Business Trends: Discretionary Relationships growing

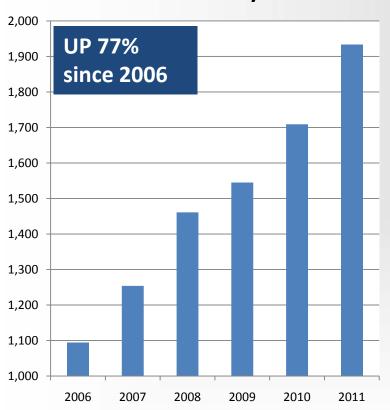
Another sign of the times?

Victor Toth, CEO Insight Objects Inc.

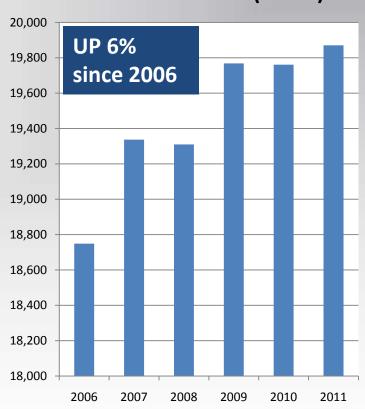


Business Trends: Discretionary Relationships growing

Number of RRs Approved for Discretionary



Total Number of RRs (Retail)



Data Source: IIROC

2011 Annualized /No cyclical considerations discounted



Origin of the apparent migration to PMA programs

TRANSACTIONAL

Non-discretionary commission base

Motive: REVENUE STABILIZATION

Pros: Revenue stabilization, drop in Trade Vol.

Cons: drop in service perception

AMA

Non-discretionary Fee Based Motive: DISCRETIONARY RELATIONSHIP. MODEL

PORTFOLIO MANAGEMENT

Pros: "Block trading", productivity gains.

Cons: Loss of client contact / higher trade Vol.

SMA

Sub-Advisor
Managed Account
discretionary
Fee Based

Motive: ADVISOR PORTFOLIO MANAGEMENT

Pros: Trade Vol. drop, Price to Client drop

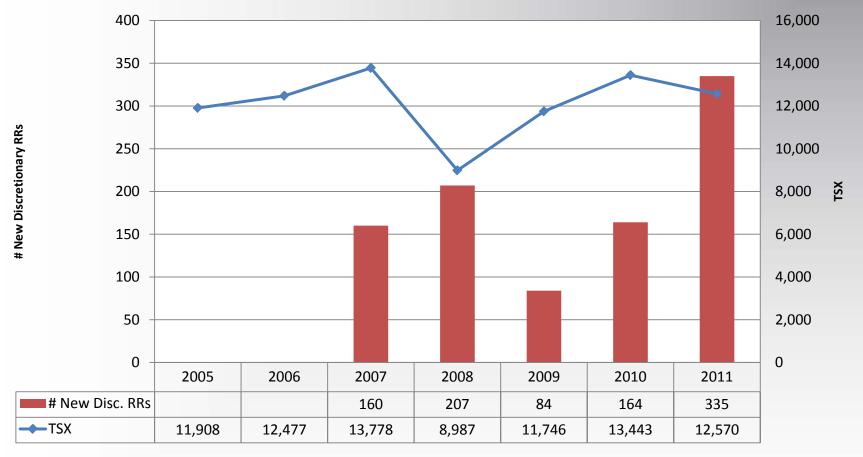
Cons: Some performance risk

PMA

Advisor Managed
Account
discretionary
Fee Based



Is there a one year lag between the TSX perfomance and the appetite of RR's to become Discretionary PM's?





Conclusion

- This trend needs to be observed with more historical data to confirm that in fact is a long term phenomenon.
- The motives behind the trend could be due to pricing pressure, IAs thinking that they can deliver the same performance as SMA Subadvisors, and IAs could be looking for efficiency gains through a discretionary relationship.
- SMA to PMA: There are possible tangible benefits to the firm from a profitability perspective if trading marginal costs drop significantly and the IA does not fall into a fee discounting trap.
- Firms need to be extremely vigilant about performance of this accounts under adverse market conditions.

