



SIPA has a mission:

- o to aid public awareness of how the investment industry operates;
- o to provide guidance to those who have a complaint about investments with a bank, broker, financial advisor, or other seller of financial products;
- o and to pursue improvement of industry regulation and enforcement.

Small Investor Protection Association - A voice for the small investor

SIPA Sentinel

The SIPA Sentinel is issued bi-monthly. From time to time we include articles and reprints that offer opinions on subjects related to investing and regulation. These are meant to help increase investor awareness, and SIPA may not share these opinions.

MEMBER ROI SURVEY - 2008

In late June we sent an e-mail Memo to members asking members to complete a survey. It reads as follows:

In recent issues of the Sentinel we have highlighted the importance of knowing the rate of return on your investments and comparing this to appropriate benchmarks. Recently Ellen Roseman wrote an article on passive investing indicating that many investors are encountering problems while depending on "Advisors".

Every now and then we ask for feedback to help guide us in the efforts we take and to help determine the issues that are most important for our members. We have asked members to let us know how their investments compare. We know that some members seem to be on top of their investments and at first were pleased that we heard from only one investor who said:

"I own Brandes Global Equity. My return over the past four years in a bull market has been negative. The return since I bought almost 8 years ago hasn't been better than a GIC."

Then we heard from a couple on non-members who had been investing in mutual funds for many years; one lost a little the other lost a lot.

On second thought we realized it might be possible that some of you do not know the rate of return on your investments because many "Advisors" do not provide this information, and many investors depend upon their "Advisors" to tell them how they are doing.

So we are asking that members complete the following brief survey with a yes or no:

MEMBER ROI SURVEY 200806

1. I depend upon an Advisor - YES or NO
2. My advisor provides me with the annualized rate of return on my investments at least once a year. - YES or NO
3. I know the rate of return on my investments. - YES or NO
4. My advisor compares the rate of return to a benchmark - YES or NO
5. I know how my rate of return compares to a benchmark - YES or NO

The results will be provided in the Sentinel.

We have already received a few responses, but if you have not already done so it would be appreciated if you do as your feedback will provide guidance for selecting information for the Sentinel.

NEW BOOK ON INVESTING

This issue we are pleased to feature an article by Gail Bebee on her new book. Gail was typical of many Canadian investors because she depended upon an "Advisor" and invested mainly in mutual funds. However, when she realized her investments were not performing, she decided to learn about investing. Then she decided to write a book to help others. The following is her story.

No Hype – The Straight Goods on Investing Your Money

By Gail Bebee

When I was in my mid-40s, I read an article about how the Canada Pension Plan was going broke and wouldn't have enough money to pay for baby boomer pensions. I realized that at some point in the foreseeable future I would retire from the working world and need an ongoing retirement income. As a result, I took a close look at our family's savings, potential company pension benefits and government old age pension benefits.

Like many other Canadians, we invested based on the recommendations of our financial advisor and mainly owned mutual funds. Consequently, I began to educate myself about mutual funds. I discovered that our funds were not the top performers and had relatively high management expense fees compared to similar funds. With a little digging, I found out why. Our funds were the best investment for our broker, not



necessarily for us. The companies selling these funds provided the best sales commissions and ongoing fees to brokers.

This discovery was a wake-up call. I decided that our family needed to take control of our investments. We needed to make our own informed decisions about how to best invest our hard-earned money. And so began my journey in search of how to invest successfully.

Through extensive reading, investment club membership, completion of the Canadian Securities Course with honours and experience gained in the school of hard knocks, I gained a considerable understanding of the art of investing. I also honed a straightforward approach to successful investing.

After retiring from corporate life, I had time to reflect on my investing career. What struck me was the amount of time I spent digging up basic, understandable, non-partisan information on areas of investing I wanted to know about. I realized there was a genuine need for a comprehensive primer on investing written for individual Canadians by a non-biased author. I set out to fill this gap.

No Hype – The Straight Goods on Investing Your Money is the book I couldn't find when I decided to take control of my money. It delivers all the investing basics for Canadians from the viewpoint of a savvy financial industry outsider. I provide my unbiased opinions on the best investment choices for the average Canadian investor; I have nothing to gain by promoting certain financial products or services.

The book includes a detailed table of contents, informative chapter headings and a comprehensive index to make it easy to find answers to investing questions. Here is a sampling of what's inside:

- The five universal rules of investing
- How to choose the right financial advisor.
- Selection guides for choosing the best stocks, bonds, mutual funds and exchange-traded funds.
- How to build a successful investment portfolio whether they have \$100 or \$100,000.
- Tips to keep investing costs down.
- Common investing mistakes to avoid.
- How to reduce the tax you pay on investing profits.
- Planning your finances for retirement regardless of your age.

My goal in writing No Hype – The Straight Goods on Investing Your Money was to give readers the knowledge they need to cut through financial industry hype and profitably invest their hard earned money. I believe that knowledgeable investors can better protect themselves from the excesses of the financial services industry.

Gail Bebee, B.Sc., M.Eng., is an independent Canadian investor, president of The Ganneth Company and author of *No Hype—The Straight Goods on Investing Your Money* (ISBN: 978-0-9784455-0-8), all investing basics for Canadians from a savvy financial industry outsider. Contact Gail by telephone at 416-733-0221 or e-mail: gbebee@nohypeinvesting.com . Find out more about her new book and buy online at www.nohypeinvesting.com

The Greatest Fraud Perpetrated on the Canadian Public

Canada is known to the rest of the world as the Wild West of investing. There have been many "Made in Canada" frauds that rank with Carlo Ponzi's scheme that is perpetuated and bears his name. Carlo Ponzi is credited with developing the investment scam of offering outrageous investment returns and paying investors with their own money. For example he could pay an investor a 25% return for four years and not give up a dime of his own money. Ponzi schemes can survive for many years provided they continue to attract more investment.

Pyramid scams are still popular in Canada where the first in may get their money back but most will lose their money. They are basic Ponzi scams.

Dr. Al Rosen has referred to some of the made in Canada scams as "Ponzi schemes" because they are paying returns to investors that include a component of their own money. The Accountability Research Corporation Report on business income trusts in early 2005 no doubt precipitated the much maligned Finance Minister's October announcement that put the brakes on the creation of business income trusts that were causing havoc with investors and causing them to lose their savings when they believed they were investing in an income generating secure investment.

Prior to the October announcement many investors had already lost their savings when faulty business income trusts reduced or suspended distributions with the resultant drop in unit values. Seniors saw their income disappear and their savings dissipated. This scam had to be stopped.

More recently Dr. Rosen has been warning against the adoption of International Financial Reporting Standards (IFRS). Dr. Rosen says these standards are inferior to the standards in place in Canada which are in need of improvement. The IFRS would provide even more freedom for managers to be creative in their financial reporting. Already the wise judiciary has declared that corporate financial reports are management tools and should not be relied upon by investors.

This year the Canadian Government issued new disclosure rules for PPNs, as a result of Canadians being fleeced by the investment industry's selling Principal Protected Notes. Many investors, including some of our members, had bought PPNs when they believed they would receive an attractive return while the principal was guaranteed. Too late they

learned that the "return" was a distribution that could include a return of capital, and the guarantee only applied if held to maturity. They were then faced with the dilemma of (A) holding their investment without income until maturity with the hope of eventually getting all of their money back or (B) selling their investment immediately and taking a hit of 20% to 30% in less than a year. The wisest choice would be (B) if the investor would learn that the industry and regulators are not to be trusted.

The Livent fraud is in the news recently. The case has finally arrived in court after many years being delayed by the perpetrators. The former CFO, a chartered accountant who had previously worked with an auditing firm, admits being aware of the fraud but was reluctant to reveal it because of fear of the powerful owners of Livent. In Canada whistleblowers are not protected. Their careers are ruined and there are no rewards. However, in the United States whistleblowers are encouraged and rewarded monetarily when they blow the whistle. Elliot Spitzer was enabled to tackle Wall Street because whistleblowers came forward.

Other Canadian scams include Norshield, Portus and Crocus where Canadians have lost 100s of millions of dollars. Some have had partial recovery. Others have had none. These scams and frauds arise with amazing regularity. It is apparent that the Canadian regulatory approach of preventative investor protection is not working.

The Asset Backed Commercial Paper crisis is one of the most recent fiascos. Not only small investors were scammed but large companies and pension funds were misled into believing the ABCP was a safe liquid investment. When it was determined that these investments were not so safe the market was frozen and investors could not get their money back. There was a danger that this particular investment fiasco could lead to a financial crisis.

Government pushed the investment industry into developing the Montreal Proposal to resolve the crisis. Court approved agreement appears to have been reached to convert this debt into a long term debt. In order to accomplish this industry had to buy off the small investors who held only a couple per cent of the some 30 billion dollars of non-bank ABCP but represented the majority of investors. However the agreement includes the investment industry being exempted from the law for issues related to ABCP. We believe this to be a dangerous precedent.

Then there is the Bre-X fiasco. Bre-X was labeled the "Scam of the Century." While Canada generates many mining frauds, the sheer magnitude of the Bre-X scam boggles the mind. How could some small time fraudsters create a multi-billion dollar scam under the scrutiny of our regulators and investment industry? The industry adopted the scam and made millions selling shares to unsuspecting investors. The regulators watched and allowed this to proceed. The fraud finally collapsed when a U.S. mining company did

their due diligence prior to investing and declared there is no gold in the discovery previously declared as the largest gold discovery in the world.

Ten years later the Ontario Securities Commission (OSC) finally took the former Bre-X Chief Geologist and Vice Chairman to court but failed to nail him. He had sold his shares in this fraud for \$90 million just before the collapse and retired in the Caribbean. He didn't even show up for his trial. It is alleged that prior to Bre-X he had already participated in a similar mining fraud in Australia although much smaller. How could this happen in Canada?

The regulators are unable to prevent fraud from happening. The industry is continually developing products that circumvent current regulations. The regulations are based on prescriptive rules and there is a lag time in developing rules for new products. It is like the proverbial "closing the barn door after the horse has escaped." Also, industry has a historical record of not following the rules.

However, the greatest fraud of all that is being perpetrated on Canadians is the creation of the perception that the investment industry is well regulated and that investors are protected. The industry/regulators claim to be providing investor protection even though an abundance of evidence indicates investors are not protected by the regulators. The regulators state that the protection they provide is preventative and not remedial. This means that they should prevent these frauds from happening but will not help any victims of fraud and wrongdoing. Big deal.

There are many illustrations of this greatest of frauds.

A recent example is the case in British Columbia when Ian Thow with Berkshire Group defrauded investors of some \$20 million and then left B.C.. The industry/regulators, in this case the Investment Dealers association of Canada, banned Thow from being registered with the IDA and fined him \$1 million.

The headline grabbing fine misleads Canadians into believing the regulators are doing their job of protecting investors and fining perpetrators of wrongdoing.

The fraud is that the IDA can only collect fines from members of the IDA. Once the former member is banned, the IDA is unable to collect the fine. Of all the fines levied by the IDA only a small percentage is collected. The fines collected are the industry's cost of doing business and the reason that the systemic wrongdoings continue to be perpetrated on the unsuspecting Canadian public.

Canadians need an enforcer that is not industry controlled. It's time for the Canadian Government to take action to revise the regulatory system and pass legislation to protect seniors and other small investors. Talk to your political representatives.

SIPA'S FIRST ALERT SYSTEM (FAS)

In 2004 SIPA developed our First Alert System to record complaints against Financial Advisors and Investment Firms. The objective is two fold. The first priority was to help provide assistance to members with a complaint by making particular information available to them and secondly by matching them with other members with the same issue or at times the same firm and even the same advisor. This enables group action.

The second priority is to provide SIPA with information relative to firms and issues to enable us to better represent the interests of investors. SIPA's policy is to not disclose members' names without prior permission. Any information used in our work is sanitized to remove not only members' names but also advisor and firm names to avoid identification of members.

SIPA'S PRO BONO LEGAL CONSULTATION

In 2007 SIPA introduced our Pro Bono initial legal consultation as a service to members. We believe that investors with a complaint should first seek legal counsel before proceeding to determine the best course of action. The regulators will prescribe seeking resolution with the industry itself and the SROs but with the introduction of reduced limitation periods, reduced from six years to two years, time is of the essence and aggrieved investors can not afford to risk being statute barred from seeking civil justice when they are unable to otherwise resolve their dispute.

In fact, most disputes are resolved by civil litigation that results in an out-of-court settlement and it is rare that cases go to trial. The industry does not want the public to know how many cases there are. There are several outstanding judgments that illustrate industry wrongdoing and culture. Investors should read these decisions.

MONITORING YOUR INVESTMENTS

The statistics below provide a benchmark for Canadian equities, or Canadian equity funds. The Toronto Stock Exchange index is a good starting point as a reference benchmark. An ETF that tracks the TSX is XIU on the Toronto exchange. It can be bought or sold the same way as a share and there are no redemption fees or trailer fees. It provides diversification similar to funds.

	Jun 30	2007	2006	2005	2004	2003
S&P/TSX	14,467	13,853	12,908	12,272	9,246	8,220
Return Rate	4.4%	7.3%	14.5%	21.9%	12.5%	
XIU-T	86.16	81.06	74.50	63.58	51.48	46.03
Return Rate	6.2%	8.8%	17.2%	23.5%	11.8%	

TruthTellers versus the Fear Factor

A June 10th article by Peter Small in the Toronto Star provides insight into corporate cultures and the dilemma faced by many employees when they discover fraud or corruption. Those with criminal intent would have you believe it is wrong to squeal or snitch or blow the whistle on your colleagues. This is gang culture and is not normal.

Our society is based on trust. However, in Canada corporate cultures can deviate from what are usually considered society norms. As we transform from Christendom to a secular society, ethics and morality are considered less important.

Corporations still pay lip service to the importance of these values in our society and often have written codes of ethics and written corporate policies that belie the way the corporation operates and treats clients with complaints.

The alleged Livent practice of keeping two sets of books is not unique with Livent, but illustrates how corporations and individuals can be influenced by greed and the motivation to make money by any means with total disregard of rules and regulations, and even the law. When white collar criminals get caught out they hire high priced lawyers who use tactics to destroy credibility of witnesses and introduce doubt however far fetched their arguments may seem.

The argument that it is unlikely that the accused would have committed the crime because he would have had to be a fool to do it cuts no ice with me. I have seen many actions by the industry that I first thought were just plain stupid, but then I realized these people are not stupid but just plain arrogant. They know they have the power and feel they are above the law.

The book "Snakes in Suits" helps one to understand this deviant behaviour. Two doctors wrote the book based upon their experiences with psychopaths and created a story to illustrate psychopathic behaviour. You may even recognize some individuals you encounter along the way.

The article by Peter Small describes the testimony of Maria Messina ex-CFO for Livent. As a chartered accountant with Deloitte and Touche she was excited by the opportunity of joining Livent with the prospect of becoming Chief Financial officer. But as Peter writes "she discovered manipulations of the financial books that sent her into panic and denial. "I was completely numb, I didn't want to believe what was happening," she testified. "I panicked and I was completely immobilized by fear."

Canada lacks whistleblower protection legislation so those who are brave enough to come forward and tell the truth will ultimately pay the price. Lost job and lost career are only a part of it. Our laws and courts seem more supportive of the white collar criminals who perpetrate frauds than the victims of these frauds. Its time for Canadians to speak up and call for updated legislation to protect those who will come forward to tell them the truth and reward them for doing so.