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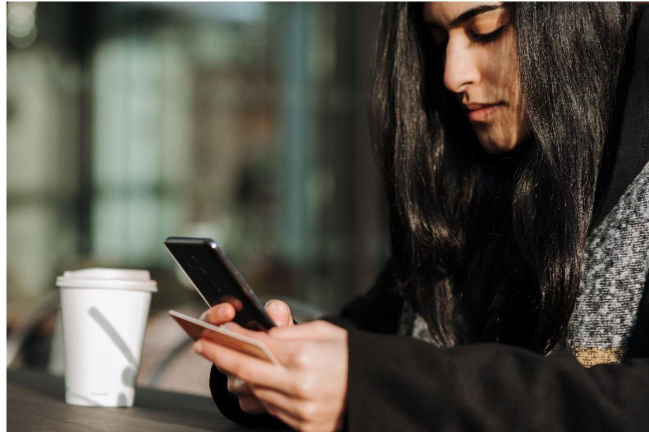
Thinking of Becoming a "Do-It-Yourself" Investor? Here's What You Need to Know.



In the past year, more Canadians have taken their investment decisions into their own hands and started trading online through a discount broker to manage their money. They have become "do-it-yourself" or "DIY" investors.

According to research completed by **Finder**, 1-in-10 Canadians (about 3 million) say they will stop working with a financial advisor this year and become DIY investors. In 2020 alone, more than 2.3 million DIY investment accounts were opened in Canada.

The reasons for this shift are not entirely clear. Certainly, there are many more DIY trading apps that you can download for free on your smart phone, including some that promise zero trading fees. This could help explain the trend.

Also, investors are becoming more comfortable using online tools to manage their affairs, including paying bills, or shopping for clothes. For some, trading stocks on their smart phone may seem as straightforward as ordering take-out.

There's a generational shift underway as well, says the Finder report. Millions of younger Canadians, specifically millennials and Gen Z, are jumping on the DIY train. This new crop of investors is younger, more risk tolerant and willing to ride the turbulent waves of the stock market to achieve lofty gains (or staggering losses).

DIY investing, however, is not for everyone.

A big concern is that less experienced investors may take on too much risk without really knowing it or fully appreciating the risks they are taking. They may also fall prey to misinformation posted by unreliable sources or get caught up in the hype and begin trading on emotions rather than based on a plan.

In fact, regulators have been receiving record levels of complaints from DIY investors these days. Given that these investors have decided to "do-it-themselves," there is little that regulators can do to help them when they suffer losses.

Under Canada's securities laws, investment advisors must collect client information to determine your level of investment knowledge, experience, goals, and risk tolerance. But discount brokers are exempt from these requirements, which are designed to help protect you.

If you are thinking of managing your own investments, you should be aware of some of the pros and cons of doing-it-yourself.

PROS

1. Lower Cost – You tend to pay lower fees because you are not receiving any advice.

2. Convenience: You can make investment decisions on your own time, often at anytime of the day.

3. Control: You will be provided with an opportunity to take control over your own trading at the click of a button.

CONS

1. Reduced Risk Assessments: You will not get the benefit of an objective assessment of whether your trade is consistent with your risk appetite and investment objectives.

2. No feedback on your choices: You will not be able to speak to anyone who can explain the key features and risks associated with different financial products.

3. Trading on emotion and losing sight of the bigger picture. You may get caught up in social media hype or the "casino-like" features intentionally built into the trading app to encourage you to trade more often. When you trade on emotion, you are more likely to make poorer choices.

If you can, speak with someone you trust who is knowledgeable about the differences between DIY investing and working with an experienced advisor.

While working with an advisor may not be for you, the regulatory framework for advisors has built-in features designed to protect you. By doing it yourself, you lose the benefit of many of these protections.

Do not assume the online platform has any obligation to protect you from your mistakes – it does not.

In short, doing-it-yourself may not be appropriate unless you have a high level of investment knowledge, have access to a lot of reliable information and time to read it, and are comfortable making investment decisions without any assistance.

ESG Reporting and Greenwashing - What are They?

You may have heard the terms "ESG reporting" and "greenwashing" lately. But you may not know what they mean. Here is a short explanation.

ESG stands for "Environmental, Social and Governance." It refers to factors that are increasingly a concern for Canadians when investing. ESG reporting may help you evaluate a company's behaviour and, by extension, help you assess its future

financial performance.

ESG factors deal with a wide range of factors such as climate change, social and demographic shifts, or even how they manage and protect your personal data. How a company responds to these factors may impact the value of your investment over time.

ESG information typically covers:

1. Environment – Information about a company's energy use, greenhouse gas or carbon emissions, waste and pollution footprint, or any natural resource conservation efforts. In essence, how a company manages its impact on the environment.

2. Social – Information about how a company treats its employees, customers, and the communities it works in, or how it manages diversity and inclusion within its workforce. In essence, how the company treats stakeholders.

3. Governance – Information about a company's transparency, how it compensates executives and promotes diversity in leadership, as well as how it deals with shareholders, regulators, and the public. In essence, how a company manages or conducts itself.

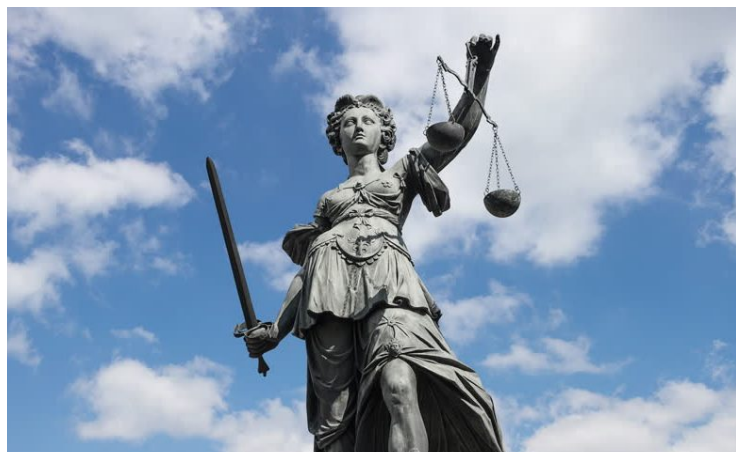
But it is important to understand that there are currently no globally accepted standards for ESG reporting. In fact, there are several hundred different ESG reporting standards and frameworks that a company may choose to use. This creates room for investor confusion. Until clear and consistent standards are created, investors may be exposed to a greater risk of falling prey to 'Green Washing'.

Green Washing occurs when a company invests more time and money to market itself as being green, rather than implementing real measures to minimize its impact on the environment. It is a way of capitalizing on the growing demand for socially responsible investments and deceiving investors into believing a company's products are environmentally friendly when they are not.

The good news is that the Canadian government and securities regulators are looking into standardizing ESG reporting. In the meantime, investors should be aware of the investment products being marketed as green or socially responsible. Make sure you look beyond the sales pitch and try to do your own research.

A good source is the **2021 Best 50 Corporate Citizens in Canada**, published by Corporate Knights magazine. The latest annual list comes out on June 30.

A Better Way to Compensate Investors



Very few provinces in Canada have established funds to compensate investors when they suffer losses because of the misconduct of their advisors. However, in the provinces that have created investor compensation funds, they may only be available in limited situations or provide limited compensation.

In practice, this means that the main way of seeking compensation would be for you to complain to your advisor or the firm, sue them in court, or bring your complaint to the Ombudsman for Banking Services and Investments (OBSI).

You could also (and should) complain to the securities regulator in your province. However, your provincial securities regulators may not have the power to order your advisor to compensate you, even if they find that your advisor broke the law.

An interesting development in this area comes from The North American Securities Administrators Association (NASAA), which includes securities regulators from the United States, Canada, and Mexico.

This past May, NASAA approved a model piece of legislation that could be adopted in different jurisdictions.

It's called **the Restitution Assistance Fund Model Act**, and it seeks to provide a legislative solution to help seek compensation for losses incurred because of your advisor's misconduct.

The model legislation provides an outline of:
- eligibility requirements for victims seeking compensation,
- limits on the amount of compensation, and
- mechanisms to recover the compensation awarded.

Interestingly, it also allows compensation awards to be doubled in cases where the victims are considered vulnerable persons, as defined by age or other factors.

FAIR Canada has been urging reform in this area for many years, as you can see from an earlier **comment letter on restitution and redress**. It will be interesting to see how many Canadian regulators look to the model legislation to establish a new and better approach to protecting investors.

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