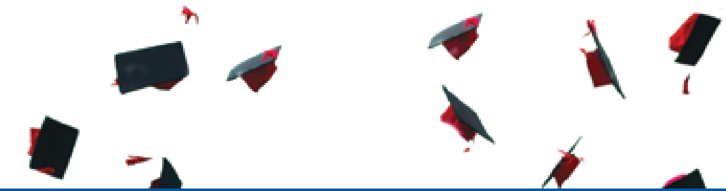
THE ANALYST

CFA Society Toronto

September 2016



LEARNING FOR LIFE
EDUCATING PRIVATE AND INSTITUTIONAL INVESTORS

TAX AND YOUR COTTAGE

PRIVATE WEALTH
TWO PROMINENT CHARTERHOLDERS WEIGH IN

PM # 43003032

Setting a higher standard for the Toronto investment community

September 2016
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LEARNING FOR LIFE

One of my instructors at Medaille College in Buffalo, N.Y., always said we should read something each week about our profession (in that case, teaching). It was good advice. And I still try to follow it … okay, once a month.

But, in case I forget, September is always a good reminder. It's also a good reminder to attend a conference or seminar, enrol in a course, read a book or an article, or take up a challenging new hobby.

We need to remember the social benefits of learning as we strive to improve ourselves intellectually, just as we try to manage our work/life balance in order to benefit our mental health.

First, mental health. Stats on mental health in Canada demonstrate the prevalence of the issue, the most-mentioned statistic being that one in five Canadians will personally experience a mental illness in their lifetime, according to the Canadian Mental Health Association. Likely burdened with stress, overwork, or any number of family and/or personal issues, we get bogged down in work and busyness, and soon or later this begins to have an impact on our mental state.

And what about the ever-increasing pressure to multi-task? Multi-tasking usually means performing two or more tasks at the same time, switching back and forth from one to the other, or performing a number of tasks in quick succession. Some researchers say multi-tasking can actually reduce productivity by as much as 40 percent. So much for getting everything done at once.

So how do we take a step back, balance our busy schedules, and stop multi-tasking—all the while completing necessary tasks and keeping sane and happy? Ron Schwarz explains how we might do this on page 18 as he looks at how we can develop a state of mindfulness.

Some learning can also have tangible social benefits. Wine is a great socializer, as it often breaks down barriers and induces people be less inhibited. But if you're engaging and doing business with clients over lunch, what happens when the restaurant server hands you the wine list? Do you know the difference between a Cabernet and a Chardonnay? Do you know what to choose? Find out how not to fear wine with a little Wine 101 from the Foundations in Wine Selection and Tasting event held at CFA Society Toronto in May (page 19).

Learning for life should be part of everyone's agenda. I couldn't agree more.

Cheers and happy learning!

I'D LIKE TO START by expressing what a great honour it is to be given the opportunity to serve CFA Society Toronto members as the 2016–2017 Chair of the Board. During my tenure, I will continue to fulfill the Society's mission to lead the investment profession in the Toronto community in setting the highest standards of education, professional excellence, and ethics, as embodied in the CFA program.

On June 24, CFA Society Toronto was pleased to celebrate the hard work and dedication of our volunteers at the Annual Appreciation Event. The evening started with welcoming remarks and the Volunteer Awards Ceremony, which recognizes all the contributions our volunteers have made over the past year and honours the Most Valuable Person (MVP) of each committee. Congratulations to all our committee MVPs, and thank you to all our volunteers for their outstanding work this past fiscal year.

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Paul Hamilton, CFA	Career Management MVP
Robert Thompson, CFA	Finance MVP
Steve Balaban, CFA	Awards & University Relations MVP
Victoria Barclay, CFA	Member Communications MVP

On October 5, we're looking forward to hosting another Annual Investment Dinner (formerly known as the Annual Forecast Dinner). This year, we've changed the name and format of our flagship event to adapt to the changing interest of our membership by combining some robust investment content with, perhaps, some sage advice from very successful investment professionals. This year also marks our Society's 80th anniversary, which is a good excuse for making the evening even a little more special. I am thrilled to be joined this year by an exceptional lineup of speakers: Howard Marks, CFA; Michael J. Mauboussin; and Barry L. Ritholtz (moderator) for a fireside chat, and our keynote speaker will be Canada's own Philip E. Tetlock, author of the bestseller *Superforecasting*.

I'm looking forward to this fiscal year at CFA Society Toronto as both staff and volunteers gear up to offer quality and relevant programming to our membership and to the investment community. We urge you to get involved and let us know how we can further our common goals.

The Analyst is published quarterly by
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WHERE HAS THE SUMMER GONE?

September marks the arrival of cool fall weather, a new academic year, and the start of a new programming year at CFA Society Toronto.

We started off our fiscal year by welcoming the 880 new members to the Society at our 2016 Annual New Member Reception. It's a great pleasure to see the many new faces that make up our diverse membership, which is reflective of our city and a model for every investment community abroad. We look forward to seeing you get involved with the Society.

This programming year, we're pleased to celebrate the 80th anniversary of the founding of CFA Society Toronto. Since the Society's formation, we've seen significant changes in the size of our membership and in our influence in the investment community, both locally and abroad; we've even seen several name changes along the way.

One common denominator throughout the decades is our commitment to promote and represent the core values of the CFA designation and maintain our place as thought leaders in the investment community. Originally named The Security Analysts' Association of Toronto in 1936, the Society started its humble beginnings as a group of investment professionals meeting at local diners during their lunch hours to discuss the current events of their profession and share ideas and experiences to further develop the investment practice.

Since then, CFA Society Toronto has evolved into Canada's largest society, and the world's largest society of CFA charterholders. Today, our membership includes some of the world's most influential figures in the investment community, and our reputation as one of the top thought leaders is second to none. Those small lunch-hour diner meetings have evolved into some of the industry's most highly anticipated events, including our Annual Pension Conference, our Annual Wealth Management Conference, and—our feature event—the Annual Investment Dinner (formerly known as the Annual Forecast Dinner).

On October 5, we'll be celebrating our 80th anniversary at the Annual Investment Dinner. To meet the demand of today's investment community, we've taken a new approach to our flagship event and combined traditional forecasting elements with substantive panel discussions. We hope to see many of you at this year's dinner. It's guaranteed to be a highly interactive and thought-provoking evening.

YOUR VIEWS

Results of the latest online poll posted at **www.cfatoronto.ca** – have you voted yet?

World News		
WILL BREXIT HAVE A NEGATIVE IMPACT ON CANADIAN CAPITAL MARKETS?		
		Response Percent
Yes		58.00%
No		42.00%
	TOTAL RESPONSES	**95**

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Earn a Master's degree in Finance while you continue to work here in Toronto.
Smith School of Business, in partnership with CFA Institute, has created an intensive, 10-month program for people wanting to pursue a career in investment banking, asset management or financial analysis. Queen's Master of Finance will equip you with the knowledge and skills to move quickly from theory to real-world application. Classes are held in our downtown Toronto classroom.
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SEE YOU IN SEPTEMBER

Brenda Bickram of **Books for Business** has the latest picks for fall reading.

Economics: An A-Z Guide 3rd edition

Matthew Bishop, *The Economist*,

Economist Books, June 2016, $24.50

Economics: An A-Z Guide explains the most important economic terms and concepts. Written with the clarity and wit for which *The Economist* is renowned, it features bite-sized overviews of essential economic ideas.

If you need to understand why a country's balance of payments is such a big deal, whether deflation is always a bad thing, or exactly why John Maynard Keynes or Milton Friedman were so influential, then dipping into this guide will provide the answers.

Primer, glossary, dictionary, and reference, this book offers everything you always wanted to know about economics but were afraid to ask.

The Inner Lives of Markets: How People Shape Them —And They Shape Us

Ray Fisman and Tim Sullivan

PublicAffairs, June 2016, $33.99

The past 25 years have witnessed a remarkable shift in how we get the stuff we want. If you've ever owned a business, rented an apartment, or shopped online, you've had a front-row seat for this revolution-in-progress. Breakthrough companies such as Amazon and Uber have disrupted the old ways and made the economy work better—all thanks to technology. At least that's how the story of the modern economy is usually told. Ray Fisman and Tim Sullivan show that the revolution is bigger than tech: it's really a story about the transformation of markets. From the auction theories that power Google's ad sales algorithms to the models online retailers use to prevent Internet fraud, even the most high-tech modern businesses are empowered by theory first envisioned by economists.

Redesigning Work: A Blueprint for Canada's Future Well-being and Prosperity

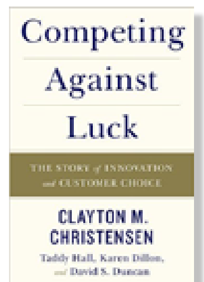
Graham Lowe and Frank Graves

Rotman-UTP Publishing, University of Toronto Press, September 2016, $34.95

Canada's future prosperity is of utmost concern to citizens, industry leaders, and policy-makers. Using original public opinion research from EKOS, *Redesigning Work* argues that improving people's jobs and workplaces can unlock the potential to strengthen Canada's economy and improve the well-being of Canadians.

Graham Lowe and Frank Graves are two of Canada's leading experts on work and public opinion. In the book, the authors provide a blueprint for the future of work in Canada by identifying practical ways to make work more motivating, rewarding, and productive. They provide fuel for employers, workers, policy-makers, HR professionals, and NGOs to combat the negative trends many Canadians associate with their future economic prospects. The book paints an optimistic picture of the future of work by addressing job stress, work/life balance, skill use, and engagement

Competing Against Luck: The Story of Innovation and Customer Choice



Clayton M. Christensen, Taddy Hall, Karen Dillon, and David S. Duncan

HarperCollins, October 2016, $36.99

Clayton M. Christensen, the foremost authority on innovation and growth, presents a cutting-edge book that every company needs in order to improve its innovation track record.

How do companies know how to grow? How can they create products they're sure customers want to buy? Can innovation be more than a game of hit and miss? Harvard Business School professor Clayton M. Christensen has the answers. A generation ago, Christensen revolutionized business with his groundbreaking theory of disruptive innovation. Now he goes further, offering powerful new insights.

After years of research, Christensen has come to one critical conclusion: our long-held maxim—that understanding the customer is the crux of innovation—is wrong. Customers don't buy products or services; they "hire" them to do a job. Understanding customers does not drive innovation success, he argues; understanding customer jobs does. Christensen contends that by understanding what causes customers to hire a product or service, any business can transform innovation from a game of chance to one in which it develops products and services customers not only want to buy but are willing to pay premium prices for.

The Euro: How a Common Currency Threatens the Future of Europe

Joseph E. Stiglitz

W.W. Norton & Company, August 2016, $38.95

In *The Euro*, Nobel Prize-winning economist and best-selling author Joseph E. Stiglitz dismantles the prevailing consensus around what ails Europe, demolishing the champions of austerity while offering a series of plans that can rescue the continent—and the world—from further devastation.

The euro—hailed by its architects as a lever that would bring Europe together and promote prosperity—has done the opposite. As Stiglitz persuasively argues, recent crises revealed the shortcomings of the euro. Europe's economic stagnation and bleak outlook are a direct result of the fundamental challenges in having a diverse group of countries share a common currency. The euro was flawed at birth, with economic integration outpacing political integration. Stiglitz shows how the current structure promotes divergence rather than convergence. The question is, then, can the euro be saved?

After laying bare the European Central Bank's misguided inflation-only mandate and explaining how eurozone policies—especially those aimed at the crisis countries—have further exposed the zone's flawed design, Stiglitz outlines three possible ways forward: fundamental reforms in the structure of the eurozone and the policies imposed on the member countries; a well-managed end to the single-currency euro experiment; or a bold, new system dubbed the "flexible euro."

With its lessons for globalization in a world economy ever more deeply connected, *The Euro* is urgent and essential reading.

Extreme Events in Finance: A Handbook of Extreme Value Theory and its Applications

François Longin

Wiley, September 2016, $180.00

Beginning with a fascinating history of extreme value theories (EVTs) and financial modelling, this book introduces the historical implications that resulted in the applications and then clearly examines the fundamental results of EVT in finance. After dealing with these theoretical results, it focuses on the EVT methods critical for data analysis. Finally, it features the practical applications and techniques and the way these can be implemented in financial markets. This book is a valuable reference for practitioners in financial markets such as financial institutions, investment funds, corporate treasuries, financial engineers, quantitative analysts, regulators, risk managers, large-scale consultancy groups, and insurers.

The New Era of Regulatory Enforcement: A Comprehensive Guide for Raising the Bar to Manage Risk

Richard H. Girgenti and Timothy P. Hedley

McGraw-Hill, May 2016, $89.95

The outset of the 21st century has seen a relentless flow of events—from the 9/11 terrorist attack to the 2008 financial recession—that have given birth to a new regulatory and enforcement landscape. In today's global and digital world, this increasingly complex landscape has created unprecedented challenges and risks for businesses in all industries.

The New Era of Regulatory Enforcement provides an overview of the challenges companies face in conducting business in this new environment. It discusses the government policies, strategies, and tactics driving enforcement activity and outlines the most effective approaches for preventing, detecting, and responding to the risks presented.

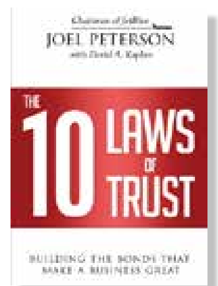
Authors Richard H. Girgenti and Timothy P. Hedley are two highly experienced professionals at KPMG who work daily with organizations around the globe to help them understand and manage these challenges. They draw upon their years of experience in both the private and public sectors to provide an overview of the new regulatory and enforcement landscape and a framework for compliance. Assisted by a team of subject-matter professionals, they cover a broad range of topics, including bribery and corruption, money laundering and trade sanctions, market manipulation, financial reporting, fraud, offshore tax evasion, unfair and abusive consumer finance practices, and fraud and misconduct in the healthcare and life sciences industries. Prudent and diligent organizations must take the necessary steps to preserve the hard-earned value of their companies.

The 10 Laws of Trust: Building the Bonds That Make a Business Great

Joel Peterson and David A. Kaplan

AMACOM, May 2016, $23.50

Trust is the glue that holds an organization together. It turns deflection into transparency, suspicion into empowerment, and conflict into creativity. With it, a tiny company like John Deere grew into a worldwide leader. Without it, a giant corporation like Enron toppled.



In *The 10 Laws of Trust*, JetBlue chairman Joel Peterson explores how a culture of trust gives companies an edge. Consider this: what does it feel like to work for a firm where leaders and colleagues trust one another? Freed from micromanagement and rivalry, every employee contributes his or her best. Risk-taking and innovation become the norm. And, as Peterson notes, "When a company has a reputation for fair dealing, its costs drop: Trust cuts the time spent second-guessing and lawyering."

In clear, engaging prose, highlighted by compelling examples, Peterson details how to establish and maintain a culture of trust. Steps include the following: start with integrity; invest in respect; empower everyone; require accountability; keep everyone informed; embrace conflict; and forget "you" to become an effective leader. With this book in hand, you'll be able to plant the seeds of trust—and reap the rewards of reputation, profits, and success.

Brenda Bickram is the manager responsible for special orders and corporate sales at Books for Business online store.

Books For Business: Toll Free: 1-800-668-9372
www.booksforbusiness.com

PUTTING INVESTORS FIRST MONTH

What did you want to be when you grew up? Firefighter? Doctor? Astronaut?

Devin Crago, CFA

What we wish for as kids often tends to have a heroic slant, something that's not only awesome in its own right (fighting fires! saving lives! piloting a rocket ship to Mars!) but also holds some kind of sentiment that the work is good for other people and worthy of admiration. If you're a firefighter, you put your life in danger to save those in great peril. If you're a doctor, you work tirelessly to heal the sick. If you're an astronaut, you venture forth into the unknown in hopes of advancing human civilization. These are admirable goals that add value to society. And they share a common thread of putting the interests of others ahead of one's own.

This past May marked CFA Institute's third annual Putting Investors First Month, an initiative that, at its core, is about creating an investment profession that better serves society. The goal, as articulated by CFA Institute, is to unite "investment professionals in a commitment to place investor interests above all others." If you're an investment professional, your heroic mission is to uphold your duty as a fiduciary and protect investor interests. Not the stuff of childhood dreams, perhaps, but important nonetheless.

The Hard Truth

Unfortunately, the last 10 years or so have left a track record that exposes the hard truth that all too often our industry has failed to prioritize investors. In 2015, according to a global CFA Institute survey that polled more than 3,000 retail investors and 500 institutional investors, the financial services industry ranked in the bottom tier of trust relative to other industries. The silver lining, however, was that overall investor confidence in the financial industry "to do what is right" has generally improved since 2013. But not so in Canada! While Canada has admittedly set the bar high (tied with Hong Kong for overall trust levels), the degree of trust in our industry among retail investors has actually declined since 2013.[1]

A Roadmap for Improvement – The Statement of Investor Rights

In an effort to provide a path forward to promote the needs and rights of investors, CFA Institute has produced a Statement of Investor Rights. It's a key component of the message advanced during Putting Investors First Month, so we've reproduced it here (see p. 14) to give readers a chance to think about its contents: 10 rights any investor should expect from financial service providers.

However, just knowing one's rights isn't always enough. Investors need to ask the right questions to ensure their rights are actually upheld when financial services are being provided to them. To this end, CFA Institute has produced a companion piece called "Realize Your Rights: Using the Statement of Investor Rights," which is a tool to help investors assess whether a financial professional is indeed putting their rights first and upholding the ethical standards that are required of CFA charterholders. Straightforward questions (e.g., Are you a fiduciary? and Would our relationship be held to a fiduciary standard?) are among those to be found in this helpful four-page document.

The Global Ad Campaign

In addition to the Statement of Investor Rights, you may have seen the ad campaign A Difference That Matters, which aimed to raise investor awareness of what makes CFA charterholders different. Or if, like most people, you're spending increasing amounts of time on social media, you may have seen the #CFAdifference campaign on Twitter. Take a look—you may be surprised at just how active (and global) your fellow charterholders are in spreading the word about our industry's positive aspects.

Putting Investors First (in T.O.)

In support of the global ad initiative, CFA Society Toronto embarked on its first-ever digital ad campaign. Targeted digital ads were placed in *The Globe and Mail* and their alliance partners, which include notable online news outlets such as Reuters, *The Guardian*, *Forbes*, *The Washington Post*, and *The Times of India*. If you're a particularly curious person, you may even have clicked on one of the ads, which would have taken you to the CFA Society Toronto website's landing page for Putting Investors First Month 2016.

In addition to the digital campaign, the sharp-eyed PATH-dwellers among you may have noticed posters that were located at various points near the TD Centre, the Standard Life building, and the Sheraton Centre. The poster ads listed 10 benefits of having a CFA charterholder on your team, number one being "honest, competent, and ethical conduct." The second aspect of the physical ad campaign was publicizing the related Twitter initiative #CFAdifference, which asked our community to take selfies next to the ads and then post them on social media.

A Word From the Top

Paul Smith, president and CEO of CFA Institute, notes that putting clients first should generate a wide array of benefits, not only for clients but also for the long-term success of our profession.

"Through this encouraging effort, we want to inspire our community to make a real impact and foster a market environment where both investment professionals and investors can thrive," he says. "Putting Investors First Month is just the beginning of what should be a continuous focus on the rights of the investor in order to raise awareness among investors of what it truly means to be a professional."

Devin Crago, CFA, is an investment analyst at Nexus Investment Management. He is also chair of the Communications Committee of CFA Society Toronto.

[1] *For further survey details, download the report titled "From Trust to Loyalty" from CFA Institute's website.*

CFA INSTITUTE STATEMENT OF INVESTOR RIGHTS

The "Statement of Investor Rights" was developed by CFA Institute to advise buyers of financial service products of the conduct they are entitled to expect from financial service providers. These rights reflect the fundamental ethical principles that are critical to achieving confidence and trust in any professional relationship. The list applies to financial products and services such as investment management, research and advice, personal banking, insurance and real estate. Whether you are establishing an investment plan, working with a broker, opening a bank account or buying a home, the Statement of Investor Rights is a tool to help you get the information you need and the service you expect and deserve. **Demanding that financial professionals abide by these rights helps you build trust in the person and/or firm you engage with, and thereby collectively restore trust, respect, and integrity in finance.**

WHEN ENGAGING THE SERVICES OF FINANCIAL PROFESSIONALS AND ORGANIZATIONS, I HAVE THE RIGHT TO...

1. **Honest**, competent, and ethical conduct that complies with applicable law;
2. Independent and **objective** advice and assistance based on informed analysis, prudent judgment, and diligent effort;
3. My financial **interests** taking precedence over those of the professional and the organization;
4. **Fair** treatment with respect to other clients;
5. Disclosure of any existing or potential **conflicts** of interest in providing products or services to me;
6. **Understanding** of my circumstances, so that any advice provided is suitable and based on my financial objectives and constraints;
7. Clear, accurate, complete and timely **communications** that use plain language and are presented in a format that conveys the information effectively;
8. An explanation of all **fees** and costs charged to me, and information showing these expenses to be fair and reasonable;
9. **Confidentiality** of my information;
10. Appropriate and complete **records** to support the work done on my behalf.

Visit cfainstitute.org/futurefinance

KEEP THE KNOWLEDGE COMING

Financial professionals need to empower their clients with education.

Vanja Perić, CFA

Basic financial concepts are not difficult and can be understood by most people—with some guidance. In spite of that, finance has earned a reputation of being too complex for, and beyond the grasp of, the average person. As investment professionals, we do the industry and ourselves a great disservice when we fail to counter this myth. We make finance seem more complicated than it really is when we overuse financial jargon, acronyms, and other technical terms without considering our audience and making sure they understand these terms. While all the jargon may be fine when used among the inner circle of finance practitioners, remember that those outside our area of specialty, who don't live and breathe that particular niche of the market, may have a hard time following the conversation—other finance professions included. We take for granted our daily exposure to, and experience with, industry terminology and assume others are equally familiar with it. It's enough to intimidate even the most sophisticated investors, let alone the layperson. Clients come from a variety of backgrounds and have different levels of investment knowledge. Some clients think they know more than they actually do; others feel they know nothing. Whatever the case, we need to ensure investors are well informed and have the confidence to be engaged in their investments. Our industry, as a whole, can do a better job communicating with clients, and that applies both to the institutional and to the private client side of the business.

The Investor Education Fund, an Ontario Securities Commission initiative, released a report in 2014 titled "Insights on Canadians and online investor education." The report concluded that, "On average, the top barriers to investing confidence include too much conflicting information, a lack of investing knowledge, and an inability to find an unbiased source of investment knowledge." Interestingly, respondents from different age groups reported different primary challenges:

- Under 30: Lack of knowledge – This group doesn't understand most of the terms that financial advisors and experts use (64 percent versus 49 percent across all ages).
- 30s and 40s: Lack of time – This group, most with full-time jobs, doesn't have enough time to focus on their investments (57 percent versus 45 percent overall).
- 50 and older: Lack of trust – This group has conflicting information from too many sources, doesn't know what to believe (40 percent), and is unsure where to find unbiased information on investing (36 percent).

In general, people are skeptical of what they don't understand, and this is just as true in the investment landscape. Financial resources and advice are essential in building confidence and trust. Investors often feel overwhelmed by the sheer volume of information, and, according to Capital One ShareBuilder's Financial Freedom Survey, "61 percent would like financial tools that offer step-by-step guidance."

Effective communication and setting expectations also play key roles. Depending on their investment needs, investors will require, and should receive, pertinent information. An investment committee that is responsible for the financial assets of a foundation faces different objectives and constraints than an individual investor. It's important for investors to understand that their portfolios are constructed with specific risk and return characteristics in mind. Having a discussion around what is expected of the portfolio and how it may behave in different market environments is crucial. No one likes surprises, especially on the downside. Managing client expectations for the portfolio and clearly communicating those expectations are key ingredients for a successful working relationship.

Informed clients are empowered investors. They're more confident and tend to have more focused long-term objectives. They're less likely to be distracted by noise in the market and less concerned by short-term disruptions. Encouraging open dialogue and presenting investment themes in a simple and concise manner allow clients educated decisions, which builds their confidence and leads them to a higher level of trust—both of markets and of advisors.

Financial literacy and, more specifically, investment education are more important than ever. New products are coming to the market every day. Investors must stay informed, and they look to us, the professionals, to provide them with timely, accurate, and appropriate information. Let's keep it simple. Let's keep it interesting. Let's keep educating.

Vanya Perić, CFA, is a senior manager, investment management research, at CIBC Asset Management.

Please visit **cfainstitute.org/investorrights** for more information on CFA Institute's Statement of Investor Rights

69TH CFA INSTITUTE ANNUAL CONFERENCE:
A summary

Vanja Perić, CFA

In 1959, Montreal hosted the first CFA Institute Annual Conference outside of the U.S. Fifty-seven years later, the conference returned to Quebec's largest city, achieving a record attendance of more than 2,000 delegates from 70 countries. Over four days in May, participants had an opportunity to interact with colleagues from around the world, to learn about and understand CFA Institute initiatives, and to listen to leading experts speak on relevant topics in today's fast-changing finance profession. The message was simple: we must work together to produce a more ethical and effective investment profession.

Welcoming the attendees to the conference, Paul Smith, CFA, president and CEO of CFA Institute, provided an update on the Institute's initiatives. He acknowledged the excellent work being done by CFA Institute and its members but also emphasized the need for continued improvement in order to ensure a stronger, more trustworthy investment profession. To help advance its mission, CFA Institute will focus on three strategic outcomes:

- setting professional high standards;
- creating business models geared toward achieving investor outcomes; and
- advocating for regulations that align firms and clients.

He called on all CFA Institute members to take an active role in transforming the perception of our industry by adopting the following four "A's":

- **advocating** publicly for higher educational and ethical standards in the industry, individually or through your company;
- **acting** to broaden awareness of the difference a CFA charterholder can make with clients;
- **adopting** CFA Institute codes—the Asset Manager Code of Professional Conduct and the Global Investment Performance Standards—at your firm; and
- **asking** your HR department what your firm is doing to support the next generation of investment management professionals.

FINANCE AS A FORCE FOR GOOD

Investment professionals must be both technically competent and ethically minded. Using finance as a tool to improve the world is vital. But, increasingly, investors are no longer satisfied with financial benefit alone. Environmental, social, and governance factors are also important aspects of investment analysis and decision-making. Social entrepreneurship and impact investing are increasingly gaining traction, and investments with a social or environmental benefit—such as sustainable trade financing, affordable housing, clean energy, and clean water access—are becoming an important part of investment portfolios.

This theme was apparent in several comments by the high-profile speakers in attendance.

Daniel Goleman, an author, psychologist, and science journalist, noted that we need to develop a metric for the "proportion of goodness" wealth creates.

David M. Rubenstein, co-founder and co-CEO of The Carlyle Group, spoke candidly about the economy, investment environment, and philanthropy.

And Bob Geldof, musician, businessman, and political activist who founded the 8 Miles Fund, closed the conference by discussing the importance and benefits—both financial and social—of investing in Africa.

THE CHANGING LANDSCAPE

As the world goes through a period of rapid change, the financial industry is affected on many levels and must adapt and evolve to stay competitive. Central bank policies, geopolitical issues, and technology are just a few of the factors speakers touched on. Amy Myers Jaffe, executive director for energy and sustainability at the University of California, Davis, and chair of the World Economic Forum's Global Agenda Council on the Future of Oil & Gas, discussed the trends and changes in the global energy market.

Peter Zeihan, president and founder of Zeihan on Geopolitics, spoke about demographic concerns faced by countries around the world. He also addressed issues in the Middle East and the resulting financial, economic, and military developments in the area.

BEYOND THE NUMBERS

It's no longer sufficient simply to be a technical expert. Increasingly, soft skills, such as the ability to communicate clearly and relate to clients, play a role in the success of investment professionals. Tom Brakke, CFA, a consultant and author of *The Research Puzzle*, discussed effective communication. We must get better at communicating with others so they understand what we know, he said, adding that, in order to build trust, we need to be able to say "I don't know." Lastly, he noted that good listeners are good analysts, because they pick up on what's *not* said.

Jeremy Hunter, associate professor of practice at the Drucker School of Management and founding director of the Executive Mind Leadership Institute, talked about multi-tasking, mindfulness, and managing attention. He challenged the idea that multi-tasking is productive, pointing out that it actually fragments attention and produces poor results.

The conference was well organized and delivered a good mix of networking events, continuing education sessions, and coverage of current events affecting the finance profession. View select videos of the conference at http://livestream.com/livecfa.

Vanja Perić, CFA, is a senior manager, investment management research, at CIBC Asset Management.

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FINTECH CONFERENCE:
Three market developments poised to disrupt your business

Victoria Barclay, CFA, and Dennis Bardetsky, CFA

The financial services industry, which has enjoyed relative stability for decades, now faces disruptive financial technologies that are evolving at an unprecedented rate.

CFA Society Toronto hosted a sold-out FinTech Conference in June that brought together pioneers at the forefront of this evolution. They discussed three areas of financial technology: wealth management through robo-advisors, crowdfunding, and the application of blockchain. Even though the three conference panels covered a variety of topics, the recurring theme was that exciting new technologies can make the moving and allocating of capital more efficient.

ROBO-ADVISORS ARE HERE TO STAY

Firms offering digital advice have already arrived in Canada: Nest Wealth, Wealthsimple, and WealthBar, to name a few big players, as well as SmartFolio by BMO and Portfolio IQ by Questrade. The key similarity in their offerings is that some, if not all, functions traditionally performed by an investment advisor have been automated.

The panel discussed key benefits of digital advice. As Amelia Young, principal of Upside Consulting, put it, we should not wonder whether "robo-advisors are here to stay … but how this disruptive technology will shape the financial advisory industry as a whole."

Randy Cass, founder of Nest Wealth, said that robo-advisors can competently automate such operational tasks as client assessment, defining asset allocation, portfolio rebalancing, performance measurement, and reporting. Cass added that "scaling up of the distribution model" means that the professional advice, which used to be available only to a select few, can now be rolled out to "masses of people" in a very cost-effective way.

"Bake all of the best practices into one experience and consistently repeat this experience," said Joe Cianciolo, head of business development at FutureAdvisor. His product includes a reporting "iceberg model" that crystalizes results that matter most to investors (e.g., net dollar gain) at the top. Curious investors can drill down to review portfolio information on a more granular level. "It's really about investor empowerment, which helps investors connect on their own terms," Cianciolo added. Also, investors' portfolios are accessible around the clock through a digital platform.

Julie Barker-Merz, president of BMO InvestorLine and head of wealth direct investing at BMO, was asked if she was concerned about robo-advisors' channel conflict with traditional private wealth solutions. She believes that, initially, the outcome would be similar to when trading fees dropped from $30 to $5 per trade or when cost-effective ETFs were introduced to rival their mutual fund counterparts.

Barker-Merz also believes that investing in robo-advisors' technologies is a strategic move that will grow future market share by offering a client-centric service that will be very attractive to cost-conscious Canadians seeking professional portfolio management services.

With the refinement of robo-advisor technology, it's expected that certain modules will become standardized and commoditized. It remains to be seen how companies will find ways to differentiate their services. As Michael Lynds, senior vice-president, business development, at IRESS Canada, said, "Digital advice 1.0 is already here." What everyone's waiting to see is "what 2.0 will look like!"

CROWDFUNDING – ANOTHER ALTERNATIVE INVESTMENT ASSET CLASS

Brilliant ideas don't always turn into successful companies. It's a well-known fact that effective funding mechanisms play a critical role in start-ups' success. In Canada, early-stage companies have limited sources of funding because Canadian institutional investors tend to be more conservative than those in other countries. Crowdfunding allows entrepreneurs to sidestep these gatekeepers and pitch their ideas directly to individual investors. This is facilitated through portal companies that aggregate individual contributions into a substantial investment.

"The future of the Canadian economy is in digital technology, and there are a lot of start-ups that need funding," said Peter Misek, a partner at BDC Ventures, which supports 42,000 small- and medium-sized Canadian businesses. "There's also a lot of investor appetite," he added. Crowdfunding is an alternative investment vehicle that can unlock opportunities that were prohibitively expensive to most private investors. It also allows investors to select ventures they're passionate about.

In Canada, there are heavy restrictions on how much can be raised through equity crowdfunding because the inherent risks are high. Under the start-up crowdfunding exemption available in certain Canadian jurisdictions, non-accredited investors can commit a maximum of $1,500 to a venture, and the start-up can raise no more than $250,000 per offering in this fashion.[1]

It appears that Canadian regulation on crowdfunding is moving slower than that in many other countries. It would be great to see Canada embrace this technology and other disruptive innovations that are sure to become mainstream in the coming years, said Anthony Di Iorio. Di Iorio is CEO and founder of Decentral; co-founder of Ethereum, a rival to bitcoin; and chief digital officer of TMX Group. Misek agreed, saying that the solution should be investor education—not limitation.

"Canada should follow the example of the U.S., Israel, the U.K., and Australia, where crowdfunding is now a legitimate way of raising capital," suggested Hitesh Rathod, co-founder and CEO of NexusCrowd. "We are three to five years behind in the development of crowdfunding, which means [we need] to catch up," he said. A well-developed crowdfunding mechanism could fuel the growth of start-ups and small- to medium-sized private companies in Canada. A robust crowdfunding mechanism would also make the Greater Toronto Area a hub of innovation able to compete with Silicon Valley.

BLOCKCHAIN

Canada has a mixed track record when it comes to welcoming new financial technology such as blockchain and bitcoin, according to the final panel of experts.

Cryptocurrency permits peer-to-peer value exchange—without the bank intermediary. "Bitcoin is the world's first open-source, decentralized digital currency and payment network," explained Sunny Ray, co-founder of Unocoin, a bitcoin trading platform. "Most people find it confusing at first because it's two things in one: a digital currency, like dollars or gold, that goes up and down in value; and a payment network, like Western Union, MasterCard, or PayPal, that moves value from one person to another."

"The banking system was a hurdle for us," said Joe Weinberg, CEO of Paycase, a mobile-first remittance platform using blockchain technology. "We're working with banks and regulators to see that we will have clearance to operate," he said.

"Canada is punching above its weight" when it comes to encouraging the fintech industry, said Matthew Spoke, CEO of Nuco, a start-up that applies blockchain to enterprise systems. "We're fortunate to have Ethereum here and a vibrant community of talent."

Ray said he was excited that "actions of Canadians are having global impact." He believes Canada is poised to become "the Silicon Valley of the fintech world." The biggest challenge he sees is that Canadian entrepreneurs are "afraid to fail."

Regulators should understand the new technologies first before they regulate, the panellists agreed. "Do less, but pay more attention," said Addison Cameron-Huff, a programmer–lawyer with an in-depth knowledge of the nascent industry.

Money laundering using cryptocurrencies is harder than most people think, Weinberg said. Different cryptocurrencies are evolving as digital tokens, and "bitcoin is built to make money laundering not the best solution." Cameron-Huff pointed to a 2015 Treasury report—"U.K. National Risk Assessment of Money Laundering and Terrorist Financing"—that says bitcoin is an unlikely money-laundering risk.

Cryptocurrencies fill an obvious gap. "Many people in India are unbanked," Ray said, explaining that they have no local bank branch but need financial services in order to receive remittances, for example. "It's like cellphone usage spreading in a place where no land lines exist."

Blockchain is being touted as a breakthrough in fintech, and its impact has the potential to rival that of the Internet, now that value can be exchanged instantly and globally without requiring third-party involvement or participation. Entrepreneurs are actively searching where the key innovation of blockchain can help fill the gap.

Victoria Barclay, CFA, is a Toronto-based risk manager and has been a CFA charterholder since 2006. Dennis Bardetsky, CFA, is manager, risk and investment analytics, at RBC.

1. http://ncfacanada.org/equity-crowdfunding-regulations/

PRIVATE WEALTH: INVESTING IN A NEW WORLD

Two prominent CFAs share their views on how private wealth management has changed and how they're addressing new challenges.

Rossa O'Reilly, CFA

In the wake of the global financial and economic crises, conditions in capital markets today are markedly different from a decade ago.

Investors' ability to obtain a reliable return on their savings has been greatly diminished as yields on benchmark government securities have collapsed, thereby threatening prospects for their retirement income.

Stock price volatility has escalated dramatically from a decade ago, and commodity price declines have raised risks for much of corporate Canada.

Foreign exchange markets regularly undergo huge price swings, disturbing the terms of trade.

High-frequency trading now accounts for more than 50 percent of North American stock market transactions, and shorter-term asset allocation—with its emphasis on derivatives rather than on direct long-term investing in equities and bonds—has become the new normal.

Increased regulation and new technologies are challenging traditional financial services business models globally.

In this new investing world, *The Analyst* asked two prominent practising CFAs in the private wealth field—a category of investment for which absolute returns have always been more important than relative returns—how their activities have adapted to the sea change in their environment and what they expect for capital markets and their professions.

Nancy Hoi Bertrand, LL.B., CFA, is a Director at Citi Private Bank, specializing in ultra-high net worth clients ($25 million-plus). She has an extensive background in securities law and private banking in Canada and the U.S. She is a past president of CFA Society Toronto.

Nancy Hoi Bertrand says her advice to clients still starts with an investment strategy based on financial objectives and risk tolerances. What has changed, however, is how that strategy is executed, given the many more types of investments now available, particularly on the capital markets side.

MORE INVESTMENT CHOICES

"Although we have always engaged in hedging, many clients are implementing more sophisticated structures than simple forwards, such as collars, spreads, steepeners, and other derivative trades," she says. "Our clients are definitely more interested in hedging left tail risk than they were 10 years ago.

Also, today, the majority of our clients have alternatives such as real estate, hedge funds, and private equity in their portfolios, which wouldn't have been the case a decade ago. They're also using leverage to enhance yield and generate positive carry in this low-yielding environment."

As for how clients' funds are managed, Bertrand says Citi Private Bank has always taken an institutional approach to money management. "We start with a quantitative and qualitative analysis of a client's cash flow and investing needs to determine the optimal asset mix and portfolio construction. All of our clients are ultra-high net worth, which means they're not investing for themselves but for future generations or to achieve their philanthropic goals."

INCREASED REGULATION

Compared to a decade ago, regulation of financial services is much greater, Bertrand says. While her firm sees the value in regulation and doesn't just meet, but rather exceeds, all requirements, frequently changing regulations require extensive resources in terms of time and effort to stay up to date on the impacts to the firm's business and to its clients. "Citi recognizes that regulators have the best intentions, and we work within their guidelines to do our best for our clients," she adds.

THE FINTECH CHALLENGE

Bertrand is forthcoming in identifying the competitive forces within and outside the conventional financial services industry. "We are already seeing the impact of fintech [the segment of the technology start-up scene that's disrupting sectors such as mobile payments, money transfers, loans, fundraising, and asset management] on traditional financial services, and we'll continue to see disruption in the industry from technology," she says. "With our clients becoming more and more tech-savvy, I would expect to see peer-to-peer lending continue to grow, as well as increasing numbers of more sophisticated robo-advisors [providers of portfolio management services online with minimal human intervention] in wealth management."

MUTED EQUITY RETURNS

All of this is occurring at a time when recent equity and bond returns have contracted. Bertrand expects more of the same in the medium term. "Over the next five years, I expect equity returns to be quite muted, as we're starting to see corporate profit margin compression and a market that's fairly valued. As for bond markets, many developed markets are already at negative interest rates, which means you're guaranteed a loss if you hold to maturity."

In this environment, she acknowledges that a challenge to private wealth advisors is to demonstrate that their services are superior to their competitors' and that their fees are fully justified, even in a period of low returns.

DOWN THE ROAD

Finally, as one might expect from an astute advisor to ultra-high net worth clients, Bertrand provides some sage predictions. "Governments around the world are looking for new sources of revenue, and I think we'll see taxes increase across the board, specifically for our clients, as it's politically popular to tax the wealthy. Coupled with higher taxes, it will be more challenging to find attractive after-fees and after-tax opportunities, going forward, because of the macroeconomic headwinds the world is facing. As a result, many entrepreneurs may defer selling their businesses because of the tax bill and the uncertainty as to where they're able to reinvest their sale proceeds. The statistic that, potentially, $1 trillion worth of small-business assets will change hands in the next decade in Canada may be pushed out further into the future."

Linda Palin, MBA, CMA, CPA, CFA, is managing director and founder of Pangaea Asset Management Inc. Her professional experience includes many years as an equity analyst and as an institutional and private client portfolio manager. She is a past president of CFA Society Toronto.

Linda Palin provides financial advice and portfolio management services to a varied clientele. While performance is important, it's not the sole criterion at Pangaea. The firm emphasizes investment philosophy (a classic valuation-based approach to long-term investing), financial planning, good communication, and sensitivity to clients' needs and concerns.

PRIVATE (EXEMPT) INVESTMENT PRODUCTS

In recent years, Pangaea has been able to include in its clients' portfolios both public and private investments that previously were available only to institutional investors and family-office level investors (its "hybrid" approach to portfolio management). Included among these private (exempt) investments are mortgage products, which offer enhanced returns in the context of clients' risk profiles and return objectives.

FINANCIAL SERVICES' FUTURE

Palin believes the financial services industry will become more fragmented in the future. "There will be disintermediation from new fintech solutions, such as robo-advisors," she says. "And there will be upheaval from regulation such as the new Canadian Securities Administrators' regulatory initiative known as the Client Relationship Model Phase 2 (CRM2), which mandates various new disclosure requirements to be phased in over the next few years. The impact of CRM2 on advisors in the Mutual Fund Dealers Association of Canada is already challenging the status quo. Blockchain applications (i.e., giant digitalized record books of all transactions) will strip away many of the back-office costs of investment managers, enabling them to be more nimble and profitable in providing service while freeing them from the burden of bank-dominated custodial operations."

REGULATORY CHANGES AND LOW MARKET RETURNS

On the outlook for equity and bond returns, Palin shares Bertrand's views. "Our expectation is that both equity and bond market returns will be lower than the norm of the past 25 years, due, partly, to lower inflation levels," she says.

Both advisors say that keeping up-to-date on new products, issuers, and regulatory changes is a greater challenge today than it has ever been.

MILLENNIALS' NEEDS

Virtually all private wealth advisors agree that one of the big challenges facing the financial services industry will be how to service the needs and objectives of millennials (those born between 1980 and 2000), who don't currently have a lot of capital but will, in time, have much more.

Many private wealth advisors maintain that the best way to do so will be online, as, according to the *Financial Times*, almost 90 percent of millennials check their smartphones within 15 minutes of waking up. Some advisors even believe that gamification (the application of typical elements of game playing to encourage engagement with a product or service) can be effective. Michel Jacquemai—co-founder of meetinvest, an online platform modelled on fantasy football that enables users to emulate the investing styles of famous investors, past and present, such as Warren Buffett and John Templeton—says, "You just can't retain younger clients with a piece of paper and some charts, but if you give them something to click and interact with, it retains their interest."

The line between entertainment and serious discourse is often blurred in the investment industry by the electronic media (and it now appears to be fading in the political arena, too), so it's easy to envisage smartphones, apps, and gamification all playing a more significant role in private wealth management in the future.

It's a cliché that the future belongs to those who prepare for it today, but it's no less true for that, especially in the ever-changing, hectic space where the worlds of finance and technology merge.

Rossa O'Reilly, CFA, is a past Chair of CFA Institute and a former managing director, institutional equity research, at CIBC World Markets.

MICHAEL HLINKA
passes on his knowledge through his passion for teaching

Dennis Bardetsky, CFA

How did you discover your passion for teaching?
I started out as an investment advisor with HSBC Securities back in '98 during one of the longest bull markets. Ironically, it's much harder to gain clients when markets are up because they tend to re-evaluate their advisor relationship when markets turn sour. I decided that lecturing at a large Canadian institution would be a competitive advantage to attract more clients; soon I found out that my time spent in the classroom was the highlight of my week. When an opportunity opened up at George Brown College, I decided to shift gears and focus on doing what I love best.

Michael Hlinka, CFA | CAREER HIGHLIGHTS

- Tenured professor at George Brown College since 2000
- A CBC personality on CBC's Metro Morning since 2002
- Developed *Passing the CFA® Exam* preparation program at the University of Toronto School of Continuing Studies

Who were your role models while growing up?
Both my father and grandfather had a very strong hold on me because they were fierce entrepreneurs. They worked extremely hard, never complained, and were always good to the people around them. Seeing them run their businesses was very important in my formative years to internalize the value of hard work, and this pushed me to pursue my passion in the years that followed.

Are there any books that have had an impact on your work?
There are several. *The Razor's Edge* by Somerset Maugham helped me direct my energies and focus on where I really wanted to go in life. This is a story of a man coming home from the Great War to begin a journey to discover what was meaningful in his life. The other book was *Lila* by Robert Pirsig, which is really half novel and half philosophical discussion about quality. This book explores the importance of balance between static and dynamic quality of life. Earlier in my life, I reread it every summer because it kept me focused.

Which accomplishment are you most proud of?
My greatest accomplishment was working with the University of Toronto's School of Continuing Studies to develop the CFA preparation courses. When we began in 2005, our stretch target was 100 students for the entire program. Last year, 375 participants enrolled, and there would probably have been over 400 had we not capped Level II at 150. My course is structured in a very different way than the university model because I have one-on-one sessions with all my students to ensure their success. It's very similar to an investment advisor model.

What made you want to collaborate with CBC?
I left the world of financial advising to pursue my passion for teaching, but I also love to write. I have published two books, and my passion is being a feature magazine writer. Nick Davis, a former client of mine, was a junior producer at CBC and rising through the organization quite rapidly. He was happy with my services, which helped his portfolio withstand the crash of the tech bubble. Shortly after I had decided to focus on teaching, we bumped into each other on Front Street. One thing led to another and in September 2002, I joined Metro Morning as a business commentator, and we are still going strong.

Do you see any educational gaps in the CFA curriculum?
I do quite a lot of textbook reviews, and I believe the readings chosen for the CFA curriculum cover capital markets in the best way possible. The Candidate Body of Knowledge served me well as a business commentator. For example, on CBC we recently covered the rise of underfunded pension plans. Armed with the knowledge from the CFA Institute Curriculum on Pension Accounting, you can objectively point to falling long-term bond yields and discount rates as a cause of this phenomenon.

How do you think the curriculum will evolve over the next five years?
We're seeing a very important change in the investment community—a growing emphasis on passive investing. Mutual funds were the dominant investment model in the '80s and '90s, and now there is a greater shift to ETFs. As a result, I think there will be a greater emphasis on investment management fee analysis.

Fintech has been a hot topic lately. What impact do you think it will have on the investor community?
These technologies will make investing more efficient, but the underlying principles of capital allocation and wealth creation won't change. Essential rules of investing will always stay the same.

What advice would you give to those considering teaching or mentorship?
You'll find this can be a tremendously satisfying experience, but I have to say it's also much harder work than you may expect. In order to deliver quality content, you need at least three to four hours of prep work for every hour of lecturing, so patience and dedication are very important.

Any final thought for our readers?
Do not lose sight of the most important aspect of your career building: forming strong relationships. I have frequently seen students with excellent technical skills who don't make a systematic effort to actively work on relationships. Certainly, being competent at your job is required, but fostering relationships builds trust, which helps you unlock doors. I would say that becoming an active member of CFA Society Toronto is a great way to connect with your industry.

Dennis Bardetsky, CFA is manager, risk and investment analytics, at RBC.


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SLOW DOWN TO SPEED UP

Ideas for a more productive and rewarding work/life balance.

Ron Schwarz, CFA

By the time you read this issue of *The Analyst*, your thoughts will probably be lingering around those warm days of past summer vacations, cottage weekends, or that one outstanding golf game. Your mind will not be on the upcoming end of the quarter or fiscal calendar year—or the inevitable colder weather and snow.

But ask yourself this: as regular work, home-life pressures, and a growing agenda come back into full swing, is now the time you should slow down to speed up? Popular theory suggests it is. And one of the ways to energize your life more is by doing less. In fact, proof that sustained busyness offsets most "restful" gains is accelerating. For example, a study by Jessica de Bloom of the University of Tampere in Finland suggests that "holiday gains" wear off within two to four weeks of returning to normal routines.

The idea of work/life balance is not new. However, the topic has gained strength and is now trending as an important issue in the most recent member surveys of both CFA Institute and CFA Society Toronto. Employers have also taken notice. UBS AG recently introduced its Take Two program, which encourages employees to take two hours per week of personal time on the company's tab (as long as the work is covered by others), and JPMorgan Chase instructs bankers to "take weekends off" as long as live and important deals aren't in motion.

All About Flow

In Carl Honoré's book, *In Praise of Slow*, he focuses on the idea of making more conscious choices about how our time is spent and not necessarily about how to accomplish all the same tasks in a slower fashion. It's within those choices that the benefits of slow actually accrue.

Ferris Jabr agrees. In his article "Why Your Brain Needs More Downtime," published in the October 2013 issue of *Scientific American*, he writes, "Downtime replenishes the brain's stores of attention and motivation, encourages productivity and creativity, and is essential to both achieving our highest levels of performance and simply forming stable memories in everyday life. A wandering mind unsticks us in time so that we can learn from the past and plan for the future."

Creating this downtime—or what's now being referred to as a state of mindfulness—is simpler than you think. You can practise it anywhere, and it doesn't imply long "unplugged" vacations or chanting in a dark room. In fact, it's relatively easy. Consider the following actions:

- Turn off your smartphone for 15 minutes a day.
- Look out your office window for a short period and take a deep breath.
- Extend the amount of time you eat lunch or dinner (and savour the meal).
- Take a quick midday walk around the block (some research suggests a garden walk has materially larger benefits than a city walk; welcome to the concept of ecopsychology).
- Engage and maintain a few moments of simple silence.
- Invoke a mental break during "in-between" moments such as riding the subway, or waiting in a line, or whatever your in-between moments might consist of.

What's the Body Without the Mind?

With the change of season right around the corner, maybe that golf game or long bike ride is more difficult to accomplish; however, you can still maintain or enhance those physical and mental gains you made over the summer. According to Totum Life Science founders Dr. Stacy Irvine and Dr. Tim Irvine, there are several easy ways to do this:

- Continue to spend some time outside, preferably in natural surroundings. Set your alarm a few minutes earlier to give yourself a chance for a quick walk outside before the busyness of the day begins.
- Organize social activities in places that will allow everyone to disconnect from their devices, engage with one another, and focus on the activity at hand (e.g., a game of ultimate Frisbee, a pick-up basketball game, or a family outing).
- Take a few minutes every day to unplug (with a walk or a look out the window) and visualize yourself in a particularly relaxing moment to help re-experience that feeling.
- Set a date for a break from your usual routine, even if it's a short one, with either exercise or an activity to optimize the experience. This will give you something to focus on and look forward to. When it comes to living a healthy life, attitude is everything.

Daunting as it might seem, taking the potential time to go slow might actually allow us the mental downtime for greater amounts of creativity, problem solving, and speed going forward. Maybe taking the time to read this short article was in itself the first step of that process. Now, on to finding the time to go slow ...

Ron Schwarz, CFA, is a corporate director, investor, and capital markets consultant. He is a former board member of CFA Society Toronto and has chaired its Communications Committee. He currently sits on the Boards of Directors and chairs the Audit Committees of Noble Iron Inc. and CHC Student Housing.

GRAPE EXPECTATIONS

You're taking a client for lunch or dinner. Do you know which wine to choose?

Brooke Smith

There's nothing like a glass of wine with a meal. It complements food and is also an excellent social lubricant. But if you're not knowledgeable about wine, how do you know what to choose when you're handed a wine list?

There are literally thousands of different types of grapes from which wine is made (see "Noble Prizes" at the right). How do you choose which grape?

And what about price? Do you have to spend an exorbitant amount? Although you can buy a nice bottle of wine for $20 to $30 at the liquor store, many restaurants apply a hefty markup (often 100 percent to 150 percent).

"We can read financial statements, but we can't always read a wine list," said Cathy Dimitriadis, Vice Chair of CFA Society Toronto Equity Committee. "And wine is becoming more important in our industry." And popular, too. In 2013, the total of volume of Canadian wine sales was 207 million litres, of which roughly 62 million litres were 100 percent Canadian wines, according to Agriculture and Agri-Food Canada.

Dimitriadis said she came up with the idea for a wine workshop because people can be intimidated by wine. So she invited Mark Parnega, a member of the Canadian Association of Professional Sommeliers since 2009 and sommelier at downtown restaurant George, to discuss selecting and tasting wine at CFA Society Toronto.

"There's a communal experience through sharing wine," said Parnega. It can set the tone for the lunch or dinner. With wine, "there are social dictates and conventions—how you're behaving in front of your clients." For example, Parnega said that starting with a bottle of Amarone from Italy before lunch or dinner (a heavy red at 16 percent alcohol) will make for "interesting" conversation. He suggested something lighter, such as a German Riesling (a white at seven percent).

While Parnega agrees that looking at a wine list can be daunting, he suggests thinking about your tastes. "What do you drink at home?" he asked. "You have to start with what you like yourself."

And don't worry about wine "rules" (i.e., red with beef and white with fish). Those are simply old traditions, he said. "If you want red wine with mackerel, go right ahead. Stay true to yourself. Pair the wine to the food—not vice versa."

> *"Wine is one of the most civilized things in the world."*
> *— U.S. novelist Ernest Hemingway*

So, to figure out what you like, follow these steps.

First, look at the wine in the glass. Is it clear or cloudy? Is it vibrant or dull? Is there sediment at the bottom?

Second, tilt the glass and look at the rim of the wine. (This step is for red wines only.) Is it garnet in colour? "Garnet is more prevalent when the wines are older," Parnega said.

Next, swirl the glass and then "nose" the wine. Is there a fruity smell? A floral one? Is it earthy or chemical? To help you discover what you smell, Parnega suggested getting a tasting wheel (go to www.winearomawheel.com).

Next, taste the wine. As you do this, said Parnega, try to suck in air to get the full flavour of the wine as it's in your mouth. "Don't just slug it back. Nose it, take a sip, think about it, and then you can appreciate it." And, if you're at a restaurant and you don't like the wine, send it back. "It's your money. Say what you feel," he said. "Trust me, at the end of the night the somms [sommeliers] will drink it."

Brooke Smith is a Toronto-based writer and editor, and editor of *The Analyst*.

OLD WORLD
– wines from Europe (e.g., Italy, Germany, France)

NEW WORLD
– wines from anywhere outside Europe (e.g., Chile, Australia, California)

NOBLE PRIZES

While there are many varietals of grapes—for example, there are 30,000 types in Italy alone—sommelier Mark Parnega says you can do well with wine if you know the following 18 noble grapes.

Red (from lightest to darkest)

Pinot Noir – easiest to drink

Grenache/Garnache – fruity and light, often sweet

Merlot – smooth tannins but unpredictable; can be light or bold, but generally fruit-forward

Sangiovese – more tannic than Pinot Noir; bold cherry flavours

Nebbiolo – a savoury high-tannin/acidic wine; light in colour

Tempranillo – earthy with rustic tobacco notes and high tannins

Cabernet Sauvignon – savoury with a long finish

Syrah/Shiraz – bold, dark fruit, and lighter tannins

Malbec – blueberry and blackberry flavours

White (from lightest to richest)

Pinot Gris/Pinot Grigio – light and zesty; high acidity

Riesling – dry to sweet with scents of lime, honey, and apricots; high acidity

Sauvignon Blanc – green and herby

Chenin Blanc – floral and citrus notes

Muscat/Muscato – sweet; taste of peach and orange

Gewürztraminer – off-dry to sweet; taste of ginger and honey

Sémillon – dry medium body with lemon notes

Viognier – floral; medium body

Chardonnay – full body and dry

THE NEXT GENERATION

A closer look at the winners of CFA Institute's Research Challenge

Vanja Perić, CFA

Meet Kam Dhaliwal, Adnan Khan, Brent Small, Daniel Zhang, and Rudder Zhang. These extraordinary young men competed with the best—and won. They represented the University of Waterloo's School of Accounting and Finance competing in the 2016 CFA Institute Research Challenge. I highly recommend watching their final presentation. Their knowledge and understanding of equity research tools and their application are impressive. Even more remarkable is their poise under pressure, as they communicated their research clearly and answered some tough questions from the judges.

The story begins with the University of Waterloo's Student-run Investment Fund. It was through their involvement in the club that these five young men heard about CFA Institute's Research Challenge. However, it's their diverse educational backgrounds, along with their unique experiences, that resulted in a well-rounded team.

Kam Dhaliwal is studying computing and financial management, a joint major in computer science and finance. He was the team's coding wizard and helped to simplify their primary research by automating tasks to produce data they needed. Dhaliwal has had a chance to work in Charlotte, N.C., New York City, Toronto, and Ottawa through his co-op positions and, following graduation, would like to work for a market maker doing software development or data science.

Adnan Khan chose to study accounting and financial management at Waterloo because of its reputation, co-op program, and entrepreneurial culture. "I recently launched a not-for-profit organization called EduGate, which is dedicated to improving the education system in Latin America through technology-enabled classroom transformations. At the end of this summer, I'll be going on my fourth trip to Latin America."

Brent Small is also enrolled in the accounting and financial management program. This summer, he did a co-op placement with a hedge fund in Toronto as an equity investment analyst, work he really enjoys as this was similar to the type of research he did for CFA Institute's Research Challenge. Small also has a keen interest in Canadian and international politics and in public policy creation.

Daniel Zhang is pursuing a biotechnology/chartered professional accountancy degree. He was interested in a career in the healthcare space but subsequently fell in love with capital markets and hopes one day to integrate the two. To date, he's had the opportunity to work in both fields: in healthcare as a research student studying Parkinson's disease, and in capital markets, where he spent his summer work term in investment banking. He's also an ex-competitive chess player.

Rudder Zhang, the team's captain, completed his degree in mathematics/business administration. He became interested in finance after taking his first finance course and spending countless hours learning about the history of finance and capital markets. Furthermore, his experience on the Student-run Investment Fund gave him a hands-on opportunity to learn about finance, capital markets, and investing.

How did it feel to hear your team announced as the global winners?

KD: I couldn't really believe we had actually won. We only saw the one presentation after ours and thought they did an amazing job. So to say I was surprised when we won might be an understatement, and now it's still a little crazy to think that happened.

DZ: Elated beyond belief. I believe for most of us, it wasn't our expectation that we would ever make it this far, not because we weren't capable of doing so, but more because of the statistical improbability—one in a thousand teams. Who would have ever expected the small town of Waterloo, Ont., to take the championship?

RZ: It was a very proud moment. Winning was a great reward for us, but a greater reward for the students, faculty, and mentors who supported us through the nearly year-long commitment.

What did you find most challenging, and how did you deal with these challenges, individually and as a team?

AK: For me, the most challenging part of the competition was juggling all of my other commitments. At the time, I was completing my final co-op term with Deloitte Consulting and was working on some exciting projects that ate up the bulk of my time. Luckily, my colleagues were extremely supportive, and they always made sure I could attend team meetings.

Moreover, many of the skills I learned on the job, such as data visualization, helped me conduct insightful analysis throughout the competition. Between co-op, EduGate, two other competitions, sports, and my social life, I didn't have much white space in my calendar. I had to manage my schedule carefully and be as efficient as possible (e.g., by taking calls on the train). As a team, we were transparent with one another and managed our workload on a weekly basis.

BS: The most challenging aspect of the competition was managing distance issues across team members, as we were generally scattered about different cities throughout the competition. We overcame this by using social media and communication tools (Skype, Facebook, Dropbox, Slack) and by sticking to the schedule for team meetings and catch-ups.

What is your most memorable moment of the whole experience?

AK: While waiting in the green room before the global final, we formed a team huddle to share some laughs before our presentation. Shortly after, our entrance song, "Tom Sawyer" by Rush, came on and we stepped onto the stage for one last run-through.

Another major highlight was connecting with all the international teams. From brushing up on my Hindi while chatting with the team from India to jamming to Sean Paul with the Kenyans, to planning my trip to Machu Picchu with the Peruvian team, there was never a dull moment!

DZ: Too many, but here are two:

The day before the global finals, I remember looking at the work we put in to be ready to present. I put into perspective some of the last-minute problems we were running into: Kam was worried about whether his tie was too long; Rudder was worried about whether the deep-dish we ate for lunch would impact his performance; I was worried about whether the cameras would pick up the newfound zit on my face. In retrospect, if these were the most pressing problems we were facing at that point, they were a testament to the work we had collectively put in to get us ready.

The evening after we won the competition, while everybody else was celebrating, Rudder and I had to prepare for an exam the next day. (We took a 4 a.m. flight and were in the exam hall seven hours later.) The celebration event in Chicago was live and upbeat, and everybody was having a great time, but nobody could find us. We were the two guys sitting in the corner of the dance hall, eating hot dogs to stock up on energy before studying late into that evening.

What's the best advice you received?

AK: Don't ever settle for anything short of changing the world.

DZ: Stay humble, stay hungry. The world is such a big place and only getting bigger. There's always an opportunity for us to grow and develop, but we should be incredibly grateful for what we have because the landscape will only become more and more competitive, going forward.

BS: Capital markets/finance in Canada is a very small world, and your reputation as a professional and individual is as important as any other feature or trait. Warren Buffett is credited with saying, "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

CFA Society Toronto was abuzz with excitement and pride in the days and weeks following the team's win. These five young men are the future, and we can be honoured that we will have them as our colleagues in just a few short years. They're the next generation of finance.

Vanja Perić, CFA, is a senior manager, investment management research, at CIBC Asset Management.

COTTAGE INDUSTRY

Know the tax consequences of owning a summer home

Victor Lee, CFA

Cottage ownership is a goal for many Canadian families. It means summer fun, family gatherings, childhood memories, family legacy, and an investment. But, unfortunately, it can also mean tax pitfalls. The following is a handful of the common tax pitfalls cottage owners should consider.

Principal Residence

The principal residence exemption is one of the most generous tax breaks in the Canadian tax system. It allows a family to be completely exempt from capital gain taxation when the family sells a property it has used as a principal residence. And the family doesn't need to live in a property every day of the year for the property to be considered its principal residence. Therefore, a family can actually consider a cottage its principal residence in many situations.

The bad news is that one family can designate only one property as its principal residence for a particular year. However, the rules on this restriction are anything but straightforward. Through careful planning, it's often, though not always, possible to partially or fully designate a cottage as a principal residence while, at the same time, the city home is fully designated as a principal residence for capital gain exemption purposes. This allows a family to be exempt, fully or to some extent, from the restriction of designating only one property as a principal residence.

Deemed Disposition

For many Canadian families, a cottage is part of the legacy of a family and should be passed down through the generations. To many parents, gifting a cottage to a child is a non-monetary transaction in which the Canada Revenue Agency should not be involved. But this is certainly not the complete truth. When gifting a cottage to a related person such as a child, parents can deem the transaction a disposition for income tax purposes and, as a result, would be taxed on the resulting capital gain. Of course, the parents can, in some situations, rely on principal residence capital gain exemption to mitigate the negative tax consequences.

Unfortunately, this isn't the end of the unpleasant tax consequences. If the cottage earns rental income, the rental income would be taxed as the income of the parents rather than the income of the child. If parents plan to shift income to their child (who is presumably in a lower tax bracket) by gifting the cottage to him or her, the income attribution rules will defeat the entire plan.

More Than Rental Income

Sometimes owners may decide to rent out the cottage for a few years to generate rental income. Perhaps the family is now residing in another country or doesn't have time to enjoy the cottage for a few years. When a personal-use cottage is rented out, there's a change in use. The change in use could result in a deemed disposition, and the owner of the cottage could be taxed on the resulting capital gains—unless the change in use is properly dealt with beforehand for tax purposes. This is an area most taxpayers (and, in fact, many professional accountants, except those specializing in tax) are not aware of. The rationale is simple. Taxpayers don't generally expect that they need to pay tax— unless there's an actual sale and they've received an amount or amounts.

It's not always easy to dedicate those precious summer hours to considering the tax consequences of cottage ownership. However, a proper understanding of these common pitfalls can help avoid unexpected surprises down the road and let you enjoy those quiet moments in your Muskoka chairs.

Victor Lee, CFA, is a member of CFA Society Toronto's Member Communications Committee.

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L-R: Chair of CFA Society Toronto, Anish Chopra, CFA, award winners J. Ari Pandes, Michael J. Robinson, and President of Hillsdale Investment Management Inc., Chris Guthrie, CFA

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