

New disclosure rules will be a boon to bond investors

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For too long, investors who buy and sell bonds in their portfolio have been under the impression that there is no cost, fee or commission applied to these trades. The contracts you receive post-trade certainly don't show anything. This is about to change.

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As of July 15, 2014, brokerage firms are now required to disclose the commission you paid to buy or sell a bond or other fixed income security. If the average balanced investor has 50 per cent of their portfolio in bonds it's obvious this is a huge part of the investment business. It seems strange that disclosing the fee hasn't been required before as the lack of cost information kept investors in the dark and vulnerable to abuse.

You can thank the Canadian Securities Administrators, a consortium of the provincial and territory securities regulators for these reforms called Client Relationship Model 2 (CRM 2). These multi-year reforms began July 15, 2013, and continue July 15, 2014, 2015 and 2016 and are intended to correct the knowledge asymmetry between the investment industry and investors. By 2016 other fees such as mutual fund deferred sales charges and trailer fees are required to be disclosed for the first time. Again, strange to think these are only now being revealed to Canadian investors.

So what should you do when it comes to investment products and services? Think like a consumer! Better results require better practices. Investors should seek to understand the risks they are taking, how high fees, excessive portfolio turnover and unnecessary tax work against them and how to avoid underperforming the market. These common problems found in the portfolios of frustrated investors aren't fixed by buying more products or the predictions from the latest expert.

Good consumers of investment products and services would likely want to know the cost of their investments, how their adviser is being compensated and what their return is after fees have been

deducted. The CRM 2 reforms are helping in this regard. In fact, regulators want consumers to focus on their statements and to ask questions. How investors respond to the newly disclosed bond trading cost will be interesting.

Use the information to arm yourself with knowledge including what it costs to buy and sell bonds and other investments. Identify the weaknesses in your portfolio and address those issues. Stop buying the next new issue, or latest recommendation from another expert. Better results require you to think differently and invest differently.

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