SIPA
SMALL INVESTOR PROTECTION ASSOCIATION

A Voice for Small Investors

Sent Via email June 29, 2015

SIPA Comment Letter

CSA NOTICE AND REQUEST FOR COMMENT
MANDATING A SUMMARY DISCLOSURE DOCUMENT
FOR EXCHANGE-TRADED MUTUAL FUNDS AND ITS DELIVERY
PROPOSED AMENDMENTS TO NATIONAL INSTRUMENT 41-101 GENERAL PROSPECTUS REQUIREMENTS
AND TO COMPANION POLICY 41-101CP TO
NATIONAL INSTRUMENT 41-101 GENERAL PROSPECTUS REQUIREMENTS
AND
RELATED CONSEQUENTIAL AMENDMENTS
http://www.osc.gov.on.ca/en/SecuritiesLaw_csa_20150618_41-101_rfc-amd-general-prospectus.htm

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Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission (New Brunswick)

Office of the Superintendent of Securities, Prince Edward Island
Nova Scotia Securities Commission
Office of the Superintendent of Securities, Newfoundland and Labrador
Office of the Superintendent of Securities, Northwest Territories
Office of the Yukon Superintendent of Securities
Office of the Superintendent of Securities, Nunavut

The Small Investor Protection Association (SIPA www.sipa.ca) was founded in 1998 and is registered in Ontario as a national non-profit organization. Its mission is the protection of small investors. SIPA represents the views of the small investor.

The CSA initiative of utilizing ETF Facts is a positive step in encouraging retail investors to consider Exchange Traded Funds (ETF's) for their portfolios. The most often cited benefits of ETF's are low cost, transparency, diversification and tax efficiency. Given prevailing low interest rates, a greater use of ETF's increases the chances for Canadians in growing an adequate retirement nest egg. Providing a plain language disclosure will be a positive factor in drawing investors' attention to ETF's.

The new simplified ETF disclosure regime should also be accompanied by a meaningful CSA sponsored investor education initiative. The brochure should include a caution that excessive trading rarely produces the desired results since it has been observed that retail investors tend to trade ETF's too frequently .

We assume that ETF Facts will only be required of Canadian domiciled ETF manufacturers and that copies of the Summary Prospectus will be provided for U.S. originated ETF's. Per CETFA, approximately 80% of ETF assets held by Canadians are Canadian listed ETFs. Approximately 68% of all ETFs (US-based and Canadian-based) are held by the retail market.

SIPA is pleased to provide comments on the proposed Disclosure document for Exchange Traded Funds. Here are our comments:

RECOMMENDATIONS:

1 **A Minimum Font size should be specified** As presented, the document may not be legible by a large group of society even with eyeglasses. We recommend a minimum font size (say 12) be specified and the use of bolding and color be permitted as appropriate. The current forms being mailed to investors appear to be Xerox copies and are very hard to read due to poor reproduction/ low contrast ratio in addition to small print size. The legibility may be an issue if document is limited to four 8-1/2 by 11 pages.

#2 **Pre-sale delivery of ETF Facts** As noted in the document testing research / focus groups, pre-sale delivery is desired by a vast majority (87 %) of retail investors. In the case of online purchases we would agree that providing an intelligent confirmation process of having accessed/read the online file before clicking BUY would constitute delivery. The consultation is in fact based on a document entitled "*CSA Point of Sale Disclosure Project: ETF Facts Document Testing,*" http://www.osc.gov.on.ca/documents/en/InvestmentFunds/etf-facts-document-testing.pdf . We note too that MFDA licensed mutual fund salespersons will soon be able to sell selected ETF's; it is necessary that ETF's be delivered in the same manner as mutual funds to avoid investor and dealer Rep confusion. Principle 2 of the IOSCO Principles on Point of Sale Disclosure specifies: "*key information should be delivered, or made available, for free, to an investor before the point of sale, so that the investor has the opportunity to consider the information and make an informed decision about whether to invest.*" Delivery two days after purchase does not meet this fundamental principle.

#3 W**hat does the ETF invest in**? We think a better title might be *Principal Investment Strategy* for certain ETF's. Some ETF's do not actually invest precisely in the stocks in the index but rather use a model or other approaches to try to replicate the index. See for example Summary Prospectus for the Guggenheim S&P 500® Equal Weight ETF. http://www.sec.gov/Archives/edgar/data/1208211/000119312513083410/d467601d497k.htm This section of ETF Facts would describe the strategy (ies) employed. It is interesting to note that the Guggenheim Summary Prospectus states 'As long as the Fund invests at least 90% of its total assets in securities included in the Underlying Index, the Fund may also invest its other assets in futures contracts, options on futures contracts, options, and swaps related to the Underlying Index, as well as cash, cash equivalents, such as repurchase agreements, and shares of investment funds, including money market funds…" Such disclosure is necessary to ensure retail investors are not shocked when the actual return is less than the index return, sometimes significantly. We note from the focus group results that ETF's are still a mystery to most retail investors so any disclosure that explains the difference between an active vs passive investing strategy would be a real positive.

#4 **Return calculations** Returns should be based on market value -it would be acceptable to present returns using NAV as well, although, according to our experience, this is not what retail ETF investors (as opposed to mutual fund investors) typically look at. This is particularly true for actively managed and currency-hedged ETF's. In any event, the ETF Facts disclosure should be harmonized with CRM2 performance reporting disclosure so investors are not confused.

5 **Risk disclosure** As we have stated many times in the past, we do not agree that the use of a SD based, word descriptor for risk is proper or adequate. In fact, we believe it is misleading. See our Comment letter on mutual fund risk classification system and the letter by Kenmar Associates for detailed backup for our position. Recent research by Yuriy Bodjov and Isaac Lemprière A ***Review of the Historical Return-Volatility Relationship*** questioned the very basis for ETF Facts position on the relationship between volatility (SD) and return: "'...'In conclusion, our study shows that the low volatility anomaly is not a short-lived recent phenomenon, but it has persisted for a very long time. Moreover, it is a profitable long-term investment alternative regardless of the prevailing interest rate environment, and low volatility equities differ substantially from value strategies by their construction rules and investment objectives. Overall, low volatility equities provide

competitive rates of return with a downside protection resulting in superior risk-adjusted returns ..” Source: http://www.investmentreview.com/files/2015/05/CIR_TDAM-LowVol-Paper-Final-May-2015.pdf

Here’s a quick summary of our rationale:
(a) SD is not understood by retail investors; basic literacy is at grade 6 level
(b) investors do not understand that “medium" risk can mean a loss of 40%
(c) Low volatility ETF's exist that outperform high volatility ones so indicator is not robust
(d) Using SD only and not including specific risks breaches IOSCO disclosure standards
(e) SD is really variability of returns not downside risk as commonly understood by investors
(f) To our knowledge, no regulator in the world uses SD as the sole means to describe risk; the SEC requires enumeration of the Principal risks of the fund/ ETF
(g) SD and mean are descriptive stats and MUST be paired together
(h) Ten year return data do not exist for most ETF's
(h) Some indexes are not Gaussian distributed; at least one appears to be bi-modal
(i) Neither the mean or SD are stable in a long term time series; short term returns are correlated /not random as required under classical statistical theory
(j) Many risks unique to ETF's are not captured by volatility metric especially for Bond ETF’s

Some ETF risks may not be clear to investors if not annunciated. For example:

Correlation and Tracking Error Risk–A number of factors may affect the Fund’s ability to track its benchmark index or achieve a high degree of correlation with its benchmark either on a single trading day or for a longer time period. Factors such as Fund expenses, imperfect correlation between the Fund’s investments and those of its Underlying Index, rounding of share prices, regulatory policies, high portfolio turnover rate and the use of leverage /currency hedging all contribute to tracking error or correlation risk. There can be no guarantee that the Fund will achieve a high degree of correlation. Failure to achieve a high degree of correlation may prevent the Fund from achieving its investment objective.

Derivatives Risk–Derivatives may pose risks in addition to and greater than those associated with investing directly in securities or other investments, including risks relating to leverage, imperfect correlations with underlying investments or the Fund’s other portfolio holdings, high price volatility, lack of availability, counterparty credit, liquidity and valuation. Their use is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. If the Advisor is incorrect about its expectations of market conditions, the use of derivatives could also result in a loss, which in some cases may be more than the amount invested. Some derivatives may trade in OTC markets, which are largely unregulated.

ETF Shares Trading Risk–An unanticipated early closing of an “Exchange may result in a shareholder’s inability to buy or sell shares of the Fund on that day. Trading in Fund shares similarly may be halted by the Exchange because of market conditions or other reasons. If a trading halt occurs, a shareholder may temporarily be unable to purchase or sell shares of the Fund. Shares also may trade on the Exchange at prices that differ from (and can be below) their net asset values (“NAV”). The NAV of shares will fluctuate with changes in the market value of the Fund’s holdings and the exchange-traded prices may not reflect these market values. In addition, although the Fund’s shares are currently listed on the Exchange, there can be no assurance that an active trading market for shares will develop or be maintained.

Liquidity and Valuation Risk–In certain circumstances, it may be difficult for the Fund to purchase and sell particular investments within a reasonable time at a fair price, or the price at which it has been valued by the Advisor for purposes of the Fund's NAV, causing the Fund to be less liquid and unable to realize what the Advisor believes should be the price of the investment.

We have particular concerns with the rating of non-traditional ETF's like inverse and leveraged ETF's. These funds are truly unique. They are not like most plain vanilla ETFs out there that own single stocks or own a basket of stocks or a basket of bonds.These funds use very complex derivative structures in order to achieve certain stated benchmark prospectus return on a daily basis. SIPA have previously stated that we think that dealers should apply the same account standards as for single derivative or short sales or buying commodities futures as they would if you were doing that on an individual basis and not really be allowed to have the ETF back door sale. We maintain that position now .As to the specific example in the Document testing report we find the proposed warning "adequate" but no more:

XYZ ETFs

XYZ S&P/TSX 60 Index Bull 2x ETF

ETF FACTS
June 30, 20XX
XXZ

This exchange traded fund (ETF) is highly speculative. It uses leverage, which magnifies gains and losses. It is intended for use in daily or short-term trading strategies by sophisticated investors. If you hold this ETF for more than one day, your return could vary considerably from the ETF's daily target return. Any losses may be compounded. Don't buy this ETF if you are looking for a longer-term investment.

The CSA ETF Document testing results confirm that the message of risk is marginally clear (77% of the focus group understood that the leveraged ETF is very risky; 67 % understood it is not appropriate as a long term investment. Additionally , we believe the Standard Deviation (SD)-based risk rating methodology, despite it resulting in a HIGH rating in the Bull 2x example, should not be used to rate these types of exotic structured funds. The 2x Bull is designed to offer double the daily performance of the underlying index or benchmark. The ultimate return may be better or worse than two times. Because volatility is magnified by double leverage, the investment needs to rebalance leverage often. We argue that the return distribution profile is not based on random fluctuations but by structured daily mathematical derived interventions. Arbitrary functions cannot be expected to introduce Gaussian statistics, since their purpose is to alter the statistics of the underlying portfolio .To use a SD based risk rating methodology based on years of monthly return data makes no sense to us as the sole retail investor risk disclosure . We see its use as misrepresenting the true nature of these structured products by treating them as if they were well behaved traditional mutual funds. How can an investment not intended for long term investment have its risk measured using the distribution variability of long term returns? These are trading products and the downside risk rating should be HIGH by definition.

Finally, the sequencing of regulatory reform transition is important. The Statement of 2015-2016 OSC priorities commits to introducing both a mandated CSA risk classification methodology for mutual funds and a new summary disclosure document for ETFs in the year ahead. However, without sufficient coordination between the two projects, the ETF disclosure documents (if modeled after Fund Facts) could be developed and implemented using existing fund risk methodologies, only to be shortly thereafter required to switch to a different rating methodology. This should be avoided.

#7 **Investment objective and strategy** - what does the fund invest in and how does it do that? If it tracks an index, it should explain how the index works, not merely refer to the index (we've found it very difficult at times to figure out how an index works when it is a custom-made index)

#8 **Trailer commissions** If no trailers for the series, we recommend omitting a reference to trailers rather than confuse the investor with a negative disclosure. We note that the Document testing revealed that investors were confused by the term "trailing commission" and mixed it up with the term "Brokerage Commissions" in the *How much does it cost* section. The Focus Group's desire to be told about trailers even when not applicable is at variance with fundamental behavioural finance research on disclosure and our 10 years of experience. Most ETF's don't employ embedded trailer commissions but for the few that do, a different ticker, and therefore ETF Facts, applies. We note from the Quantitative research that ".. only 48% read the last sentence in this section that tells them that this ETF does not have a trailing commission…". As an aside, CETFA advise that as of December 2014 – just 95 ETFs pay trailers with AUMs less than $1 billion (around $985 million). At Q1, 2015, total ETF Assets amounted to $83 billion spread over about 400 ETF's. Roughly 90% of Canadian ETF assets are invested in funds that track passive, market-cap-weighted benchmarks, according to Morningstar data. **Focus Groups / Issues including advantages and disadvantages** http://focusgroups.pbworks.com/w/page/5677430/Issues%20including%20advantages%20and%20disadvantages]

#9 **Fund Cost**– We agree that cost should represent the Total expense ratio which includes the sum of the Management expense ratio (less trailers) and the Trading Expense Ratio. In those few cases where a trailer is applicable, add a line "Trailing commissions ".This is necessary to give these commissions the visibility they deserve.

#10 **"How ETFs are priced" section** This section of the ETF Facts provides plain language to ETF investors with some additional information on the factors that influence trading prices and to explain the difference between market price and NAV. We find this presentation clear and understandable and can offer no better suggestions.

#11 **Rights for Withdrawal of Purchase** We would hope there are no practical impediments to introducing a right of withdrawal for purchases made in the secondary market in connection with delivery of the ETF Facts .This would be consistent with mutual funds.

12 Portfolio **turnover** We note that Vanguard has concluded that Portfolio Turnover is a valuable piece of information for its U.S. ETF's. Given Canada's high income tax rates, it might make sense to include this metric. Ref http://www.vanguard.com/funds/reports/sp920etf.pdf

#13 **Total Value**: Relabel as Net Assets, a term more investors will understand

#14 **Foreign property** Domestic or Foreign Holding per Canada Revenue Agency – state whether or not the ETF is foreign property wrt the infamous T1135 form

#15 **ETF Facts is light on tax related disclosure.** An investment in a non-registered account, requires the investor to be concerned about more than just the funds' performance: they also need to know how much of their return will be eaten up by taxes. Unfortunately, while the CSA are strict about the way ETFs and mutual funds report performance, fund companies in Canada have no obligation to estimate after-tax returns—something that's been required in the US since 2001. When investing in an ETF, an investor should be familiar with how the ETF obtains exposure to international markets. An ETF's structure and the type of account used to hold it could significantly affect how much withholding tax an investor is subject to. Once the impact of foreign withholding taxes on ETFs is understood, an investor will be better equipped to make investment choices that will maximize their after-tax returns. We recommend that after-tax returns be provided similar to the method of presentation in the U.S.

#16 **Prepare a CSA Investor Brochure** The brochure would be used to explain in plain language how to use ETF Facts for decision making. The Vanguard Canada ETF education centre is a good model for ETF investor education. https://www.vanguardcanada.ca/individual/insights/etfeducation.htm#/ We believe this brochure is a critical success factor for the howETF Facts disclosure regime.

Other Observations and Comments

#16 Performance metric- Consider Total Return to Volatility Ratio - a basic "bang for buck risk" metric, using standard deviation of monthly returns for the various trailing return periods. This could be included in the CSA educational document.

#17 **Average daily trading volume in units/ Liquidity** – The planned disclosure is fine but a more robust metric for the liquidity of the ETF as determined by the under-lying assets, perhaps something like daily average trading volume of the five least active holdings would also be meaningful; this might be an important source of implied riskiness for a particular ETF to be disclosed in the Risk section of ETF Facts. Should the word *shares* be used instead of units?

#18 **Fixed Income ETF's** Consider including Duration, & Term to Maturity - weighted averages for Bond ETF's.

 # 19 Interpretation of focus testing results: According to the Quantitative Report "Investors **clearly understood this introductory information**:
▪77% understood the fund is very risky.
▪ About half of ETF investors were able to identify the correct answer for the first two statements [48% - 54%]. Many did not understand that the Index fund does not include all of the stocks on the TSX or that managers do not simply choose their personal favourites.
67% understood that this ETF is invested proportionately to the Index.
▪84% believed the introduction is fair and appropriate while a further 14% believed it is not strong enough.
▪Overall, 70% of retail investors reported that ETF Facts explains the costs of the ETF very or fairly clearly.
▪84% also thought it is useful information to have when deciding whether or not to invest."

Put another way:

- 23% or almost 1/4 of participants did NOT understand that the fund is very risky.
- 33 % did NOT understood that this ETF is invested proportionately to the Index

Is it therefore reasonable to conclude that investors "clearly understood" this information? Some did but for nearly a quarter (23-33%) did not. And 84% believed the introduction is *fair and appropriate*? Does this mean **useful**? How can this statistic be valid? Only 67% understood all the key points in the introduction. These statistics are worrisome in that we typically consider an 85% + approval thresh-hold is the standard. [**Using and analysing focus groups limitations and possibilities:**, Smithson http://www.sfu.ca/cmns/courses/2008/801/Fall2008/ClassFolders/Soerensen,%20Maria%20Odgaard/Smithson_Using%20and%20analysing%20focus%20groups_%20limitations%20and%20possibilities.pdf]

Summation:

The key goal of disclosure is for investors to understand what they are buying. They need to understand what they are getting involved with to get an idea of how a particular ETF will perform in the portfolio and how it is going to perform alongside the other ETF's. We believe ETF Facts has the potential to assist in that understanding.

SIPA recognize the difficulty in condensing a large volume of data of a complex product onto a few pages and appreciate the CSA's dedicated efforts in this regard.

We hope this feedback is useful to you. Please do not hesitate to contact us if any additional information is required.

SIPA agree to public posting of this Comment Letter.

Sincerely,

Ken Kivenko,
Chair, Advisory Committee
Small Investor Protection Association

REFERENCES

FINRA and the SEC focus on structured products and alternative funds at complex products industry forum – Lexology
In a related speech, Norm Champ, the SEC's Director of the Division of Investment Management, spoke about how his industry is addressing complex funds being sold to retail investors. A copy of his speech may be found at: http://www.sec.gov/News/Speech/Detail/Speech/1370543319219. Mr. Champ paid particular attention to the risks posed by alternative funds, and their significant recent growth. Disclosures of their strategies, risks, and holdings remains a principal concern, particularly the possibility of a disconnect between the strategies disclosed in a prospectus, and the strategies that a fund actually employs.
http://www.lexology.com/library/detail.aspx?g=3622f4fa-b00c-4403-aa7e-96a15dd6c5cb

New fee transparency boosting ETFs - Investment Executive
"..New disclosure rules, however, do seem to be propelling ETF sales in other countries. After the U.K. implemented its Retail Distribution Review in 2012, which banned embedded commissions, among other changes, sales of iShares ETFs through BlackRock Asset Management (U.K.) Ltd., grew to £1.1 billion in 2014, up from about £620 million in 2010.Warren Collier, managing director and head of iShares Canada with BlackRock Asset Management Canada Ltd. in Toronto, notes that the company has seen sizable growth in other countries, such as the Netherlands and Switzerland, as a result of regulatory change. "As the industry becomes more transparent in every market, we see ETFs and iShares become preferred tools of choice for advisors," says Collier, "and I do expect that to happen here."…"
http://www.investmentexecutive.com/-/new-fee-transparency-boosting-etfs?redirect=%2Fsearch

Fee transparency driving shift to ETFs - Investment Executive
As fees are becoming more evident to investors, expect those investors to want to pay less, said Scott Boniferro, product manager for Invesco Canada Ltd. in Toronto.
http://www.investmentexecutive.com/-/fee-transparency-driving-shift-to-etfs?redirect=%2Fsearch

U.S. ETF companies boost bank credit lines amid liquidity concerns: G&M
Interesting points raised in this article. We are not convinced that SD captures these risks.
http://www.theglobeandmail.com/globe-investor/funds-and-etfs/etfs/us-etf-companies-boost-bank-credit-lines-amid-liquidity-concern/article24420126/

Exchange Traded Funds Evolution: Benefits, Vulnerabilities and Risks-Bank of Canada

http://www.bankofcanada.ca/wp-content/uploads/2014/12/fsr-december14-foucher.pdf
(Dec. 2014)

The future of ETFs is (almost) here | Christopher Davis | ETF Investing | Morningstar
"..Canadian investors should be just as disappointed by their experience: From 1990 to 2013, less than 30% of Canadian large-cap managers outperformed their most-comparable benchmarks on a risk-adjusted basis, according to research by Morningstar Investment Management, Morningstar's consulting arm. Over the same period, Canadian bond funds fared even worse, with only 10% outperforming their comparable benchmarks on a risk-adjusted basis. Given this backdrop -- not to mention the higher fees charged by active managers -- it's surprising more Canadians haven't opted for cheaper, more-predictable alternatives. The biggest reason they haven't is pretty simple: Most advisors don't make any money when they put clients in ETFs. Most fund companies pay advisors what are known as trailer fees for selling their wares, while ETF providers rarely do. (Trailer fees are embedded in funds' MERs and typically range from a 0.5% annual charge for fixed-income funds to 1% for equity funds.) ..."
http://cawidgets.morningstar.ca/ArticleTemplate/ArticleGL.aspx?culture=en-CA&id=687856

IIROC Bulletin on Leveraged ETF's (2009)
http://www.iiroc.ca/Documents/2009/E786AB09-D19F-41B5-A63E-496352FF040C_en.pdf

Academic research on ETF's: UofT
http://www.cetfa.ca//files/Susan%20Christoffersen%20%20-%20ETF%20Research%20-%20Sept%2022.ppt

101 ETF Lessons Every Financial Advisor Should Learn
http://etfdb.com/financial-advisor-center/101-etf-tips-tricks-every-financial-advisor-should-know/

What Risks Are There In ETFs? | ETF.com
http://www.etf.com/etf-education-center/21004-what-risks-are-there-in-etfs.html

Understand ETFs: Nine Questions
http://www.understandetfs.com/nine_questions.html

What to look for when buying an ETF - MoneySense
http://www.moneysense.ca/invest/what-to-look-for-when-buying-an-etf

Seven questions to ask before you follow your advisor into ETFs More and more advisors are moving their clients into exchange-traded funds, but don't go along without doing your homework.
http://cawidgets.morningstar.ca/ArticleTemplate/ArticleGL.aspx?id=693427&culture=en-CA

Liquidity Problems Can Be Costly for ETF Investors - WSJ http://www.wsj.com/articles/SB10001424052748703837004575012772071656484

Watch Out: The Risks of ETFs | Morningstar
http://www.morningstar.co.uk/uk/news/69479/watch-out-the-risks-of-etfs.aspx

Exchange Traded Products Overview: Benefits and Myths - Blackrock
http://www.blackrock.com/corporate/en-dk/literature/whitepaper/viewpoint-etps-overview-benefits-myths-062013.pdf

Fidelity - BlackRock Research on ETF's
New Research From Fidelity® and BlackRock Reveals a Key to Growth for ETF Adoption is Educating Investing on ETF Basics
https://www.fidelity.com/about-fidelity/individual-investing/fidelity-blackrock-research

'Passive' doesn't always mean 'index'
Strategic beta, quantitative and DFA funds prove that traditional indexing isn't the only passive method .

Policy Issues Raised by Structured Products: Harvard U.
http://www.law.harvard.edu/programs/olin_center/papers/pdf/Ferrell_et%20al_560.pdf

Developing a risk -rating methodology (UK)
http://www.cass.city.ac.uk/__data/assets/pdf_file/0017/32525/risk-rating-comp.pdf . It looks like the standard deviation is one way to depict risk.

IOSCO Principles on Point of Sale Disclosure Final Report 01022011
http://www.investorpos.com/documents/IOSCO%20Principles%20on%20Point%20of%20Sale%20Disclosure%20Final%20Report%2001022011.pdf

IOSCO: Principles for the Regulation of ETF's
http://www.cetfa.ca/files/1372163325_IOSCO%20ETF%20Final%20Report.pdf

The uses and limits of volatility Investopedia
http://onswipe.investopedia.com/investopedia/#!/entry/the-uses-and-limits-of-volatility,5228c469da27f5d9d017a727/1

CESR 10-673 Guidelines KID SRRI methodology for publication
http://www.esma.europa.eu/system/files/10_673.pdf

Improving Mutual Fund Risk Disclosure (ICI Perspective, V1N2, November 1995)
http://www.ici.org/pdf/per01-02.pdf ICI is the investment fund industry lobbyist in the U.S.

Submission by the Society of Actuaries in Ireland: *Communicating Investment risk*

https://web.actuaries.ie/sites/default/files/event/2011/03/Communicating%20Investment%20Risk%201.pdf
What's wrong with multiplying by the square root of 12?
http://corporate.morningstar.com/US/documents/MethodologyDocuments/MethodologyPapers/SquareRootofTwelve.pdf

Standard deviation and the Square Root of Time
http://www.gummy-stuff.org/square-root-time.htm

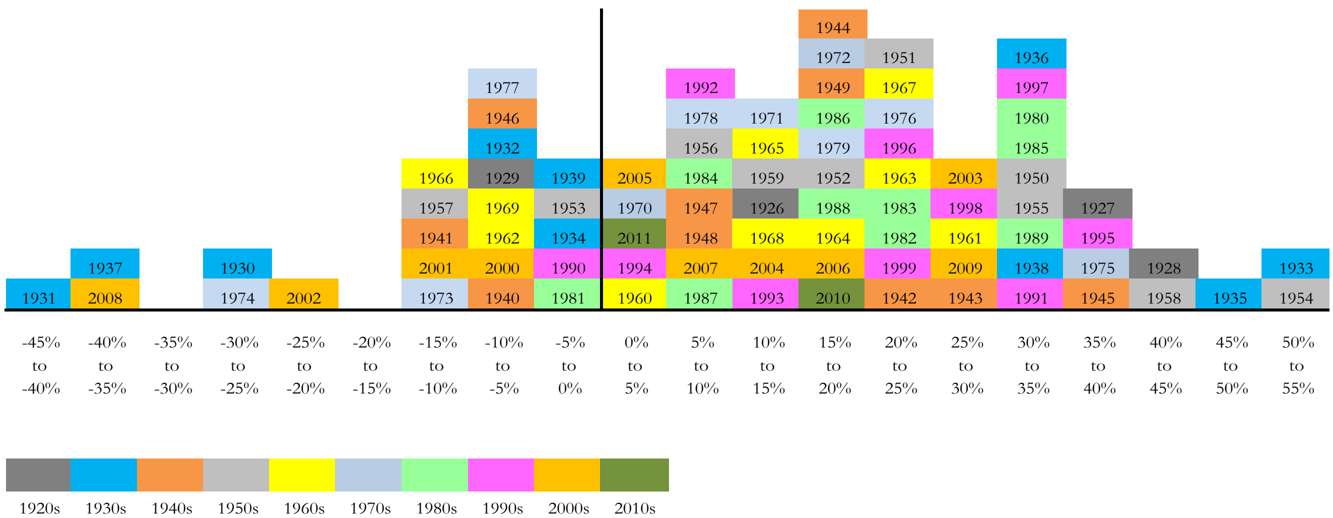
Low Volatility Strategies: The Historical Performance
A review of the return-volatility relationship.
BY Isaac Lempriere and Yuriy Bodjov May 19, 2015
Over the past few years low volatility investment strategies have emerged as an alternative to traditional active and passive investing programs, with the goal of providing market-type returns with lower risk. They seek to capitalize on the so-called low volatility anomaly where stocks with lower volatility historically have realized higher returns than predicted by theoretical models such as the Capital Asset Pricing Model (CAPM). Unlike traditional investing strategies that focus on generating abnormal returns from stock picking, investment styles, or risk factors, low volatility investing seeks to capitalize on a fundamental underpricing of risk in equity markets supported by a growing body of academic literature. Given the surge in popularity of such strategies in the recent years, a logical question would be to ask if this is not just a recent phenomenon. There are opinions suggesting that the low volatility effect is due primarily to the environment of falling interest rates which favors specific sectors and it will fade out as soon as interest rates start to rise. Other studies describe low volatility as just another value strategy. Are they confirmed by the historical evidence? There is no easy way to give answers to these questions without going back in time as far as possible. Read the full paper.

Stock Volatility: Not What You Might Think - PIMCO | Viewpoints
http://www.pimco.com/EN/Insights/Pages/Stock-Volatility-Not-What-You-Might-Think.aspx

Risk Shifting and Mutual Fund Performance by Jennifer C. Huang, Clemens Sialm, Hanjiang Zhang: SSRN **Abstract:**
Mutual funds change their risk levels significantly over time. Risk shifting might be caused by ill-motivated trades of unskilled or agency-prone fund managers who trade to increase their personal compensation. Alternatively, risk shifting might occur when skilled fund managers trade to take advantage of their stock selection and timing abilities. This paper investigates the performance consequences of risk shifting and sheds light on the mechanisms and the economic motivations behind the risk shifting behavior. Using a holdings-based measure of risk shifting, we find that funds that increase risk perform worse than funds that keep stable risk levels over time, suggesting that risk shifting is either an indication of inferior ability or is motivated by agency issues.http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1108734 Raises questions about SD risk rating methodology if data for Canada is similar.

Non-normality of market returns
http://www.jpmorganinstitutional.com/blobcontent/42/35/1159384839488_Non_normality_long.pdf

Histogram of S&P 500 – Normally distributed?



Source:
http://classes.bus.oregonstate.edu/ba406/index_files/Brooks/2012%20SP500%20Histogram%20FPS.ppt

On R-squared and beta Investors need to ensure that the ETF index fund they are considering does a good job of tracking its index. Key metrics to look for here are the fund's R-squared and beta. R-squared is a statistical measure that indicates how well the index fund's price movements correlate with the index. The closer the R-squared is to one, the closer the index fund's ups and downs match those of the target index. Investors will also want to ensure that the fund's beta is very close to the target index's beta. This means that the fund has about the same risk profile as the index. Theoretically, a fund can have a close correlation with its index, but still fluctuate by a greater or lesser margin than the index, which will be indicated by a different beta. These two metrics together indicate that the fund will track the index very closely. We accept that ETF Facts has chosen not to include these relatively complex statistical metrics but expect at least that the CSA ETF Facts brochure will include a brief discussion and links.

Laurentian to pay fine over sale of leveraged ETFs - The Globe and Mail

Laurentian Bank of Canada has agreed to pay $150,000 in penalties as part of a regulatory crackdown into sales of a controversial investment product to unsophisticated retail investors. The bank reached a settlement with the Investment Industry Regulatory

Organization of Canada over employees' sales of leveraged ETFs – a specialized form of exchange traded funds that have faced criticisms as being inappropriate for many ordinary investors.http://www.theglobeandmail.com/globe-investor/funds-and-etfs/etfs/laurentian-to-pay-fine-over-sale-of-leveraged-etfs/article4523851/

Do Exotic Derivative ETFs Need to Comply Further?
Morningstar Director of ETF Analysis Scott Burns advocates for greater oversight of derivative ETFs.
"..What we have right now is a situation where these exchange traded derivative funds are allowing individual investors to blindly stumble into products they don't really understand and at the same time allowing some advisors to back door things like leverage and short sales into their client's portfolios without approval. Our solution is actually fairly simple. We think that you should look through the basket of exchange traded funds and say, if this holds a derivative, we should regulate it like a derivative. Whether it's an inverse leverage fund or a fund that is tracking oil futures, these funds own derivatives and these derivatives are complex, and there are a lot of risks…"
http://www.morningstar.com/cover/videocenter.aspx?id=295709

Warning: Leveraged and Inverse ETFs Kill Portfolios
http://news.morningstar.com/articlenet/article.aspx?id=271892

Heads you lose, Tails you lose: The strange case of leveraged ETF's
http://faircanada.ca/wp-content/uploads/2008/12/etfs-may-14pm-etf-sw-final-final1.pdf

The Strange Case of Leveraged and Inverse ETFs, Part 2: A Few Steps Forward; Much Remains to be Done This document provided some specific steps for the Canadian regulators to consider including : 1. Insist on better plain language prospectus disclosure of risks and of how these exotic ETFs work. 2. Implement risk disclosure and acknowledgment requirements for any retail investor who wishes to trade these products and 3. Issue specific guidance on advertising and require warnings on both advertising materials and websites. Enforce restrictions on misleading advertising through disciplinary proceedings http://faircanada.ca/wp-content/uploads/2009/07/ETF-Update-FINAL-July-13.pdf?a07595

Avoid Leveraged ETF's
" .. Horizons BetaPro NYMEX Natural Gas Bull ETF (HNU) is a product for gamblers, not investors. Like most commodity ETFs where actually owning the physical commodity is not practical, HNU buys futures contracts on natural gas. That by itself is problematic. Commodity futures are normally in a state of "contango." The contracts that are close to expiry are cheaper than the ones farther out by an amount roughly equal to the cost of storing the gas for one month and paying interest charges. (The opposite of contango is "backwardation" which occurs whenever there is some supply disruption and near term prices spike briefly, before returning to contango.) HNU buys contracts that mature over several weeks. Just before expiry, it replaces them with a fresh batch. This process alone means that every month, the value of HNU erodes by the amount of contango. Gas prices could go up one month and HNU might still be down. However, it is HNU's second quality that makes it toxic for human consumption. For every dollar invested, HNU buys $2 worth of futures contracts. On any given day, HNU's price move will be about

double the move of the gas futures. Each day, HNU must adjust the number of futures contracts it holds to align back to twice its assets. Over a few weeks, especially if markets are turbulent, the adjustments leave HNU's return complete disconnected from the natural gas price…"
http://business.financialpost.com/investing/etfs/avoid-leveraged-commodity-etfs

The Case Against Leveraged ETFs | Seeking Alpha
http://seekingalpha.com/article/35789-the-case-against-leveraged-etfs

TAXES TAKE TOLL ON TOTAL FUND RETURNS, CANADIAN RESEARCH STUDY FINDS
Taxes exceed management fees and brokerage commissions in their ability to erode long-term investment returns," write Amin Mawani and Moshe Milevsky, both professors at the Schulich School of Business at York University in Toronto, and Kamphol Panyagometh, a post-doctoral researcher working with Mawani and Milevsky.
http://www.advisor.ca/news/industry-news/taxes-take-toll-on-total-fund-returns-canadian-research-study-finds-36524 Full Report *The Impact of Personal Income Taxes on Returns and Rankings of Canadian Equity Mutual Funds,* at
http://www.ifid.ca/pdf_workingpapers/WP2003.pdf

To disclose or Not to disclose After-tax returns
www.ctf.ca/ctfweb/Documents/PDF/2003ctj/2003ctj5-mawani.pdf

Reference Guide: Foreign Withholding Taxes on ETFs for Canadian Investors
Education Centre | First Asset
http://www.firstasset.com/resources/education/?article=Reference+Guide%3A+Foreign+Withholding+Taxes+on+ETFs+for+Canadian+Investors

White paper : how to estimate the after tax returns of ETF's
https://www.pwlcapital.com/pwl/media/pwl-media/PDF-files/White-Papers/2014_Bender-Bortolotti_After-Tax-Returns_Hyperlinked.pdf?ext=.pdf

Tax treatment of income from exchange traded funds: TaxTips.ca
http://www.taxtips.ca/personaltax/investing/taxtreatment/etfs.htm

After-tax returns on Canadian ETFs: MoneySense
http://www.moneysense.ca/taxes/after-tax-returns-on-canadian-etfs