

FEREBEE WEALTH MANAGEMENT

Fall / Winter 2016 Newsletter



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NEW REGULATIONS COMING JANUARY 2017

I hope everyone is enjoying their summer; it has been a warm one here in the Okanagan. I have been speaking to my clients about the new CRM rules (Canadian regularly management) for over a year now and this newsletter is dedicated to that subject.

As you know new industry regulations are coming out January 2017 to improve how the financial industry reports and discloses information to investors.

How does CRM2 affect you? CRM2 does not change the amount you are paying to your investment firm; it only provides more detail to you about your account fees and performance.

All banks, firms & life insurance companies are required to send out these reports next year. Enclosed are some examples of what you will see in January.

I have sat down with most of you to go over the CRM changes in detail so the examples on the next page will be familiar.

If you have any questions in regards to the new regulations please do not hesitate to call me @ 250-770-1203.



RBC Wealth Management
Dominion Securities

WHAT IS CRM2?

PROVIDING GREATER CLARITY WITH CRM2

What the Client Relationship Model II means to you

You may have heard about it in the news – the Client Relationship Model II, or simply “CRM2.” But do you really know what it entails?

WHAT IS CRM2?

- New industry-wide regulations that improve how the financial industry reports and discloses information to investors
- Changes are now being phased in, with full implementation at RBC Dominion Securities by early 2017. It includes two new reports: (1) **ACCOUNT COSTS AND (2) ACCOUNT PERFORMANCE.**

WHY IS CRM2 BEING IMPLEMENTED?

- CRM2 is part of a global shift towards increased disclosure and transparency in the investment industry
- To provide investors more details on the fees and performance of their investment accounts
- To improve investors' ability to assess how they are progressing towards their financial goals

HOW WILL CRM2 AFFECT YOU?

• CRM2 does not change the amount you are paying your investment firm; it only provides more detail to you about your account fees and performance.

• All investors will receive more specific details on the cost and performance of their investments via:

- o Conversations with their investment advisors
- o More details on existing account statements and confirmations
- o Two new annual reports you will receive starting in 2017 for all investment accounts:

1. An Annual Charges and Compensation Report, showing a detailed list of account fees
2. An annual Investment Performance Report to provide details on how the account is performing using a “money-weighted” rate of return

Below is a **SAMPLE COPY** of a CRM2 report, you will receive in January 2017.

RBC Dominion Securities Inc.

Annual charges and compensation report

For the period from January 1, 2016 to December 31, 2016

This report summarizes the charges you paid directly to our firm and compensation our firm received from third parties related to this account over the past year.

Please do not use this report for tax reporting purposes.

Paid by you (CAD)

Operating charges

Registered Plan
Administration
Interest

Total operating charges

Transaction charges

Trade Commission
Fixed income
Equity / options
Mutual funds
Other

Total transaction charges

Total paid by you (CAD)

125.00
125.00
50.00

Fees on RRSP

300.00

50.00

Commission on
bond trades /
coupons/ GICs

12.74

Commission on
stock trades

80.00

50.00

192.74

492.74

Compensation our firm received from third parties (CAD)

Trailing commission
Commission - DSC
GIC remuneration
New issue selling concessions

1,000.00
200.00
500.00
300.00

This is the trailer fees
that mutual funds pay
to me from their
management fee

Total compensation our firm received from third parties (CAD)

2,000.00

TIME-WEIGHTED RETURN VS MONEY -WEIGHTED RETURN

In January when you receive your first annual charges and compensation report you will also notice **an annual investment performance report**. This report will provide you on how your account is performing using a money-weighted rate of return.

Currently your rate of return is being calculated using the time-weighted rate of return or TWRR:

TIME-WEIGHTED RATE OF RETURN (TWRR) considers only the change in the investment's market value over a specific time period. The timing of cash flows determines where time periods begin and end, and an investor's decision to contribute or withdraw from the portfolio does not affect the return. The TWRR isolates the portfolio's performance and allows for comparisons across portfolios, making it a better reflection of the decisions made by the portfolio manager over the period.

Come January 2017 your rate of return will be calculated using the money-weighted rate of return or MWRR:

MONEY-WEIGHTED RATE OF RETURN (MWRR) measures how the value of an investment has changed over time. This calculation considers the fund's performance along with the size and timing of cash flows. As cash flows are unique to each investor, MWRR is a good measure of an individual investor's performance.

IN THE ABSENCE OF CASH FLOWS (CONTRIBUTIONS OR WITHDRAWALS), THE MWRR IS EQUAL TO THE TWRR.

How cash flows affect TWRR and MWRR

Consider this example as a hypothetical scenario:






An investor makes equal contributions of \$2,000 at the beginning of years 1 to 4. Given four straight years of positive performance, the decision is made to close another account held at a different financial institution and consolidate \$20,000 into this account at the beginning of year 5. In the fifth year, the portfolio value declines by 10%. The investor's experience is summarized in the following table:

Hypothetical investor experience				
Date	Performance	Contribution amount [†]	End-of-year market value	Annual gain/loss
Year 1	7.0%	\$2,000	\$2,140	\$140
Year 2	8.0%	\$2,000	\$4,471	\$331
Year 3	9.0%	\$2,000	\$7,054	\$583
Year 4	6.0%	\$2,000	\$9,597	\$543
Year 5	-10.0%	\$20,000	\$26,637	\$(2,960)

[†]Contribution at the beginning of the year

The sizeable contribution at the beginning of year 5 adds a substantial amount of capital to the account just before a 10% decline. Since the decline takes place on a larger capital base, it overwhelms the previous four years of positive returns, resulting in the ending market value being less than the total invested capital (\$26,637-\$28,000 = -\$1,366).

The MWRR in this example is -2.91%, while the TWRR is 3.74%.

	 TWRR	 MWRR
 Cash flows	Are not factored into returns	Timing and size of cash flows influence returns
 What is measured?	Performance of the market value of an investment over a specific time period	The performance of the investment and the impact of client cash flow decisions
 Used to gauge	Investment manager's decision making and performance	Client's individual performance

LEMON PANCAKES - NOT YOUR AVERAGE PANCAKE

INGREDIENTS

- 1 1/2 cups flour
- 2 tsp baking powder
- 1/4 cup sugar
- pinch of salt
- 1 1/2 cups of milk
- 3 eggs
- zest of one large lemon
- juice of one large lemon
- 1 tsp vanilla
- 6 TBSP butter, melted and cooled



DIRECTIONS:

In a large bowl whisk together flour, baking powder, sugar and salt. In a medium bowl whisk together milk, eggs, lemon zest, lemon juice and vanilla. Add wet ingredients to the dry ingredients and mix until slightly combined. Pour in butter and combine completely.

Preheat your pan or griddle to medium heat. Lightly butter the surface. Pour 1/4 cup batter onto the pan and cook until bubbles start to form around the edges. About 1-2 minutes. Flip and cook for 1 more minute.

Serve hot with fresh lemon juice and powdered sugar. Also really good with blueberry syrup or honey.

If you have any questions or would like further clarification on any of the CRM2 information in this newsletter please contact Nataile or Stephanie at 250-770-1203.

Important notes and key dates:

Natalie will be in Vancouver Sept 7,8,9
Natalie will be in Victoria Oct 2,3,4
Natalie will be in Terrace and Smithers Nov 14-18
Natalie Holiday Oct 26 - Nov 3



NEED ONLINE BANKING HELP? CALL STEPHANIE TODAY @ 250-770-1204 FOR A TUTORIAL.



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