

CRM2 – Regulatory Changes

You will soon be receiving your December, 2016 statements which will reflect the amendments we informed you about last summer regarding the new regulatory reporting requirements (CRM2) that have now taken effect as of January 1.

This regulatory change requires banks and investment dealer firms to provide clients with an annual report on charges and other compensation that shows, in dollars, what the investment dealer and the advisor together are paid for the products and services they offer for each of your accounts. The first new annual report will be distributed to you in a few days, summarizing the preceding calendar year. To view an example of this report, please click [here](#).

As a fee-based client, you already receive a monthly statement showing the fees you are charged for your portfolio service and there is no change in the amount you have been paying, just in how it is summarized and presented to you.

We will also provide an annual investment performance report that covers deposits into, and withdrawals from each of your accounts; the change in value of the account; and the percentage returns for the previous year, as well as the previous three, five and ten years where available. These account activities will be reflected in the rate of return included in your report. By considering the unique flow of your money into and out of each account, we have a more meaningful measurement of your consolidated portfolio, and more insight into your personal progress which we believe will be an improvement to the way things have been reported in the past. To view an example of this report, please click [here](#).

The regulatory mandated method of calculating client returns has also changed from “time-weighted” to “money-weighted”.

Comparison: Time-weighted vs. money-weighted return

Return Type	What It Measures	Best For Evaluating	Answers The Question(s)
Time-weighted	Investment return for a specific period	<ul style="list-style-type: none"> The performance of a specific investment; or Comparing two different investments. 	How did the investment perform during a specific period?
Money-weighted	Account return, including: <ol style="list-style-type: none"> Changes in the account value; and Impact of the amount and timing of contributions and withdrawals 	Personal return factoring in the impact of contributions and withdrawals.	What was my personal return, factoring in the contributions/withdrawals that I made during a specific period?

Time-weighted return and money-weighted return are two different ways to measure the return experience of an investment or portfolio. If you want to know what return your account realized when you factor in the timing and magnitude of cash flows, the money-weighted return method is the right one to use. If you want to evaluate the performance of your investment or investment manager, independent of your own activities, a time-weighted return is more appropriate. For this reason you can see that the money-weighted return method is better suited for calculating the return of your portfolio and will be the method used going forward. These are all positive changes in our opinion as you will now be able to see much more clearly how your portfolio is performing and the related costs you pay.

Speaking about returns, there is a lot of talk these days regarding passive investing – particularly with the rise of ETFs and robo-advisors. This article ([click here](#)) very concisely explains the ways that an index differs from an individual investor and why an indexing strategy will not necessarily allow an investor to accomplish their investment goals.

As private wealth counsel, our jobs are to help you determine your personal investment goals, implement a strategy to achieve those goals taking into consideration your financial circumstance, risk tolerances and time frames, and make adjustments to this strategy along the way as objectives and circumstances change.

We hope that we have explained the reporting changes as clearly as possible but invite you to call us if you have any questions or require any further information regarding the new format.

As the New Year begins, we would like to thank you for the privilege of serving you as our valued client. We appreciate and respect the trust you have placed in us and pledge our total commitment to continue helping you meet your needs and goals in the future.

Please accept our sincere best wishes to you and your family for a very happy, healthy New Year filled with love, joy, warmth and laughter.

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