
- Write down any actions you will take from the time you raise a potential issue.
- Tell your representative orally that there's a problem. Confirm the information in writing, if necessary.
- If the problem remains unresolved, file an official written complaint with the firm's complaints officer. You can use the complaint form available on the AMF's website. The firm is required to send you an acknowledgement of receipt. It must also process your complaint in a fair manner and notify you in writing of the outcome. Should you require assistance, please contact the AMF Information Centre.
- If you're still not satisfied, you can make a written request to the firm to have your complaint file transferred to the AMF. The firm is required to transfer your file when you make such a request. When the AMF receives your complaint file, it will examine it. If appropriate, the AMF may offer you mediation services. Mediation is a voluntary process for resolving disputes: the AMF cannot compel a party to enter into mediation. Note that filing a complaint does not interrupt the legal period for bringing an action before the courts if the misunderstanding goes unresolved.



Who oversees firms and representatives that sell financial products and services?

Autorité des marchés financiers (AMF)

The AMF is the body mandated by the Québec government to regulate Québec's financial sector and assist consumers of financial products and services. The AMF is an integrated regulator, ensuring oversight of the insurance, securities and derivatives sectors, deposit institutions (other than banks) and the distribution of financial products and services.

The AMF is the body mandated to regulate dealing representatives and firms. However, it recognizes and delegates responsibilities to self-regulatory organizations (SROs). The SROs help the AMF enforce regulatory compliance. Their objective is to protect the public through ethical oversight and supervision of their member representatives and firms.

The following SROs have an investment-related mission:

The Investment Industry Regulatory Organization of Canada (IIROC)

IIROC is the SRO that oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. It sets rules regarding the proficiency, business and financial conduct of its member firms and their employees. For more information, contact IIROC or visit their website at www.iiroc.ca.

The Chambre de la sécurité financière (CSF)

The CSF maintains discipline among its members and oversees their professional development. CSF members work in the following sectors: insurance of persons, group insurance of persons, financial planning,* group savings plan brokerage and scholarship plan brokerage.

* For the financial planning sector, the CSF oversees only the ethical conduct of its members.

WHAT KIND OF INVESTOR ARE YOU?



Get an idea using our innovative and educational tool!

Determining your investor profile before you invest is an essential step. If you pick high-risk investments, you could suffer a major financial loss in the event the stock market declines. However, you may end up with very low returns if you choose very safe investments. Which of these situations would affect you more?

Estimate your profile by using our tool, which has a number of attractive features. For instance, it yields detailed results, with an explanation, where necessary, of why your profile may not be as aggressive as you think. The tool is available under the *Calculators and tools* tab at lautorite.qc.ca.



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