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** SENT VIA EMAIL **

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MUTUAL FUND DEALERS ASSOCIATION OF CANADA

**PROPOSED AMENDMENTS TO MFDA RULE 2.2.1 (“KNOW-YOUR-CLIENT”)
AND
MFDA POLICY NO. 2 *MINIMUM STANDARDS FOR ACCOUNT SUPERVISION***

<http://www.mfda.ca/regulation/propAmend/Prop2-2-1.pdf>

Dear Sir/Madame

Ken Kivenko emailed me his thoughtful comments on the amendments to KYC rules, particularly with respect to leveraging investments as a strategy. I look at these issues from a somewhat different perspective than Ken, having been first registered as a 'registered representative' in 1980 and, for the past 11 years, as Pres. and Portfolio Manager at my firm J.C.Hood Investment Counsel. As a result, I have had the benefit of my clients' insight into 'acceptable risk'. As a regular guest on BNN, I am often called by investors looking for help because they distrust the advice that they have been given. Much of that distrust relates to leveraged investing in mutual funds.

My response to these enquiries is that if your planner suggests that you should take out a home equity loan to invest, or use your RRIF payments, or withdraw cash from your RRSP to pay the interest on mutual funds, that you should immediately get up and leave! Quite frankly, I find this to be a despicable practice.

Firstly, the numbers make no sense when you add the borrowing cost to the investment cost (MERs, TER, bid/ask spread on high portfolio turnover and HST) relative to the normal rate of return of 8%..

Secondly, while it can be argued, but not convincingly, that interest deductibility makes the strategy viable, my experience with investors is that those who have been sold on this idea are not in the tax bracket to make it even somewhat advantageous. Those individuals who

have called for advice are invariably unsophisticated ;they are in a lower tax bracket, usually have mortgage debt, and are generally very vulnerable to market volatility

Third,the asset allocation of our client portfolios are about 60equities/40 fixed income,depending on client requirements, which resulted is far less volatility during this recent crisis than overall market volatility at 45% which was beyond any investor's level of acceptable risk.These investment loans however are generally based on 100% equities which magifies the risk to unsophisticated investors. One retired couple ,aged 63, were convinced by their planner,a CA who also sold mutual funds, to convert their RRSPs into RRIFs and use the RRIF payments to pay for the mutual fund loan! A 35 year old man in a rural area with a young family and an \$80k mortgage on a 200k house, was convinced to take out a home equity loan to purchase \$70k in mutual funds.

You cannot hear of examples like these without being very suspicious of the planner/advisors motives.! These loans however originate somewhere; B2B Trust specializes in loans to investors.The question that needs to be asked by regulators, are they simply loan facilitators or must they share in KYC responsibilities?

Apart from leveraged investing in equity funds. I also have concerns regarding 'fixed income' re Fund Facts' .Investors have a seemingly unquenchable desire for 'yield' without looking beyond the 'current yield' hence the popularity of income trusts in the past and of late, high yield bonds and covered call ETFs.I believe that ETF/Bond providers should state clearly that 'high yield' means high risk junk bonds.Further that their should be a short description ofYTM, Duration and credit wothiness accompanying any 'Fund Facts'.

I hpoe that you have found this useful.

Regards
John Hood

Should you have any questions , do not hesitate to contact me.

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