A TAMRIS MESSAGE

THE MALIGN MARCH OF THE PRODUCT

New products are being introduced daily to manage downside risk and provide upside return (Principal Protected Notes, Index-linked GICs, Market Neutral and Managed Hedge funds, variable annuities and the new Guaranteed Minimum Withdrawal Benefit Plans).

Management expense ratios on mutual funds have risen, not fallen, over the last decade as has financial adviser remuneration and, in Canada the cost of financial products is probably, if we rely on recent academic research, the highest in the world.

The TAMRIS Consultancy believes that the financial services industry and its place in today's modern capitalist society is at a critical juncture. TAMRIS has long since stood against the excesses and inefficiencies of products but current research is identifying a disturbing and potentially malign trend in today's financial services industry

In particular, consumers of financial products need to be very careful when they come up against products that are apparently designed to manage downside risk and provide upside protection. What TAMRIS believes is happening, and what is clearly identified in its current research, is that a significant element of marginal return that should by rights be earned by the investor is being transferred to financial institutions.

The difference between the long term return individuals could have had, had they gone via a traditional lower cost direct route and the return they will get from the new breed of "products" is the return the financial companies and advisors are now making and will continue to make. Over the long term this is only going one way and that is of exposing investors to increased levels of investment risk and certainly not the lower risk proclaimed in many a marketing brochure.

Far from providing real solutions to the real problems the financial services industry is moving in an altogether unwholesome direction. The excesses and bumblings of the past are fast becoming institutionalized. What were once awkward solutions to "how do I deliver my product" through advisors that could not construct a sandwich let alone a portfolio are now fast becoming accepted frameworks for delivering yet higher cost solutions.

TAMRIS is surprised at many of today's financial experts who fail to see that risk extends over time and that reducing return through financially engineered products with higher charges only leverages the risks to which individual investors are exposed to in the future.

As the level of the sophistication of today's products take on an altogether different sheen, the future of the current generation of smaller investors has probably never been at greater risk

Once upon a time the excess costs of financial advice were more to do with the inefficiencies of the system, but more and more today TAMRIS finds that there is an increased level of organization around what was once a seemingly innocuous consequence.

In a recent interview on **RoBTV** (Report on Business TV Thursday 19 October) Andrew Teasdale failed to clearly explain his concerns over the competitive structure of today's financial services industry. This short message is that clarification.

The clients of the financial services companies are the advisors/brokers/salespersons, they are no longer the individual investors. The financial institutions distribute their product through their advisors and, in order to maintain control over distribution they need to keep remuneration high.

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Indeed, anybody seeking to move into the industry has to up the ante to access a slice of the market; therefore more competition means higher costs in this market place.

In Canada, we are no doubt seeing the worst of today's organized excesses, because in Canada so much more of the industry's distribution framework is controlled by the main financial institutions and only in Canada are these organizations allowed to define their regulation. With its minimum standards and its protection of the transaction as the financial services industry Gold Standard, regulation in Canada is perfect for the propagation of the new generation of organized high cost product distribution.

It is imperative that our democratic institutions and financial regulators seriously address these issues because this is not just a case of high cost products, it is a failure of capitalism and when capitalism fails so does society.

In the **RoBTV** interview Andrew Teasdale told investors that they could not rely on the existence of a fiduciary responsibility in a transaction driven world. The truth is this, if fiduciary responsibility were enforced at the transaction level the current transaction driven industry would cease to be able to function. The two are incompatible. Minimum standards remain the lifeblood of a transaction driven industry and unless we see regulatory change the problems investors currently have with respect to claiming restitution are only likely to get worse. But, as the sophistication of the products improve so will the argument supporting them, leaving investors with little or no wiggle room when it comes to a complaint over suitability.

The only way that we can ensure healthy competition in the financial services market place is to fully separate out the provision of wealth management services from the providers of products and transactions. The purchasers of products and transactions would no longer be the paid servants of the financial services industry, but the servants of the investor. And as we have seen in most other areas, where companies compete for clients, costs come down and quality increases. To find out the benefits you need look no further than your local grocery store; what would you be paying if they were owned by the food companies?

The TAMRIS Consultancy is a consultancy that espouses the virtues of an efficient capitalist system, but today's financial services industry is far from efficient. Far too much capital is being allocated and trapped in its operation and those who use arguments of market efficiency when it comes to changing the nature and regulation of the industry are only talking about protecting the costs and the margins of an industry that has long since passed its sell by date. We have the technology and the expertise to slash the costs, to raise the quality and to revolutionise the delivery of financial services. The time has come to stop this runaway train, before it hits all of us.

For access to the RoBTV interviews for Thursday 19 October, please click on the following link.

http://www.robtv.com/shows/past_archive.tv?day=thur

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