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NETWORKING

Embracing Facebook

Beware of thorny privacy issues

■ BY CLARE O'HARA

AS SOCIAL NETWORKING sites such as Facebook, MySpace and LinkedIn evolve, the number of legal issues surrounding the online phenomenon has increased, raising more regulatory questions for financial advisors and their dealers.

For financial services companies, the popularity of these sites poses many important questions. Among them: can information posted on Facebook be used as evidence against an individual in court; can professionals, such as financial advisors, keep personal social networking activities separate from their professional lives; and how can financial services companies and advisors embrace the social networking phenomenon as a communications tool without violating compliance or ethical guidelines?

The difficulty with Facebook, from a legal and compliance perspective, is that it is a perpetually moving target, says Jesse Hirsch, president of **Openflows Networks Ltd.**, a technology consulting firm based in Toronto.

"Everyone uses the Internet in their own unique way," Hirsch says. "And with that, they bring their own sense of morality and their own sense of what is appropriate."

As with all methods of communication — including private emails — advisors have to be aware of the implications before sending information off into cyberspace.

Although many financial services firms, including **Toronto-Dominion Bank** and **Royal Bank of Canada**, and their respective investment dealers, continue to prohibit the professional use of online social networking media by their advisors, others have started to embrace the technology.

"We have found that many Canadians are using these new social networks, and we want to go where our clients are going," says Vicken Kazazian, senior vice president, career sales force, with Waterloo, Ont.-based **Sun Life**

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ALLEN McINNIS

Robert Frances, president and CEO of Montreal-based Peak Financial Group, says the firm's recent acquisition of Quebec City-based Promutuel Capital Financial Services Firm's investment and insurance distribution is part of Peak's strategy to continue expanding its network of independent advisors. (See story on page 10.)

REGULATION

Dark pools ignite debate

There's little agreement among industry participants about policing the pools

■ BY JAMES LANGTON

FINANCIAL SERVICES INDUSTRY regulation is always a bit of a balancing act among competing interests. The feat is particularly challenging in the world of equities trading, in which the playing field is in constant flux and the players are engaged in a fiercely contested zero-sum game.

This past autumn, regulators broached some of the thorny issues that are arising as the equities market structure evolves by kicking off a discussion of the impact of so-called "dark pools" on the Canadian trading landscape. The **Canadian Securities Administrators** and the **Investment Industry Regulatory Organization of Canada** have jointly released a discussion paper soliciting input from the industry on a variety of issues that accompany the emergence of dark pools of liquidity in the Canadian market.

The deadline for submissions on these issues was the end of last year, and the topic has sparked plenty of feedback from a broad spectrum of market players, including brokerage firms, money managers, traders and trading venues. Amid all the various responses, there is relatively little consensus — both in terms of the significance of the dark pool phenomenon, and on the sort of actions that regulators should be considering to accommodate it.

To be sure, dark pools are currently a marginal feature in the Canadian market. When the paper was published, dark pools accounted for less than 1% of market volume. However, many market-watchers expect this share to grow rapidly in the years ahead, and there is concern among some that if dark pools flourish without adequate regulation, that could have some negative consequences for the market overall.

Some see dark pools as an emerging threat to market fairness and just another way for big firms to exploit their market power at the expense of smaller players. Critics argue that dark-pool trades represent free rides on pricing information supplied by orders that are exposed to the traditional, visible exchanges. Moreover, the critics contend, these venues aren't subject to the same sorts of rules and restrictions that govern traditional exchange trading, leaving dark pools more open to exploitation by very aggressive or technologically sophisticated traders at the expense of smaller players.

Yet other market players regard dark pools as an important innovation that improves overall market efficiency. Advocates argue that dark pools are at least neutral to the price-discovery function, and even beneficial in some cases.

For example, Toronto-based **Alpha Trading Systems Ltd.** points out in its submission that dark pools may improve price discovery in situations in which dark pools attract trading volume that would otherwise have been moved in the "upstairs" market, which, combined with the fact that dark pools must

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OUTLOOK 2010

The quest for quality

Investors seek healthy balance sheets

■ BY CATHERINE HARRIS

THIS WILL PROBABLY BE stockpickers' year. Investors have taken the early gains on risky stocks and will now be focusing on quality companies — rewarding those that grow their earnings and punishing those that don't meet expectations.

Today's more discriminating investors are on the hunt for stocks with good earnings growth potential and not too much risk, says Norman Raschkowan, chief investment officer at **Mackenzie Financial Corp.** in Toronto. He says this shift to quality favours large-cap companies, particularly those with good management, healthy balance sheets, sound business-growth models and the potential to take market share from weaker rivals.

"For example, we've started to see a difference," notes Raschkowan, "between Goldman Sachs Group Inc. and JPMorgan Chase & Co., which are strongly financed and in a position to grow market share, and Citigroup Inc., which still has to shrink and downsize."

Citigroup's stock closed at US$3.52 a share on Jan. 12, up from its low of US97¢ in March 2009 but down from US$5.43 this past August and miles below its US$57 high in December 2006.

In contrast, JPMorgan's stock has consistently moved up from its March 2009 low of US$14.96 a share to close at US$43.49 on Jan. 12, which is within shooting distance of its May 2007 high of US$53.25.

Goldman Sachs is a similar story, closing at US$167.82 a share on Jan. 12 vs a low of US$47.41 in November 2008. Its high was US$250.70, reached in October 2007.

Investors know strong balance sheets mean companies won't be paying high interest charges as they roll over debt. Investors also know the firms' ability to generate cash flow will create the funds to grow, both organically and through acquisitions, says Raschkowan. He expects merger-and-acquisition

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INSIDE THIS ISSUE

Peak expands sales force with Promutuel purchase

The acquisition adds $1.5 billion in assets under administration and about 300 advisors and support staff to Peak's growing team

BY CLARE O'HARA

MORE THAN TWO YEARS after acquiring AXA Financial Services, Montreal-based Peak Financial Group is continuing its growth strategy with the recent purchase of the investment and insurance distribution business of Quebec City-based Promutuel Capital Financial Services Firm, a subsidiary of Groupe Promutuel.

The value of the transaction is undisclosed, but the move adds 300 advisors and support staff to Peak's existing 600 advisors, making the firm one of the largest independent dealers in Canada. In addition, the acquisition boosts Peak's assets under administration to more than $6.5 billion from $5 billion.

Peak's 2007 acquisition of fund distributor AXA Financial Services, then a subsidiary of France-based AXA Group, had put Peak on the radar as a potential buyer for firms looking to sell.

"Many people in the industry became aware that we were serious players for anyone looking to sell or merge their businesses," says Robert Frances, Peak's president and CEO. "People have known for a long time that we have been eager to grow our network of independent advisors. We want to build a stronger place for the truly independent advisor to work in."

Promutuel entered the investment industry in 2005 after acquiring Tandem Wealth Management Inc., a subsidiary of Norbourg Asset Management Inc. (Norbourg and several other related companies filed for bankruptcy in 2005 after it was revealed that 9,200 people had been defrauded and millions of investors' dollars had disappeared. Norbourg founder Vincent Lacroix was later convicted of fraud, among other things.)

Over the years, Promutuel was able to build its advisory base to 165 advisors before purchasing the assets of Montreal-based Triglobal Capital Management Inc., which doubled the size of Promutuel. That acquisition brought $1 billion in AUA and more than 300 advisors to Promutuel, bringing the firm closer to its goal of becoming a major player in Quebec's financial services industry. (Promutuel had bought out Triglobal's assets after the latter's officers became the subject of a regulatory probe into alleged illegal investments in offshore funds.)

> "We want to build a stronger place for the truly independent advisor"

Promutuel approached Peak as a potential buyer for the former's investment and insurance distribution business in early October 2009. Many advisors in Quebec's financial services industry were surprised by the sale, as it was originally announced that Promutuel was on the hunt for a partner for its investment and insurance distribution and not a buyer.

"We were originally looking for a partner. But after meeting with Peak, we saw that not only do they have a similar platform as us but also the same vision for independent advisors," says Serge Roy, first vice president of marketing and business development for Groupe Promutuel. "We are excited that Peak will be taking over and all our representatives will be able to work in an environment in which their independence will be respected entirely."

The decision to sell wasn't made lightly, says Roy, but after hearing that Promutuel's network of advisors wanted to reach beyond Quebec's borders for sales, the company realized that the **Mutual Fund Dealers Association of Canada**'s compliance standards were beyond its capabilities.

"We saw that Peak already has a good national structure in place," adds Roy, "and we thought it would be better for our people to go with a group that will allow the advisors to expand and grow their businesses at a national level. And we know that Peak will provide them with that opportunity."

Now, with the sale of Promutuel Capital complete, Groupe Promutuel will focus on its core business of property and casualty insurance, a line of business it has been in for more than 150 years.

Frances, who founded Peak in 1992, says the fit between his firm and Promutuel Capital is obvious. For one, they both run off an independent platform on which advisors are considered entrepreneurs; second, Peak does not offer its own insurance products, so it is not in direct competition with Groupe Promutuel.

With locations throughout Canada, Peak's network of independent advisors work to provide clients with services in wealth management, mutual funds, securities, insurance and financial planning.

One-third of the Promutuel Capital advisors and employees will continue to work out of their branch offices in Quebec, with the larger portion working out of independent offices. Frances maintains that these arrangements will remain untouched and businesses will run as usual for the network.

"By doing so, the Promutuel advisors get to keep their back-office system as well as their contracts," says Frances. "The advisors don't have to worry about having to transition their clients or changes to their platforms."

As for the integration of the firm, Frances has already begun to meet with Promutuel Capital advisors to discuss the changes and has scheduled meetings over the next six months to allow the management team at Peak to welcome the Promutuel advisors. In addition, Peak's management team had conducted its first welcome conference call for Promutuel advisors at the beginning of January.

"The Promutuel advisors have been running successful practices for many years, and they needed a home in which they could continue to operate independently while getting all the benefits of a back office, compliance and all the services a dealer offers," says Frances. "We are thrilled that Promutuel felt we were the best fit for that."

Promutuel Capital will be added to the Peak family as a separate entity, something Frances says is a little different than in most mergers; however, he reveals, a plan is in the works to do a slight rebranding of the name to reflect the Peak partnership. Already the acquired firm is being branded as a member of Peak Financial Group.

A rebranded Promutuel will become Peak's fifth entity, along with mutual fund dealer Peak Investment Services Inc., investment dealer Peak Securities Inc., fee-based planning firm Peak Financial Services Inc. and managing general agency Peak Insurance Services Inc. The management team will be the same for all five entities.

"One of our major rules to complete a good integration is to share the same core values through the entire group," says Frances.

In addition, Frances has retained the majority of Promutuel Capital's management and employees, including Mario Gemme, formerly its director of compliance, who will now take on the role of director of operations for Promutuel Capital.

Prior to the Promutuel Capital acquisition, AXA Financial services was the largest deal completed by Peak, having brought in $1 billion in AUA, 400 advisors and 23 branch offices. Peak has become a proven player when it comes to merger and acquisitions. In 1999, Peak acquired Quebec City-based mutual fund and insurance dealer Geoffrion Leclerc Marcoux et Associes and, in 2002, Greater Montreal Financial Services, an MGA based in Westmount, Que.

Peak services more than 135,000 clients through its network of advisors and doesn't plan to slow down in 2010. Despite already hitting its growth target for the year with the completion of the Promutuel Capital transaction, Frances already has some future acquisitions in the pipeline.

"We are actually talking to a few people now, and we are going to keep doing that," he says. "As an independent dealer, we are one of a few firms of a certain size that are still out there. So, we are a place for those dealers who want to stay independent but want to consider some succession planning." IE