

iINVESTOR ECONOMiCS™

The Retail Brokerage Report

Winter 2003 (data to December 2002)

Independent advisors: A new look

This issue of *The Retail Brokerage Report* features results from our first-ever in-depth examination of the independent advisor (IA) channel. We report on the extent and scope of the IA presence across Canada, as well as recent trends in their product mix and degree of vertical integration. We also compare them with their primary competitors—full-service brokers and financial planners employed by banks.

1. Participants in Investor Economics' Independent Advisors Analysis

Independent advisor firms

Aegon Dealer Services Canada
Assante
Cartier Partners Financial Group
Dundee Private Investors
Independent Planning Group
ING Wealth Management
IPC
IQON Financial Group
Manulife Securities International
Performa Financial Group
Quadrus Investment Services
TWC Financial

Bank financial planning organizations

CIBC Imperial Service
RBC Financial Planning
ScotiaMcLeod Financial Planner
TD Financial Planning

accounting and computer systems required to generate standardized data. But recent years have seen the vast majority of them absorbed by a handful of consolidators. These national firms, run by professional managers, are interested in competitive intelligence and have the ability to generate the information needed for composite views. Large financial institutions have also entered this arena.

Previously, this research was impractical—if not impossible—because of the disparate nature of the IA business. This channel was the domain of small privately held firms, which tended to serve only their local communities. These firms needed neither competitive intelligence nor the

This report is only the start of our plan to track the size and changing structure of the independent advisor channel. We look forward to building a historical database for gauging medium- and long-term trends. There is no history now because the channel was previously so far-flung and diverse that there are no centralized records. As well, consolidation is so new that many dealers are still going through systems and accounting integration. As a result, we expect our data to be much more refined in the future. Essentially, the information in this report represents a work in progress. We will continue the data gathering process and report on emerging trends in future issues of *The Retail Brokerage Report*.

New in this issue:

- **Feature article:** A new look at independent advisors.
- **Our first measurement** of “pure” online/discount brokerage assets. See **page 12**.

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Many players will likely be surprised that the bank-held share is more than a third higher than the traditional firms'

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In this, our first foray, we:

- detail the structure of the IA channel and measure its size.
- identify business mix differences among IAs, their full-service brokerage competitors and, when applicable, the bank-owned players.
- quantify the size and importance of the big banks' presence.
- measure the impact of vertical integration in terms of proprietary products.

Our information came from the 16 organizations identified in Figure 1. Twelve are regarded as more traditional competitors in the independent advisor channel. The list includes all of the national consolidators. In all, we estimate that our respondents account for at least 70-75% of the market. The remaining four are bank-owned and represent a significant emerging presence and source of competition. In the future, we hope to canvass even more organizations and increase the level of detail in our measurements.

Size of the market

2. Independent Advisor Firm Assets In billions of dollars

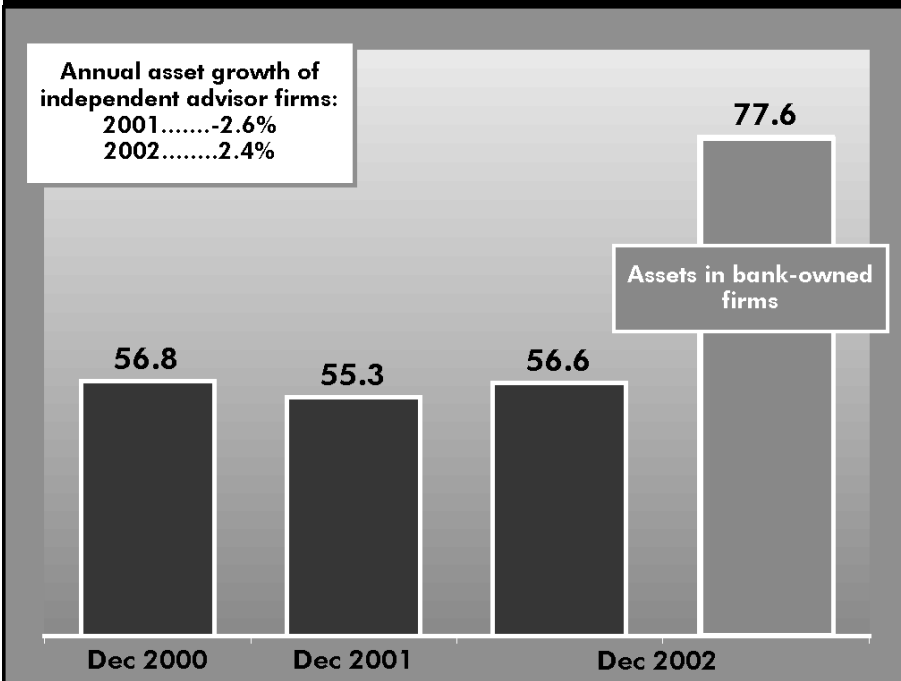


Figure 2 shows that our 16 respondents had a total of \$134.2 billion in assets under administration at the end of 2002. The 12 traditional IA organizations held \$56.6 billion or 42.2%. The four bank-owned firms surpassed them with \$77.6 billion or 57.8%.

Many players will likely be surprised that the bank-held share is more than a third higher than the traditional firms'. But even this figure understates the banks' presence. We counted only the

assets of the banks' more advanced advisors who are comparable to financial planners at independent firms. As shown in Figure 1, our four bank-owned respondents are RBC Financial Planning, TD Financial Planning, ScotiaMcLeod Financial Planner and CIBC Imperial Service. They form a subset of all of the banks' branch-based advisors. We excluded assets gathered by lower level branch advisors who are more tied to the retail banking operations.

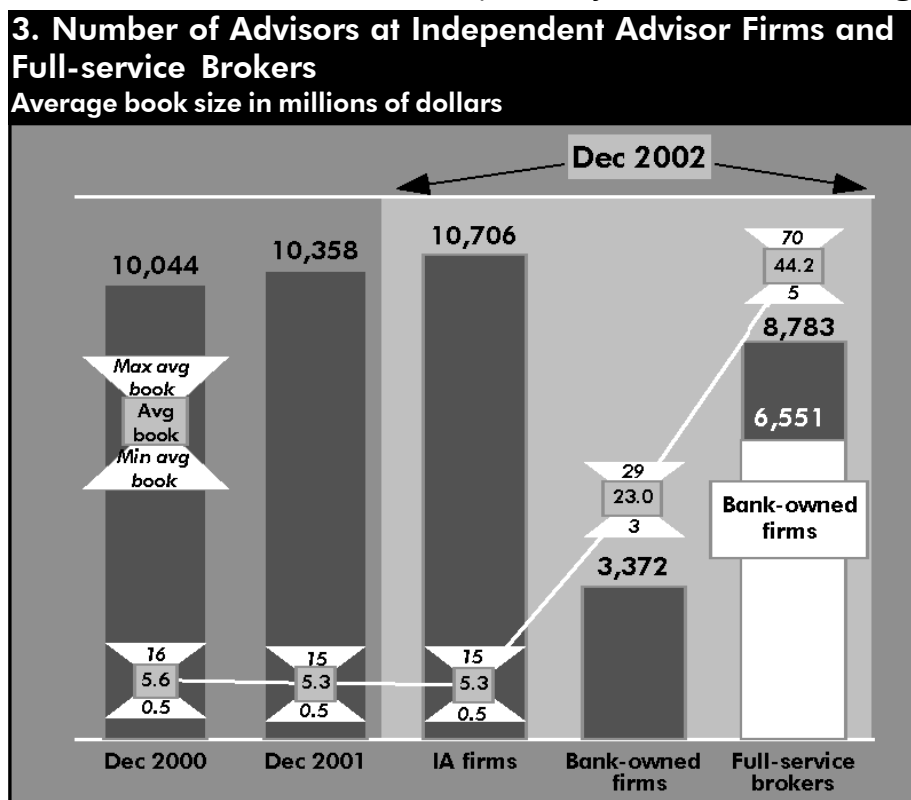
In general, these four elite units were created to compete head on with independent financial planners and other advice-givers, including full-service brokers. The goal was to stem what had become a huge outflow of money—mainly deposits—from the banks' branch networks. With assets of nearly \$80 billion, the strategy has clearly worked. Remember, though, that most of this money represents a reallocation of funds that were already held in the branch networks.

Because it is a member of the Mutual Fund Dealers Association of Canada, RBC Financial Planning is the only bank-owned firm that fits into the same regulatory mould as the more traditional independent advisor firms. CIBC Imperial Service is similar to the RBC group in that both organizations are cohesive structures, but the CIBC unit is not an MFDA member. The assets reported by TD Financial Planning relate to 200 planners who

reside within TD Waterhouse. Similarly, the assets for Scotia relate only to ScotiaMcLeod advisors who function as branch financial planners. The operational mandates of these bank-owned organizations differ greatly and reflect the distinctive development approach taken by each institution.

Who has what

Figure 3 plots the total number of advisors against their average book size. In all, this report covers the activities of 22,861 individuals who were



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No matter how you define the group, the absolute number of individuals engaged in providing investment advice is huge

providing investment advice at the end of 2002. That's 10,706 in the 12 traditional IA firms, 3,372 in bank-owned units, and 8,783 full-service brokers, 74.6% of whom were at bank-owned firms. We have not shown advisors at small IA firms that were not in this survey, nor advisors in dedicated sales organizations such as Investors Group, London Life and SunLife (Clarica).

No matter how you define the group, the absolute number of individuals engaged in providing investment advice is huge. At first glance, the historical data indicates this count has been rising. That is misleading. Individual organizations have actually trimmed their ranks in recent years. The chart shows a rising trend because the consolidated firms in our survey are absorbing advisors from smaller organizations for which we have no data. For example, advisors in Ontario's Ross Dixon network were not counted in 2001, but were counted in 2002 after Dundee acquired their company.

The average book figures bring into sharp focus the wide and fundamental differences between the various competitor groups. Independent advisor firms vary widely in their average book size because their advisors are so diverse. The fact that their overall average is so small in relation to the others' suggests they have too many advisors relative to their assets under administration. The average for bank advisors is almost five times higher and the average for full-service brokers is almost ten times higher.

Figure 4 drills deeper still into the number of advisors and average book. The focus here is on isolating possible differences when firm size is brought into the equation. The five largest IA firms in our sample have more than 56% of all independent advisors. Concentration in the brokerage sphere is even higher,

4. Profile of Independent Advisors and Full-service Brokers

Advisors and book size

	Advisors	Share	Avg number of advisors per firm	Avg book in millions		
				Avg	High	Low
Independent advisors	10,706	100.0%	892	5.3	15.4	0.5
Five largest firms	6,020	56.2%	1,204	7.5	15.4	3.0
Remaining firms	4,686	43.8%	669	4.5	9.2	0.5
Full-service brokers	8,502	100.0%	567	44.2	69.9	5.1
Five largest firms	6,012	70.7%	1,202	52.0	69.9	41.0
Remaining firms	2,490	29.3%	249	24.3	55.0	5.1

with the five biggest firms accounting for 71% of advisors.

As might be expected, the largest firms in each group have markedly bigger books than the others. This gap is much more pronounced among the full-service brokerage firms. Note, though, that the smaller brokerages still dwarf the biggest IA firms in average book size.

Figure 5 factors in the number of accounts based on data from nine of the 12 IA firms. At \$85,400, the average brokerage account is more than five times the \$15,400 average IA account. Clearly, IA firms serve the mass-market, lower-value client, though one firm's high—\$64,300—was within the brokerage range. Overall, we see an even greater degree of concentration than in the previous chart. The largest IA firms have much higher average account sizes than their peers. And full-service brokers have much larger average accounts than IA firms, though here the highest balances are not necessarily found at the largest firms.

5. Profile of Independent Advisors and Full-service Brokers

By firm asset size, number of accounts and average account size
Assets in billions of dollars and number of accounts in thousands

	Assets		Accounts		Avg account size in thousands		
	Assets	Share	Accounts	Share	Avg	High	Low
Independent advisors	56.6	100.0%	3,527	100.0%	15.4	64.3	6.5
Five largest firms	45.3	80.0%	2,523	71.5%	17.9	64.3	15.4
Remaining firms	11.3	20.0%	1,004	28.5%	9.0	13.3	6.5
Full-service brokers	375.5	100.0%	4,396	100.0%	85.4	112.4	26.6
Five largest firms	318.2	84.7%	3,459	78.7%	91.7	108.1	84.5
Remaining firms	57.3	15.3%	937	21.3%	62.0	112.4	26.6

Who sells what

Figure 6 shows the advisor make-up by type of licence held. IA firms are fundamentally focused on selling mutual funds and insurance. Only a small percentage of their advisors now hold securities licences, but that number will grow as more IA firms become members of the Investment Dealers Association of Canada. Part of this is driven by a desire to meet the expanding needs of their clients, and part is driven by the notion that if your firm is going to spend a fortune in time, money and effort to meet new MFDA requirements, it might as well go the full distance and

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join the IDA. The bank-owned firms have no insurance-licensed advisors because banks are prohibited from direct branch-based sales of life insurance. Their fairly even split between advisors with mutual fund licences and those with securities licences primarily reflects the different approach each bank takes to this business area. The high number of full-service brokers licensed to sell insurance as well as securities underscores the growing threat they pose to other advisor channels. Note that this results from brokers obtaining insurance licences, not from insurance-licensed independent advisors joining brokerage firms. (We discuss the rise of brokerage-sold insurance in Section 5 of this report.)

6. Advisors at Independent Advisor Firms by Licence December 2002

	Total number of advisors	Mutual funds only	Life insurance	Securities (IDA)
Independent advisors	10,706	39.9%	52.5%	7.6%
Bank-owned firms	3,372	47.5%	—	52.5%
Full-service brokers	8,783	—	74.0%	100.0%

Figure 7 compares the investment business mix for the three groups. It is hardly surprising that investment funds dominate the IA business. These companies are firmly rooted in selling mutual funds. Similarly, the high fixed-income weighting for bank-owned firms reflects their parents' historical role as deposit-takers, as well as their mandate to protect existing branch assets. Investment funds are much less important to the bank-owned firms than to their IA competitors, but fund wraps matter more. The full-service brokers' business mix is much more balanced, with particularly heavy holdings of directly held stocks and fixed-income securities.

Value to fund sponsors

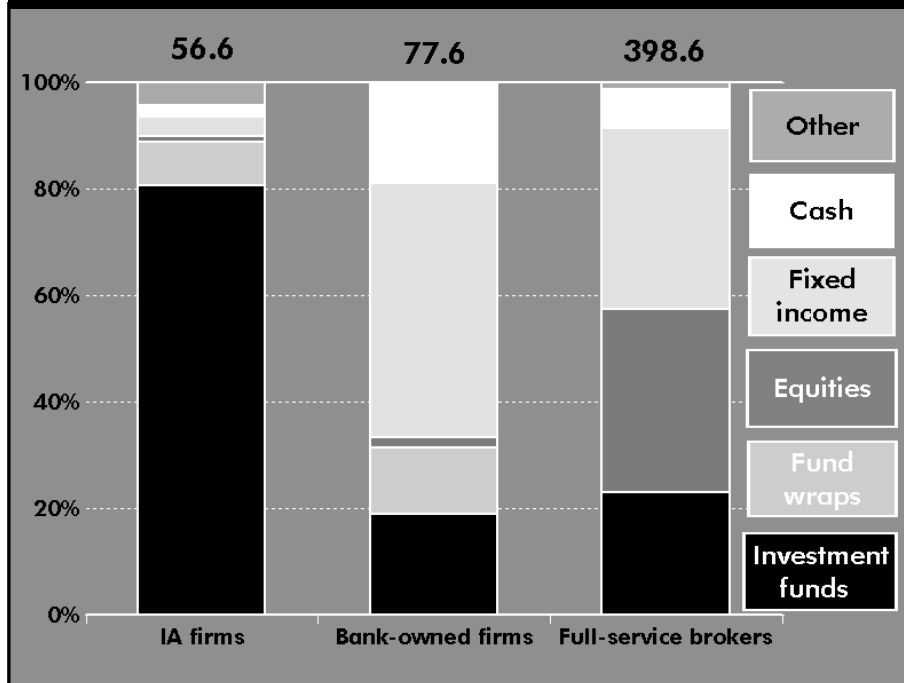
Figure 8 zeroes in on the importance of each group to the funds industry. Measured by absolute dollars, full-service brokers are the most important group, with \$120.1 billion, while IA firms stand a distant second at \$47.2 billion. Bank-owned firms trail at \$17.4 billion. But this raw measure fails to recognize key trends that are underway.

Fund assets at full-service brokers have been on the decline. This is largely the result of an ongoing shift from third-party funds to proprietary fee-based solutions. So, what appears

*Fund assets
at full-service
brokers have
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the decline*

7. Business Mix for Independent Advisor Firms and Full-service Brokers

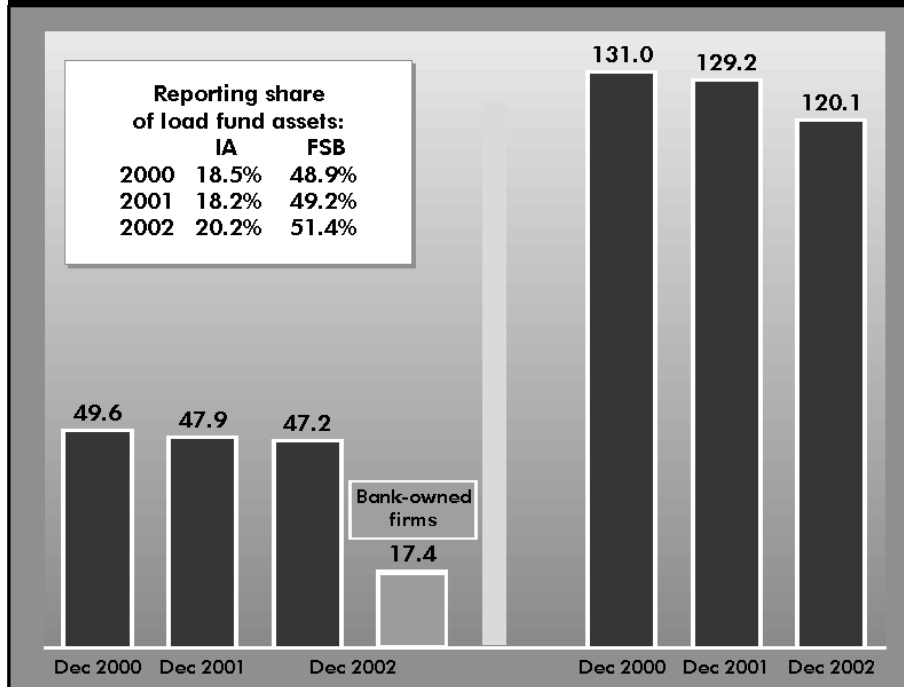
Assets as of December 2002 in billions of dollars



to be a massive asset base is eroding.

The trend for independent advisors has been much more stable. In particular, IA firms have maintained their general level of load-bearing long-term funds even as the fund industry's total stand-alone assets have been declining. Basically, independent advisors have been more loyal. But will that continue? Consolidation makes it increasingly possible for IA firms to manufacture their own programs. So, third-party manufacturers remain vulnerable to any meaningful move by these companies away from their traditional dependence on investment funds, as the full-service brokers have been doing.

8. Independent Advisor Firms and Full-service Brokers' Investment Fund Assets
In billions of dollars



Our tally of bank-owned firms shows that these firms control \$17.4 billion of stand-alone fund assets. This represents good and bad news for the funds industry. The good news is that a component, albeit a small one, of these assets are third-party funds. This represents a source of new growth for fund manufacturers, but at the same time helps stem the flow of bank branch assets to independent advisors who

have been the most enthusiastic sellers of third-party funds.

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Business mix

In Figure 9 we see that investment firms are somewhat more dependent on tax-deferred plans than full-service brokers are. That is not surprising since the previous figures on average account size

show that the brokers tend to have wealthier clients who are more able to have both taxable and tax-deferred accounts. In both channels, the smaller firms rely more on the tax-deferred market than the largest firms do.

Figure 10 compares the size and structure of the fee-based business of the three competitor groups and probes for possible differences between bigger and smaller

participants in each category. Our primary emphasis is on distinctions between investment funds and managed money. Managed money encompasses the following offerings: fund wraps, fee-based brokerage, and the discretionary solutions comprised of advisor managed, in-house managed wraps, separately managed wraps, comingled funds, and separately managed accounts.

Independent advisors have 92% of their total assets in fee-based products. Nearly 79% of that resides in investment funds, the traditional mainstay of their business, while just over 13% is in managed money. The managed money offerings are quite limited. They consist of fund wraps and separately managed accounts, and are offered almost exclusively by the bigger firms. These firms are the ones that tend to look beyond the mass market. Two in particular stand out. Assante and Dundee have both positioned themselves to compete in the High End of the market by offering discretionary portfolio management solutions.

The four bank-owned firms have a smaller share of their total assets in fee-based, but this business is much more evenly distributed between funds and managed money. Bank-owned firms confine their managed money offering to fund wraps, and a high proportion of these are proprietary.

Full-service brokers offer the widest selection—everything except

9. Importance of Tax-deferred Business to Independent Advisors December 2002

	Tax-deferred assets as % of total assets
Independent advisors	43%
Five largest firms	42%
Remaining firms	48%
Full-service brokers	33%
Five largest firms	33%
Remaining firms	37%

Our primary emphasis is on distinctions between investment funds and managed money

10. Composition of Fee-based Business of Independent Advisors, Bank-owned Firms and Full-service Brokers
December 2002 assets in billions of dollars

	Fee-based assets		
	Investment funds	Managed money	Total fee-based assets
Independent advisors	44.5	7.4	52.0
Five largest firms	35.3	7.4	42.7
Remaining firms	9.2	0.1	9.2
Bank-owned firms	14.4	9.5	23.9
Full-service brokers	86.4	45.7	132.1
Five largest firms	67.5	40.8	108.3
Remaining firms	18.9	4.9	23.8

	Fee-based as % of total assets		
	Investment funds	Managed money	Total fee-based assets
Independent advisors	78.7%	13.1%	91.9%
Five largest firms	77.9%	16.3%	94.2%
Remaining firms	81.3%	0.4%	81.7%
Bank-owned firms	18.6%	12.2%	30.8%
Full-service brokers	23.0%	12.2%	35.2%
Five largest firms	21.2%	12.8%	34.0%
Remaining firms	33.0%	8.5%	41.5%

	Distribution of fee-based assets		
	Investment funds	Managed money	Total fee-based assets
Independent advisors	85.7%	14.3%	100.0%
Five largest firms	82.7%	17.3%	100.0%
Remaining firms	99.5%	0.5%	100.0%
Bank-owned firms	60.4%	39.6%	100.0%
Full-service brokers	65.4%	34.6%	100.0%
Five largest firms	62.3%	37.7%	100.0%
Remaining firms	79.4%	20.6%	100.0%

separately managed accounts and comingled funds. They have the largest fee-based presence, with \$132 billion of assets under administration. The five biggest brokerage firms hold the dominant share of fee-based assets—both investment funds and managed money. This reflects their much larger average account size. Smaller firms continue to have a disproportionate weighting of their business in transaction-based activities.

Figure 11 zooms in on the issue of which third-party fund wraps have had the greatest success in accessing the shelves of independent advisor firms. Note, though, that getting on the shelf does not guarantee sales. Increasingly, these programs are competing with the distributors' own proprietary funds and managed asset offerings. Figure 12 provides an aggregate measure of the degree to which vertical integration exists across our three advisor groups.

Interestingly, while vertical integration is indeed a fact of life, the proprietary share of total assets may not be as high as many players think. It has, however,

been rising steadily in recent years.

IA firms have attracted a lot of attention—and criticism—over what is perceived to be an emphasis on selling proprietary product. But the collective share for all 12 firms in our canvass was 16.7% of assets. Of course, there are meaningful differences in the degree to which firms have embraced vertical integration, and certain ones have a significantly higher weighting in proprietary

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11. Which Third-party Fund Wraps Are on the Independent Advisor Shelf? Number of independent advisor firms (11 firms reporting) offering third-party wraps in December 2002

Third party fund wrap	Number of IA firms* offering the program
AGF Harmony, Mackenzie STAR, MRS Trust Keystone, Viscount Wealth Management	11
CI Insight, Franklin Templeton Quotential, Maritime Life & Talvest Synchrony Funds	10
CI GIF Asset Allocation Portfolios, ING Ensemble Portfolios	6
Evolution Asset Management Pooled Funds	2
imaxx TOP Portfolios	2
Manulife Asset Allocation GIF Encore	2
Canada Life Continuum Funds, Credential Portfolio, Credential Select Portfolios, Desjardins Life - Ultimate Portfolio of Equity Funds, Dundee Fund of Funds, Frank Russell Sovereign, Manulife Asset Allocation GIF Encore, Standard Life Legends, Other	1

*Not counting the instances where a fund wrap's manufacturer is also directly affiliated with the distributor organization (e.g. imaxx TOP Portfolios sold at Aegon Dealer Services Canada or Manulife Asset Allocation GIF Encore sold at Manulife Securities International Limited).

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offerings. We believe that IA firms are now in the throes of a transformation that will see proprietary products gaining share over time. Vertical integration creates a natural opportunity for proprietary fund wraps and some discretionary solutions. Note that discretionary solutions are still a minor share of the overall proprietary activities of this group, with only a couple of organizations committed to, and capable of growing in, the High End of the continuum.

Not surprisingly, the bank-owned firms have the heaviest weighting in proprietary offerings. Note that this share—just over one-third—pertains to an asset base that includes deposits as well as fee-based product. The proprietary share would be dramatically higher if deposits were

12. Vertical Integration at Work: Importance of Proprietary Products to Independent Advisors

Percentage of proprietary assets by major product category in December 2002

	Investment funds	Fund wraps	Discretionary management	All proprietary products as % of total assets
Independent advisors	11%	84%	100%	16.7%
Bank-owned firms	90%	98%	—	35.2%
Full-service brokers	< 5%	49%	100%	6.3%

excluded. Note the link between access to distribution and degree of vertical integration—in-house offerings account for more than 90% of both investment funds and wraps.

Full-service brokers have only slightly more than 6% of their total assets in proprietary offerings. This low level is due largely to the presence of legacy transaction-based assets that have been declining, but still account for two-thirds of total assets. It takes time to turn around the *Queen Mary*. Proprietary stand-alone

**13. Regional Breakdown of Assets and Advisors for Independent Advisor Firms
As of December 2002**

	Atlantic	Quebec	Ontario	Prairies	Alberta	BC	Canada
Assets							
Independent advisors	4.9%	9.5%	52.6%	9.7%	8.2%	15.2%	100.0%
Full-service brokers	4.1%	22.8%	43.1%	5.3%	10.3%	14.5%	100.0%
Accounts							
Independent advisors	7.0%	7.4%	56.2%	8.5%	6.8%	14.1%	100.0%
Advisors							
Independent advisors	6.1%	14.4%	46.5%	7.8%	9.8%	15.5%	100.0%
Full-service brokers	4.9%	19.9%	41.1%	5.0%	10.6%	18.6%	100.0%

**14. Independent Advisor Rankings
Ranked by assets (in billions of dollars), number of advisors and
average book per advisor (in millions of dollars)
As of December 2002**

	Assets	Number of advisors	Avg book per advisor
Sample total	56.6	10,706	6.4
Assante	1	4	1
Cartier Partners Financial Group	2	2	7
IPC	3	5	3
Manulife Securities International	4	3	9
Dundee Private Investors	5	9	2
TWC Financial	6	6	5
IQON Financial Group	7	8	4
Aegon Dealer Services Canada	8	7	8
Quadrus Investment Services	9	1	12
Independent Planning Group	10	11	6

investment funds have historically obtained little traction among brokers. Fund wraps—principally the High End variety—and discretionary solutions have been the focus of attention and growth.

Ranking the pack

Figure 13 presents a regional profile of assets and accounts for independent advisors and full-service brokers. What jumps out is the relatively uniform picture across the country, except in Quebec. There, full-service brokers hold a much greater share of national assets than IAs do. We

**15. Asset Rankings for Independent Advisor and Bank-owned Firms
In billions of dollars as of December 2002**

	Assets
Sample total	\$134.1
CIBC Imperial Service	1
RBC Financial Planners	2
Assante	3
Cartier Partners Financial Group	4
IPC	5
Manulife Securities International	6
Dundee Private Investors	7
TWC Financial	8
IQON Financial Group	9
TD Financial Planners	10

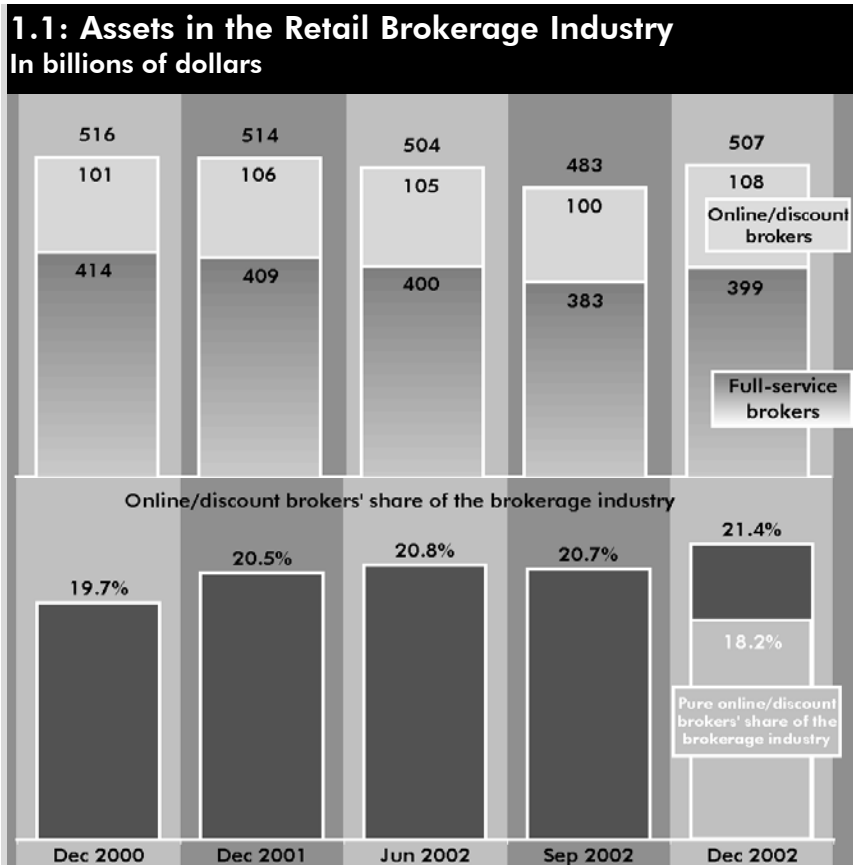
believe this is more of a reflection of under-reporting Quebec assets by the firms in our sample.

Figure 14 ranks the 10 largest participants in our independent advisor sample. Figure 15 adds bank-owned firms to the asset rankings. Notice that they moved into first and second place, and three of the four bank-owned firms made it into the top 10. The banks will undoubtedly continue to have a major impact on the evolution of all elements in the advice channel. ■■■

Section 1: Assets and Accounts

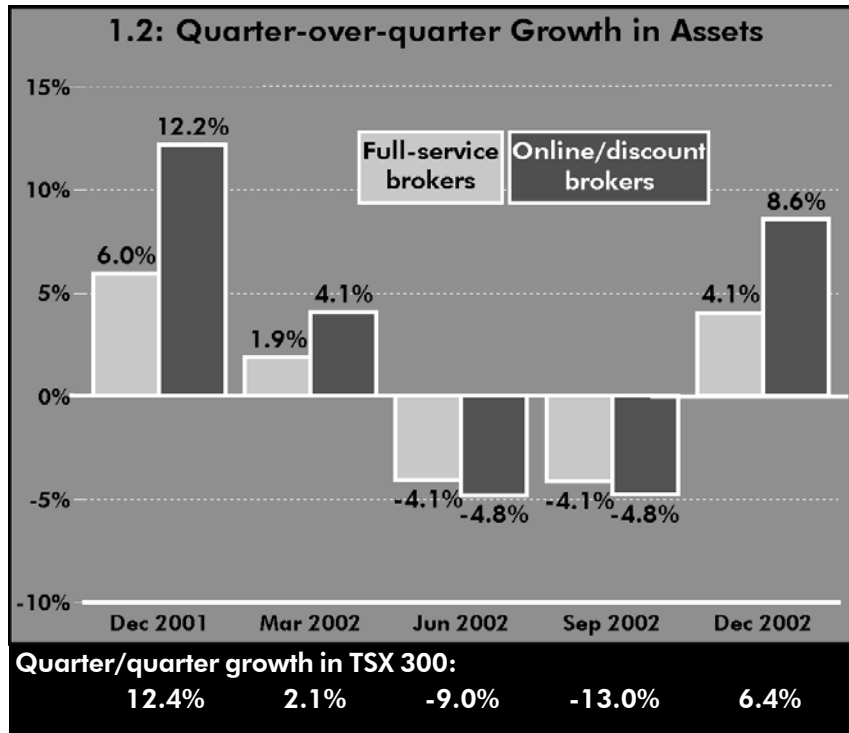
This issue of *The Retail Brokerage Report* expands our coverage of the industry. We are now including data from Dundee Securities. That brings our list of respondent firms to 15. We thank them all for their generous cooperation.

We previously noted that our growth rates for the online/discount brokerage channel were somewhat overstated because they included investment products that were sold by the banks' branch advisors and only cleared through their online/discount brokerage firms. As promised, we have begun refining this data to provide a more accurate view. The result of our first effort appears in Figure 1.1, which shows an 18.2% "pure" share of industry assets held by online/discount firms. Other charts will be changed as we continue to refine this data.



➤ The fourth quarter of 2002 produced a 5% rebound, which carried total brokerage assets back above the \$500 billion mark after a slip to \$483 billion during the third quarter. Assets totalled \$507 billion at December 31, down 1.5% for the year. Full-service brokers gained 4.1% for the quarter, but still fell just shy of making it back to the \$400 billion range. Their December 31 total—\$399 billion—was down 2.5% for the year. Online/discount brokerage assets totalled \$108 billion at December 31, a strong 8.6% gain for the quarter and a 2.4% boost for the year. This increased the online/discount market share to 21.4%—the first time it has been over the 21% mark. As noted

above, we are now able to identify assets that were actually gathered through bank branches and only cleared through the online/discount platform. This involves just under \$16 billion, leaving the online/discount channel with just over \$92 billion of "pure" assets and an 18.2% pure market share.



► 2002 had two “up” quarters—the first and the fourth—and two “down” quarters. Online/discount assets outpaced full-service assets by a 2-to-1 margin during the up quarters—for example, an 8.6% fourth-quarter gain versus 4.1%. Online/discount assets fell more during the down times, but full-service assets were not that far behind. Third-quarter losses were 4.8% and 4.1% respectively.

► Every asset class gained value during the fourth quarter, but bonds saw the only gains for the full year—up a notable 13.4%. Equities still have the heaviest weighting for the whole industry—37.5% at

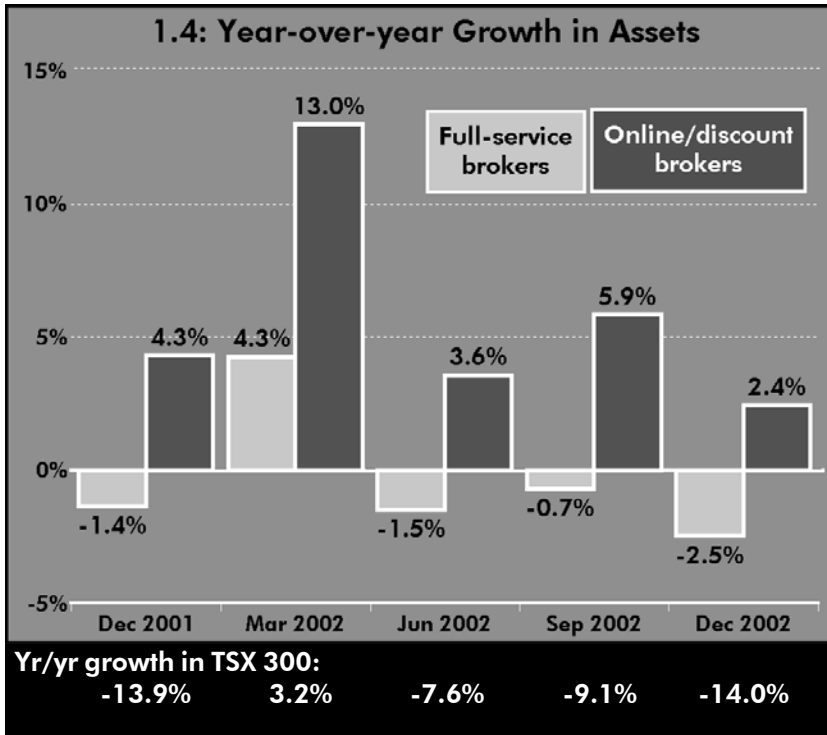
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1.3: Assets by Investment Vehicle
In billions of dollars

	Dec 2002	3 mos.	6 mos.	Yr/yr	Share of total	Change in share 6 mos.	Yr/yr
All brokers							
Total assets	507	5.0%	0.5%	-1.5%	100.0%	—	—
Cash and equivalents	44	8.4%	2.5%	-1.4%	8.6%	0.2%	—
Bonds	148	4.2%	9.0%	13.4%	29.1%	2.3%	3.8%
Mutual funds	120	4.9%	-3.6%	-7.1%	23.7%	-1.0%	-1.4%
Equities	190	4.1%	-3.1%	-7.4%	37.5%	-1.4%	-2.4%
Other financial assets	5	—	—	—	1.0%	—	—
Full-service brokers							
Total assets	399	4.1%	-0.2%	-2.5%	100.0%	—	—
Cash and equivalents	29	9.0%	2.2%	-3.5%	7.4%	0.2%	-0.1%
Bonds	136	3.8%	9.2%	13.4%	34.0%	2.9%	4.8%
Mutual funds*	92	3.9%	-5.6%	-10.4%	23.0%	-1.3%	-2.0%
Equities	137	2.3%	-5.3%	-9.5%	34.3%	-1.8%	-2.7%
Other financial assets	5	—	1.2%	-2.1%	1.3%	—	—
Online/discount brokers							
Total assets	108	8.6%	3.4%	2.4%	100.0%	—	—
Cash and equivalents	14	7.2%	3.1%	3.3%	13.1%	0.2%	0.1%
Bonds	12	8.9%	6.5%	13.4%	11.1%	1.0%	1.1%
Mutual funds	28	8.3%	3.4%	5.7%	26.2%	0.6%	0.8%
Equities	54	9.0%	2.8%	-1.5%	49.6%	-1.9%	-2.0%
Other financial assets	—	—	—	—	—	—	—

*Mutual fund component for full-service brokers is estimated.

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December 31. But this category lost 2.4 percentage points of share year over year, while bonds gained 3.8 percentage points. Bonds accounted for 29.1% of total brokerage assets at December 31, followed by mutual funds at 23.7%.

Equities closed the year at 34.3% of full-service assets, but bonds were close behind at 34%—a 4.8 percentage point gain in share of the channel's asset mix. Cash led fourth-quarter dollar growth for full-service brokers, up 9% from the third quarter.

Bonds held in the online/discount

1.5: Assets by Investment Vehicle In billions of dollars

	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002
Full-service brokers					
Total assets	409	417	400	383	399
Cash and equivalents	30	29	29	27	29
Bonds	120	120	124	131	136
Mutual funds*	102	106	97	88	92
Equities	151	157	144	134	137
Other financial assets	5	5	5	4	5
Online/discount brokers					
Total assets	106	110	105	100	108
Cash and equivalents	14	14	14	13	14
Bonds	11	11	11	11	12
Mutual funds	27	28	27	26	28
Equities	55	57	52	49	54
Other financial assets	—	—	—	—	—
Full-service brokers					
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%
Cash and equivalents	7.4%	7.0%	7.2%	7.0%	7.4%
Bonds	29.3%	28.7%	31.1%	34.1%	34.0%
Mutual funds*	25.1%	25.5%	24.3%	23.1%	23.0%
Equities	36.9%	37.6%	36.1%	34.9%	34.3%
Other financial assets	1.3%	1.2%	1.3%	0.9%	1.3%
Online/discount brokers					
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%
Cash and equivalents	13.0%	12.9%	13.2%	13.3%	13.1%
Bonds	10.0%	10.1%	10.8%	11.1%	11.1%
Mutual funds	25.3%	25.5%	26.2%	26.2%	26.1%
Equities	51.6%	51.5%	49.9%	49.4%	49.6%
Other financial assets	—	—	—	—	—

*Mutual fund component for full-service brokers is estimated, and now includes fund wraps.



channel also gained 13.4% in dollar value over the year, but did not enjoy the same magnitude of gains in channel share that they did at full-service firms. At December 31, equities still comprised just about half of all online/discount assets. Next came mutual funds at 26.2%, cash at 13.1%, and only then bonds at 11.1%. As with full-service brokers, equities lost share over the year while the other three asset classes each gained a bit. Bonds led the gainers, but from a very low base. Several online/discount firms made computer

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1.7: Asset Breakdown by Tax Status and Type of Account
In billions of dollars

	Dec 2002	3 mos.	Change 6 mos.	Yr/yr	Share of total	Change in share 6 mos.	Yr/yr
All brokers							
Total assets	507	5.4%	0.5%	-1.5%	100.0%	—	—
Taxable	335	5.4%	1.6%	-0.5%	66.1%	0.7%	0.6%
Tax-deferred	172	4.8%	-1.4%	-3.2%	33.9%	-0.7%	-0.6%
Self-directed RRSPs	133	3.5%	-2.6%	-5.6%	26.2%	-0.8%	-1.1%
Group RRSPs	6	3.5%	-1.4%	-4.9%	1.2%	—	—
RRIFs	31	7.4%	3.6%	7.8%	6.2%	0.2%	0.5%
RESPs	2	7.9%	7.1%	8.4%	0.3%	—	—
Full-service brokers							
Total assets	399	4.1%	-0.2%	-2.5%	100.0%	—	—
Taxable	266	4.5%	0.9%	-1.4%	66.6%	0.7%	0.8%
Tax-deferred	133	3.1%	-2.4%	-4.6%	33.4%	-0.7%	-0.8%
Self-directed RRSPs	99	2.0%	-4.1%	-7.8%	24.8%	-1.0%	-1.4%
Group RRSPs	6	3.3%	-1.5%	-5.4%	1.4%	—	—
RRIFs	27	7.2%	3.6%	8.3%	6.9%	0.3%	0.7%
RESPs	1	7.0%	7.2%	7.9%	0.3%	—	—
Online/discount brokers							
Total assets	108	8.6%	3.4%	2.4%	100.0%	—	—
Taxable	70	8.8%	4.1%	2.8%	64.3%	0.5%	0.2%
Tax-deferred*	39	8.1%	2.1%	1.8%	35.7%	-0.5%	-0.2%
Self-directed RRSPs	34	8.0%	1.8%	1.5%	31.7%	-0.5%	—
Group RRSPs	0	7.4%	1.8%	10.0%	0.2%	—	—
RRIFs	4	8.8%	3.9%	4.1%	3.5%	—	0.1%
RESPs	0	11.4%	6.8%	10.4%	0.3%	—	—

*Online/discount tax-deferred breakout is estimated.

1.8: Asset Breakdown by Tax Status and Type of Account

In billions of dollars

	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002
All brokers					
Total assets	514	527	504	481	507
Taxable	337	344	330	318	335
Tax-deferred	178	183	174	164	172
Full-service brokers					
Total assets	409	417	400	382	399
Taxable	269	274	263	254	266
Tax-deferred	140	143	136	129	133
Online/discount brokers					
Total assets	106	110	105	99	108
Taxable	68	70	67	64	70
Tax-deferred	38	40	38	36	39
All brokers					
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%
Taxable	65.5%	65.3%	65.5%	66.1%	66.1%
Tax-deferred	34.5%	34.7%	34.5%	34.1%	33.9%
Full-service brokers					
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%
Taxable	65.9%	65.7%	65.9%	66.5%	66.6%
Tax-deferred	34.1%	34.3%	34.1%	33.8%	33.4%
Online/discount brokers					
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%
Taxable	64.1%	63.8%	63.9%	64.8%	64.3%
Tax-deferred	35.9%	36.2%	36.1%	36.2%	35.7%

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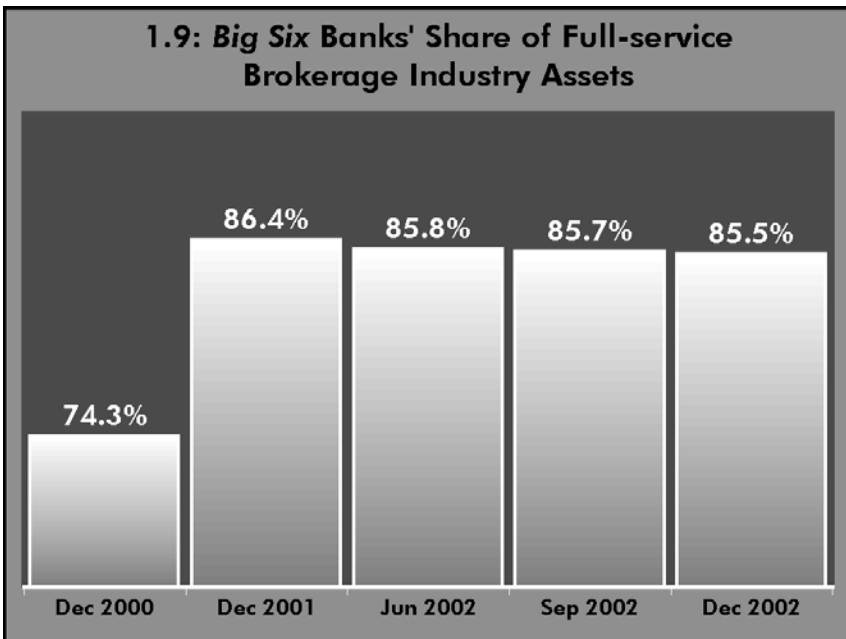
system improvements during the year that give clients a better

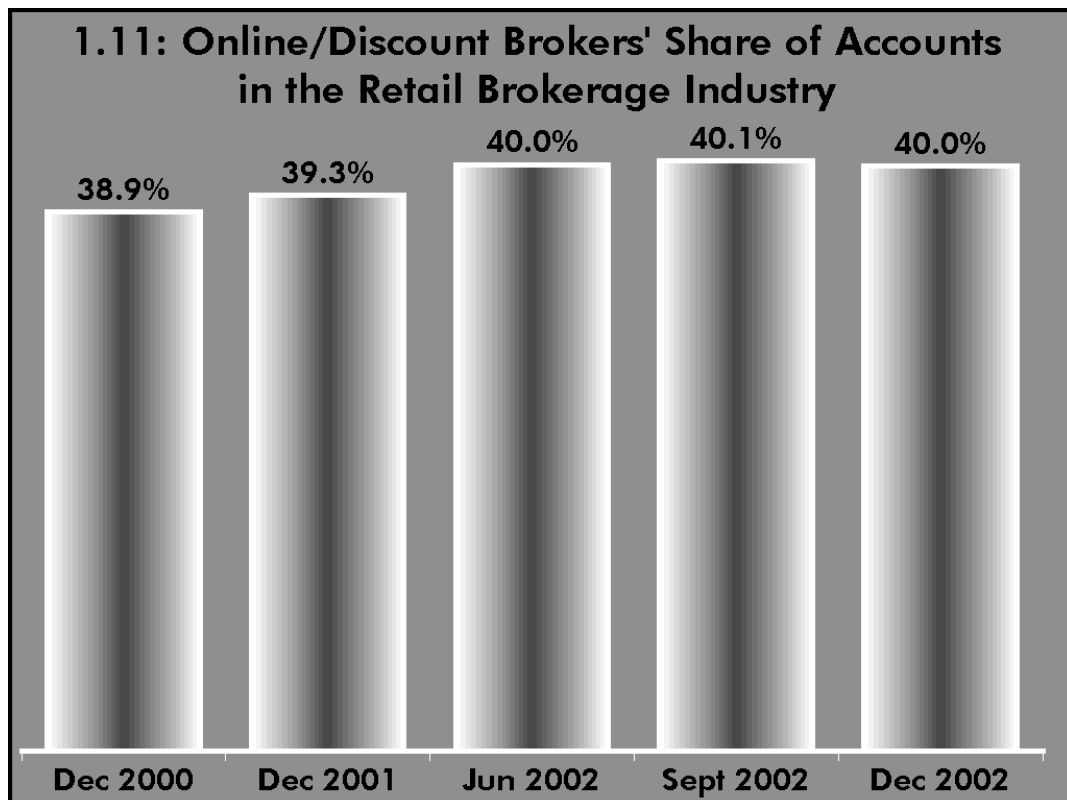
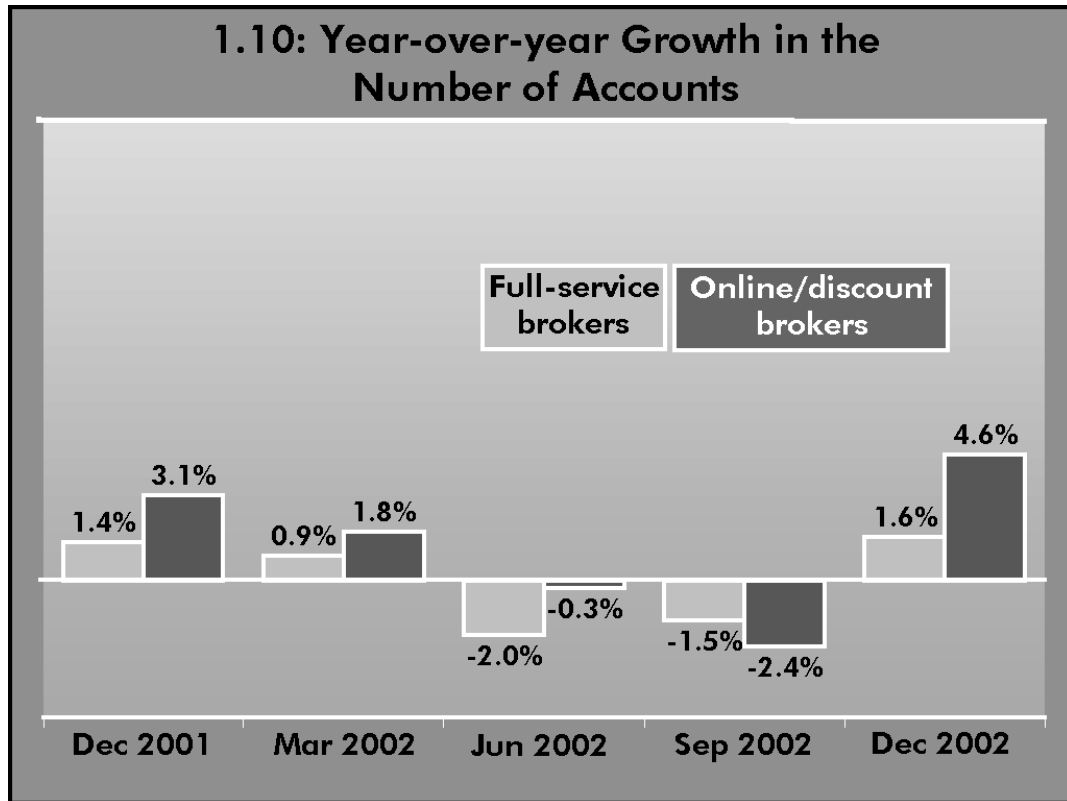
view of their bond inventories and pricing. It will be interesting to track the growth of this part of their business if, as many analysts predict, the coming years see a pronounced narrowing of the stock-bond performance gap.

► Full-service brokers have had negative year-over-year asset growth in four of the last five quarters. By contrast, online/discount brokers had positive growth for all five quarters, even though their business mix should make them more vulnerable to stock market downturns.

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1.9: Big Six Banks' Share of Full-service Brokerage Industry Assets





1.12: Number of Accounts In thousands

	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002	Yr/yr growth
All brokers	7,568	7,746	7,689	7,631	7,779	2.8%
Full-service brokers	4,593	4,681	4,611	4,569	4,667	1.6%
Online/discount brokers	2,975	3,065	3,079	3,062	3,112	4.6%
Gross new accounts opened at online/discount brokers	116	127	98	98	90	-22.2%

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► At \$335 billion, taxable assets comprised just under two-thirds of both total and per-channel brokerage assets at the end of the fourth quarter. In all, they were essentially flat for the year—up just 0.6%. Logically, taxable accounts should be skewed toward equities, which are more tax-efficient than fixed-income. But equities dramatically under-performed bonds over the year, so flat performance suggests fair-sized inflows. Interestingly, taxable assets beat tax-deferred assets in quarterly, year-over-year and multi-year growth.

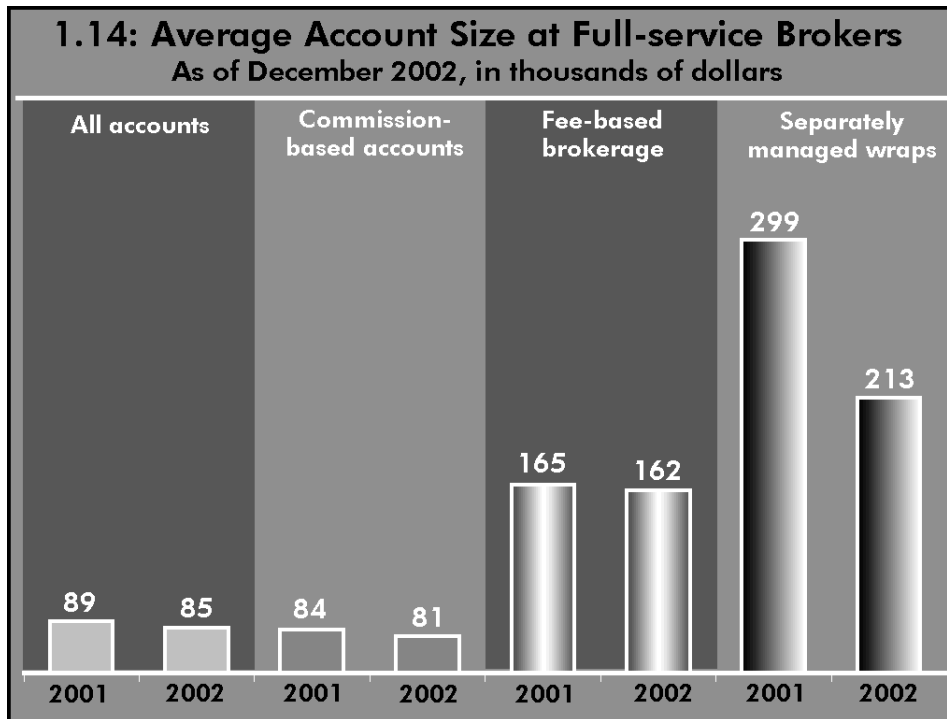
Full-service brokers hold the lion's share of taxable assets—79.4%—as well as the lion's share of tax-deferred assets—77.3%.

RESPs and RRIFs were the fastest growing tax-deferred category for both channels during the fourth quarter. Growth was especially strong at online/discount brokers, where each type of account grew more than 8%.

Looking at annual growth, we see that online/discount brokers made strong gains in all categories. Overall, their taxable assets grew 2.8% and their tax-deferred assets grew 1.8%. Within the tax-deferred category, RESPs and group RRSPs were the fastest growers at 10.4% and 10% respectively. Full-service brokers did

1.13: Average Account Size In thousands of dollars

	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002	Yr/yr growth
Full-service brokers	88.9	88.8	86.7	83.8	85.4	-3.9%
Online/discount brokers	35.5	35.9	34.0	32.6	34.8	-2.1%
Full-service brokers - tax-deferred	70.6	71.8	69.3	72.3	75.6	7.1%
Online/discount brokers - tax-deferred	38.4	39.0	36.8	34.3	36.6	-4.7%
Full-service brokers - taxable	102.7	101.4	99.6	91.2	91.4	-11.0%
Online/discount brokers - taxable	34.1	34.3	32.6	31.7	33.9	-0.7%



not enjoy the same growth. Their taxable assets decreased by 1.4% over the year, while their tax-deferred assets fell by 4.6%. The only categories with positive annual growth were RRIFs and RESPs.

► The Big Six banks held 85.5% of total brokerage assets at the end of 2002. That was down 1% from the prior year. On one hand, that stability seems impressive following the entry of independents such as Rockwater Capital, expansion beyond Quebec by

Desjardins, and the fast growth of Dundee. On the other, the banks' dominance was bolstered considerably early in the year when CIBC absorbed the retail operations of Merrill Lynch Canada and Scotia acquired Charles Schwab Canada. Please note that the Merrill Lynch and Schwab departures mean the retail brokerage industry is virtually 100% Canadian. We therefore no longer chart retail assets controlled by foreign-owned firms.

► The fourth quarter saw both channels increasing their number of accounts after two quarters of declines. The tally of online/discount brokerage accounts was up 4.6% year over year, while the full-service total was up marginally by 1.6%. In addition to stock market declines, last year saw concerted action by several firms to purge low-value accounts, and also a reduction in the total number of advisors.

► Headlines to the contrary, the stock market bear is apparently not driving away online/discount clients. This channel continues to hold 40% of all retail brokerage accounts and just over 20% of total assets. But the bear does seem to be scaring away new clients. Online/discount brokers opened only 90,000 new accounts during 2002, a 22.2% decline from 2001. Overall, there were 7.7 million full-service and online/discount accounts at December 31, up 2.8% from the prior year.

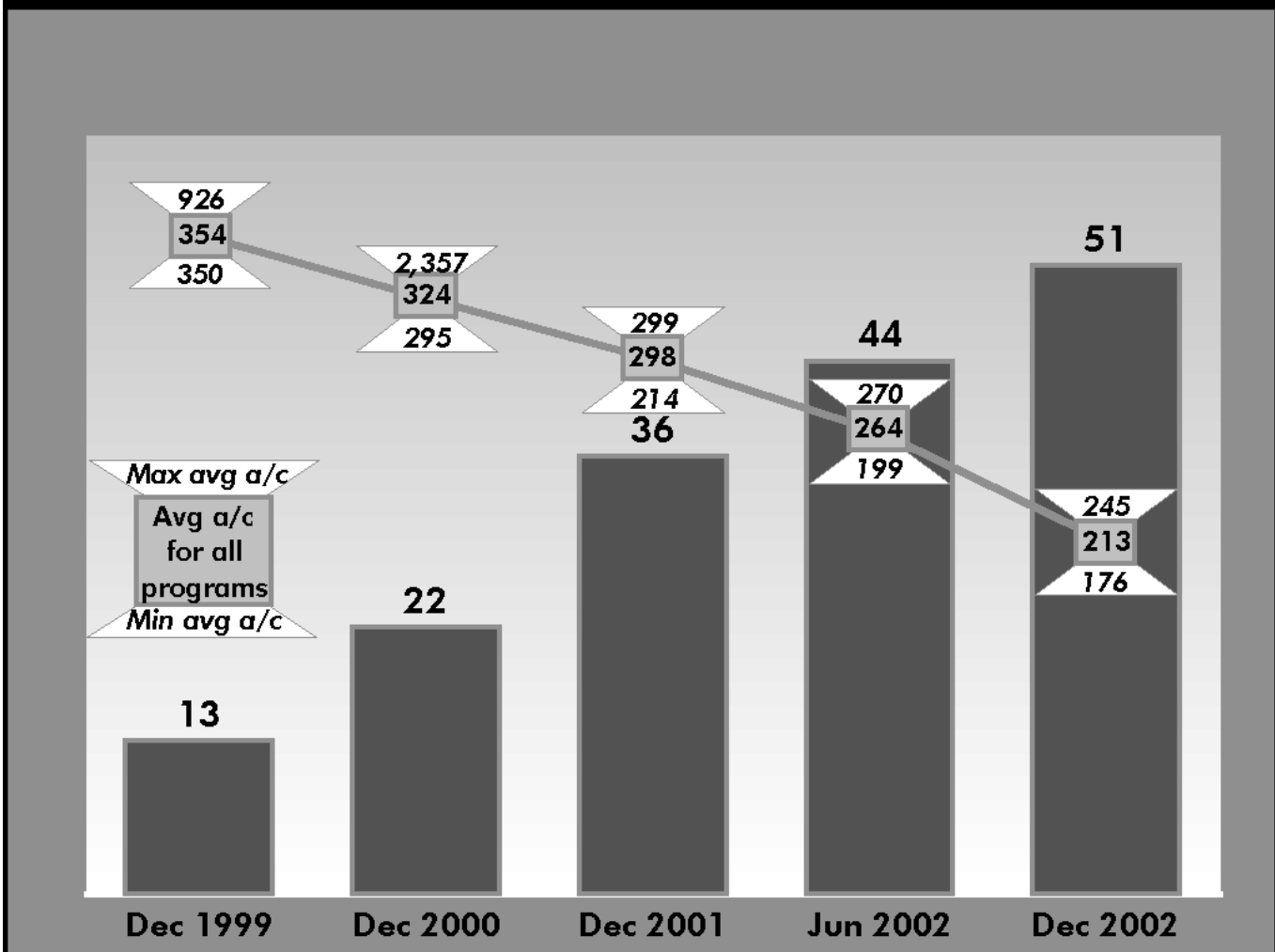
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- The average account size at both channels rose during the fourth quarter—1.9% for full-service brokers and 6.7% for online/discounters. But it was still off for the year. The average full-service account held \$85,400 at December 31—more than twice the \$34,800 average for online/discounters. Respectively, these were down 3.9% and 2.1% for the year from the end of 2001.
- On average, fee-based accounts hold about twice as much as commission-based full-service accounts. Though the portfolio holdings might be identical, the average fee-based brokerage account was worth \$162,000 while the average traditional brokerage account held \$81,000. The gap is wider for separately managed wraps, a discretionary fee-based program targeted toward the high value client. The average SMW held \$213,000 at December 31. The traditional account average fell 3.6% for the year, com-

1.15: Number of Separately Managed Wrap Accounts and Average Account Size

Number of accounts in thousands and average account size in thousands of dollars

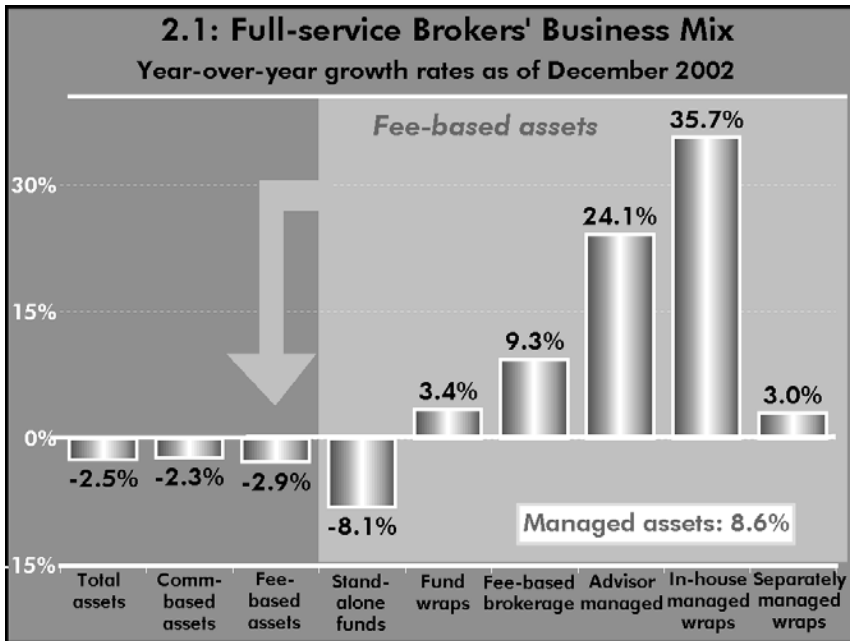


pared with a 1.8% decline for the average fee-based brokerage account.

➤ The separately managed wraps average fell by 28.8%, mainly due to much broader marketing. The number of accounts rose sharply during the year, from about 36,000 at the end of 2001 to about 51,000 at the end of 2002. Average values fell as more accounts were opened. This does not necessarily mean the SMW is moving more toward the mass market. Many clients have multiple SMW accounts for registered and non-registered assets, as well as for other family members. Notice the wide range among programs—from an average of \$176,000 at one firm to \$245,000 at another.

Section 2: Fee-based Assets

This issue of *The Retail Brokerage Report* incorporates a restructuring that we did in our schematic of the fee-based market while gathering data for *The Fee-based Report*. It affects the discretionary services offered by full-service brokers.



Previously, there were two fee-based discretionary services. One was the advisor managed account in which the retail broker acts as portfolio manager with full authority to buy and sell securities. The other was the separately managed wrap. SMW clients distribute their money, complete with full trading authority, among a selection of external portfolio managers.

We have now added a third discretionary service: the in-house managed wrap. IMWs resemble SMWs in functionality, but use

internal or affiliated money managers. They are also aimed at a slightly lower-value segment of the High End market. This new category includes some assets that we previously attributed to advisor managed accounts.

► Fee-based brokerage assets contracted more than commission-based ones during 2002—down 2.9% and 2.3% respectively. But that begs context. The entire fee-based decline was attributable to an 8.1% drop in stand-alone funds. The shift from commission-based to managed assets—one of our key themes—very much continued. Assets grew during the year for all managed asset categories: fund wraps, fee-based brokerage, advisor managed, in-house managed wraps, and separately managed wraps. Our new IMW category took top honours with a 35.7% increase. Advisor managed ranked second at 24.1%.

► Development of new fee-based programs has slowed amid tough market conditions. Figure 2.2 shows the products sold by each brokerage. The second half of 2002 saw just four program launches. In December Scotiabank launched Scotia Partners

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2.2: Fee-based Programs Offered through Full-service Brokers

Company	Funds of funds	Fund wraps	Fee-based brokerage	Advisor managed	In-house managed wraps	Separately managed wraps
BMO Nesbitt Burns		Quadrant, Harmony, Insight, Star	Meridian Program	Managed Portfolio Account	BluePrint Program	Advance
Canaccord			Azure Account	*NEW* AMA Program	Independence Account	
CIBC Wood Gundy		Harmony, Insight, Star, Frontiers	Portfolio Partner			Investment Consulting Service
Credential Securities	Credential Portfolios	Harmony, Insight				
Desjardins			Elite			
Dundee Securities	Dynamic Fund of Funds	Viscount, Harmony, Insight	Summit	Managed Account Program		
HSBC Securities		Harmony, Insight	Gemstone Portfolio Series			
Laurentian Bank Securities			Le Conseiller			
National Bank Financial		Emissary Portfolio Service, Harmony, Insight, Star	Partnership Account		Delegate Portfolio Service, Private Wealth Management, Advisor Baskets	Ambassador Portfolio Service
Raymond James		Harmony, Insight	Viridian	Private Investment Mgmt. Group		Partners Program
RBC Investments - Private Client Division	Royal Select Portfolios, Royal Select Choices Portfolio	Sovereign, Harmony, Viscount, Star	Advisor	Private Investment Mgmt.	*NEW* Parameter	Access
ScotiaMcLeod	*NEW* Scotia Partner Portfolios	Pinnacle, Harmony, Insight, Sovereign, Star	Partnership Plus/ i:PARTNER	Managed Account		Summit
TD Waterhouse Investment Advice	TD Managed Assets Program	Harmony, Insight, Sovereign, Star	Advantage	Managed Account Program		Advantage Third Party
Yorkton Securities			Liberty Account			

***Includes only funds of funds sponsored by the broker or its parent company.**

****Some brokerage firms have advisor managed programs, but they are not formalized in terms of pricing, etc.**

***NEW* Highlights that the program is new to our research and may not necessarily be a newly launched product.**

2.3: Full-service Brokers' Business Mix In billions of dollars

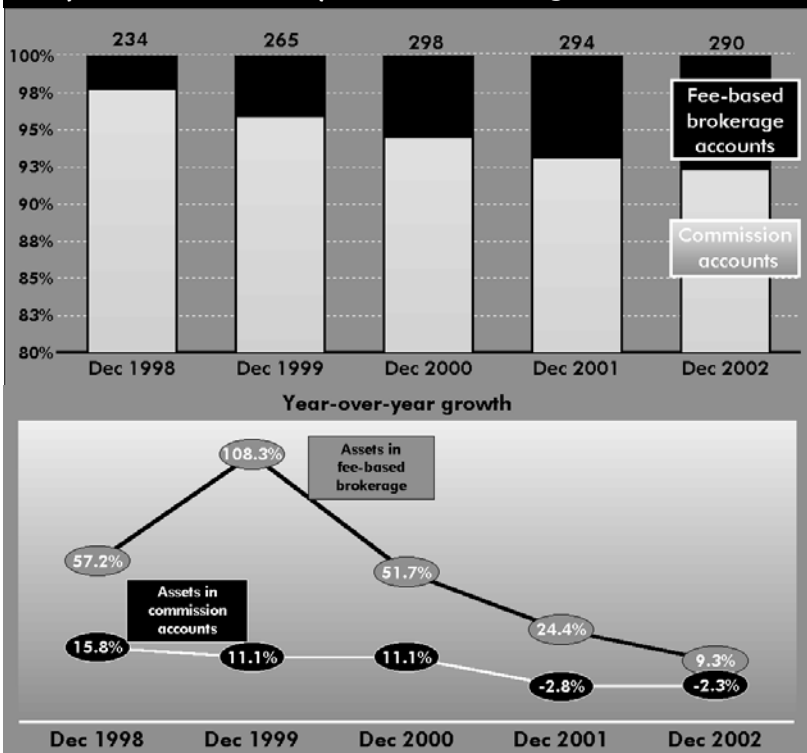
	Dec 2002	Share of total	3 mos.	Growth 6 mos.	Yr/yr
Total assets	399	100.0%	4.1%	-0.2%	-2.5%
Commission-based assets	268	67.3%	4.2%	0.3%	-2.3%
Fee-based assets	130	32.7%	4.9%	-0.7%	-2.9%
Stand-alone mutual funds*	85	21.2%	3.1%	-2.3%	-8.1%
Managed assets	46	11.5%	8.2%	2.5%	8.6%
Fund wraps	7	1.8%	13.7%	4.3%	3.4%
Fee-based brokerage	22	5.6%	7.4%	4.5%	9.3%
Advisor managed	4	1.0%	7.7%	4.4%	24.1%
In-house managed wraps	2	0.4%	13.5%	17.3%	35.7%
Separately managed wraps	11	2.7%	5.8%	-5.0%	3.0%

*Excludes double counting due to funds in fee-based brokerage accounts and fund wraps.

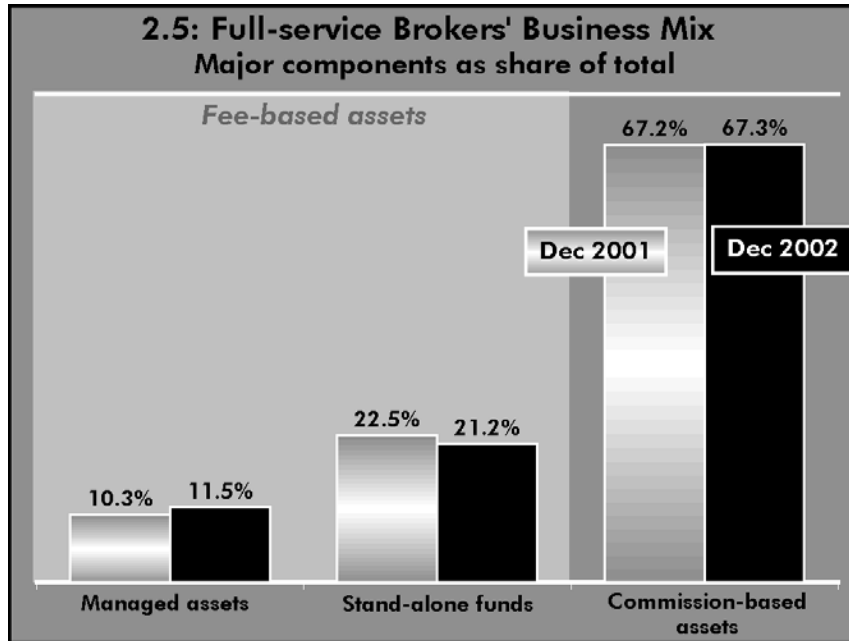
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Portfolio, a fund of funds sold at ScotiaMcLeod, and RBC launched an in-house managed wrap called Parameter. In November, Canaccord entered into the advisor managed category with its Advisor-Managed Account. The fourth launch was a non-brokerage offering: Franklin Templeton Quotential, which went on sale in August.

2.4: Fee-based Brokerage Outstrips Commission Accounts Size (in billions of dollars), distribution and growth



➤ All asset categories grew in the fourth quarter of 2002, led by fund wraps and in-house managed wraps at 13.7% and 13.5% respectively. Commission-based assets—up 4.2% for the quarter—still dominate the full-service brokerage business in dollar terms. Totalling \$268 billion at December 31, they comprised just over two-thirds of all assets. Fee-based assets were half that total, at \$130 billion, but have shown remarkable growth over a very few years. IMW and advisor managed were the fastest growing fee-based assets last year, but they are building on a very low base—\$1.7 billion and \$3.6 billion respectively. Together, they account for just 1.4% of the brokers' total business. Fee-based brokerage continues to hold the largest share of brokers' managed assets—5.6%.



► Figure 2.4 compares fee-based brokerage and commission-based assets since the end of 1998. Together, these business lines held 72.7% of total full-service brokerage assets at December 31. These two lines compete head-on. Commission-based has declined steadily while fee-based has experienced strong growth, suggesting that money is clearly shifting from the former to the latter.

► Managed assets accounted for 11.5% of the full-service brokerage mix at the end of 2002, up 1.2

percentage points—all from stand-alone funds, which ended the year with a 21.2% share. Commission-based assets remained stable at 67.3%.

2.6: Full-service Brokers' Business Mix
In billions of dollars

	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002
Total assets	409	417	400	383	399
Commission-based assets	274	277	267	258	268
Fee-based assets	134	140	131	124	130
Stand-alone mutual funds*	92	96	87	82	85
Managed assets	42	44	45	42	46
Fund wraps	7	7	7	6	7
Fee-based brokerage	20	21	21	21	22
Advisor managed	3	3	4	4	4
In-house managed wraps	1	1	1	2	2
Separately managed wraps	11	12	12	10	11

*Excludes double counting due to funds in fee-based brokerage accounts and fund wraps.

► Last year saw a continuation of stand-alone funds' decline as an individual component of the full-service fee-based mix. They closed 2002 with a 64.9% share—down from 68.7% at the end of 2001 and 83.7% at the end of 1998. They now compete with a wide array of products, most of them proprietary. But while these funds are shrinking as individual holdings, they remain important not only for the legacy assets they hold but also because they are the building blocks of two managed asset programs: the fund of funds and the fund wrap. Essentially, the mutual fund is undergoing a

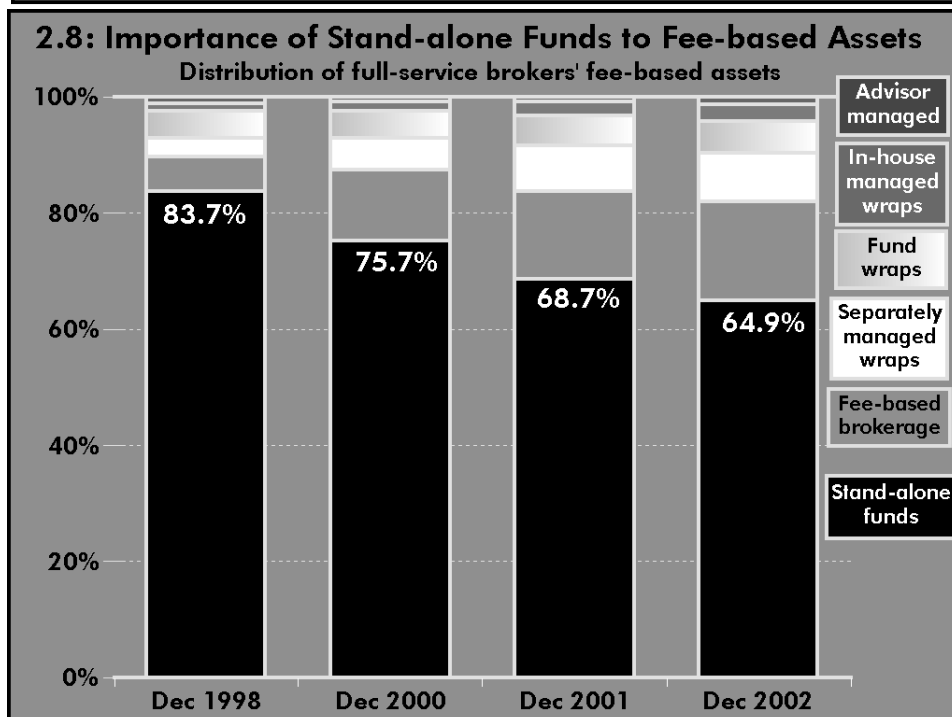
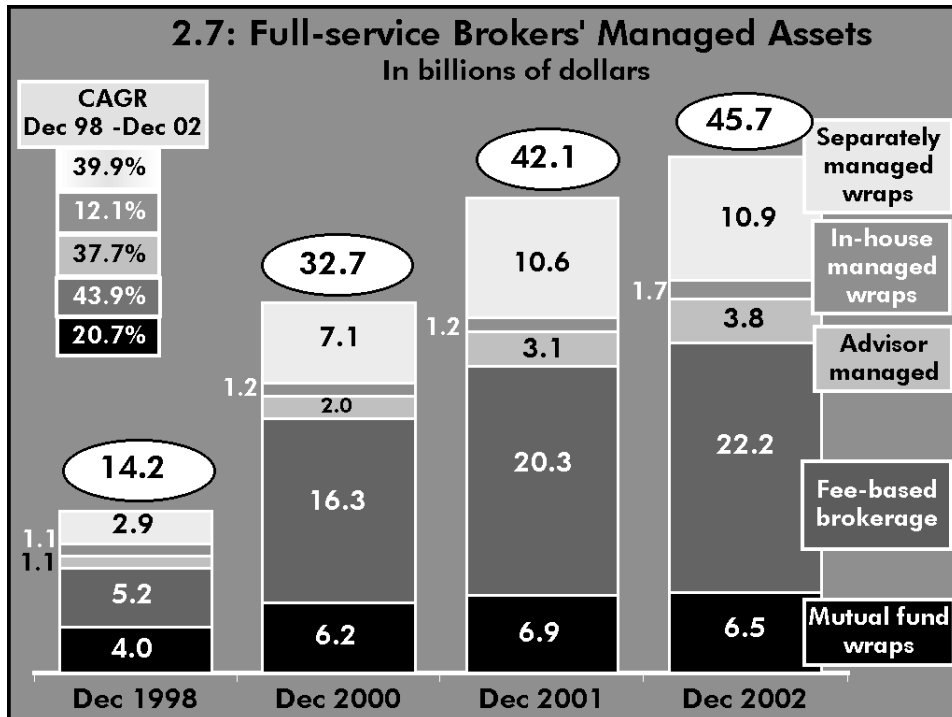
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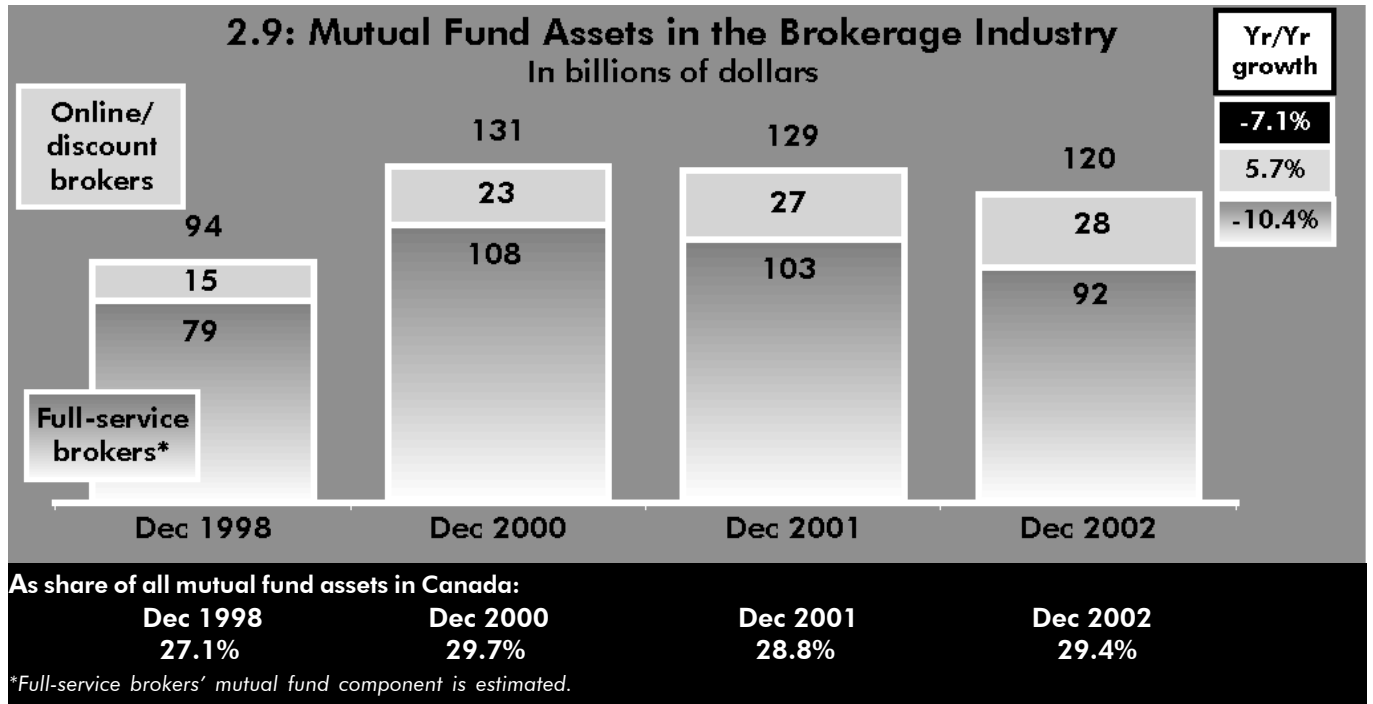
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change in habitat, not facing extinction.

► Together, full-service and online/discount brokers held \$120 billion in mutual fund assets at the end of 2002—29.4% of all fund industry assets. The full-service share was down markedly—by 10.4%. Online/discount brokers expanded their fund base by

5.7% to \$28 billion, and boosted their share of total fund industry assets to 6.8%. Mutual funds hold great appeal for online/discount brokers who could use the steady trailer revenue to help offset the volatility in trading commissions. But their fund assets are most likely heavily dominated by money market funds, which pay a very small trailer: zero to 0.25%.





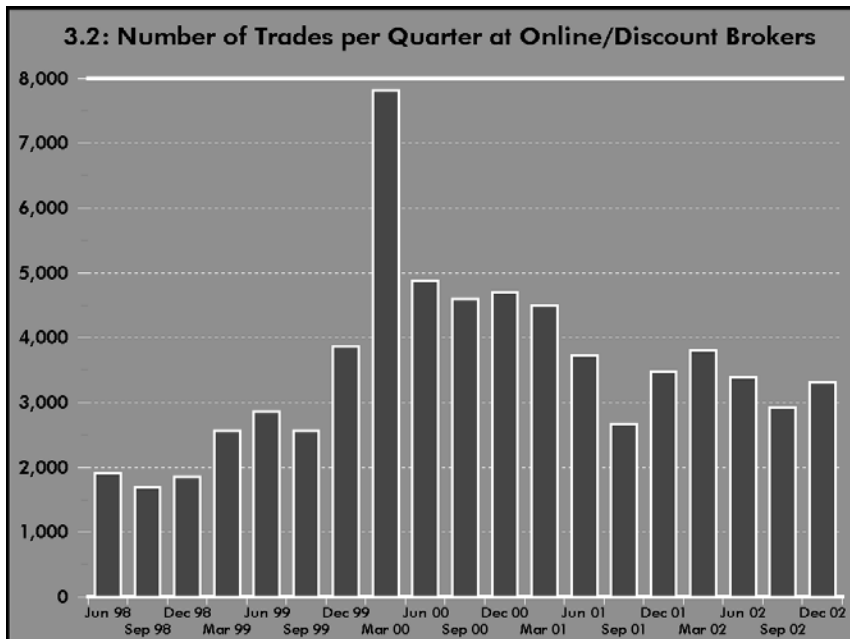
Section 3: Trading

► Fourth-quarter trading activity was up for both brokerage channels, but total trades still ended the year down 8.7% from 2001. Interestingly, full-service brokers saw a much bigger decline than online/discount brokers, whose trading pattern is supposed to be more market-sensitive. The full-service channel was down 11.1%—almost three times the 4.8% falloff for the

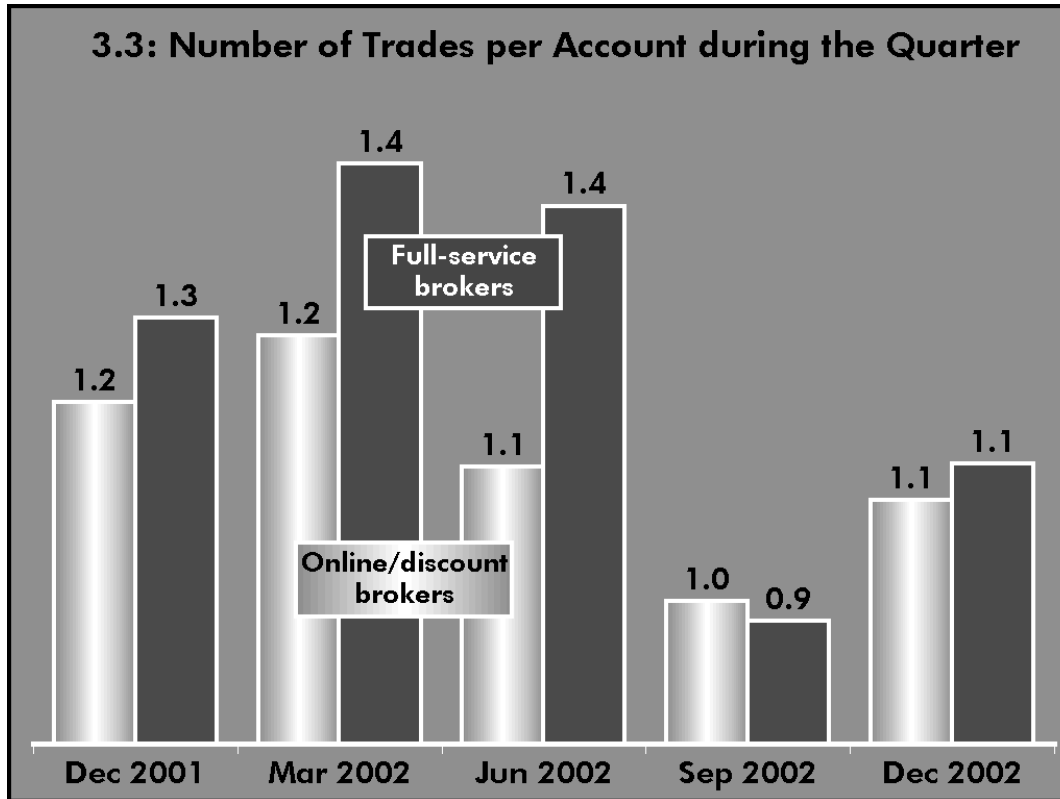
3.1: Quarterly Trading Activity

	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002	Yr/yr growth
Number of trades in thousands						
All brokers	9,259	10,474	9,745	7,182	8,453	-8.7%
Full-service brokers	5,784	6,673	6,363	4,261	5,144	-11.1%
Online/discount brokers	3,475	3,802	3,382	2,921	3,309	-4.8%
Year-over-year growth in trades						
Full-service brokers	-15.3%	-7.6%	-4.9%	-30.0%	-11.1%	—
Online/discount brokers	-26.0%	-15.5%	-9.1%	9.5%	-4.8%	—
Share of trades						
Full-service brokers	62.5%	63.7%	65.3%	59.3%	60.9%	—
Online/discount brokers	37.5%	36.3%	34.7%	40.7%	39.1%	—

online/discounters. This could be a reflection of the growing importance to full-service brokers of fee-based programs, which do not need trading to generate revenues. Total trades for the brokerage industry at the end of 2002 were 8,453—down from an all-time high of 11,929 in June 2000. Full-service firms handled 60.9% of the orders.

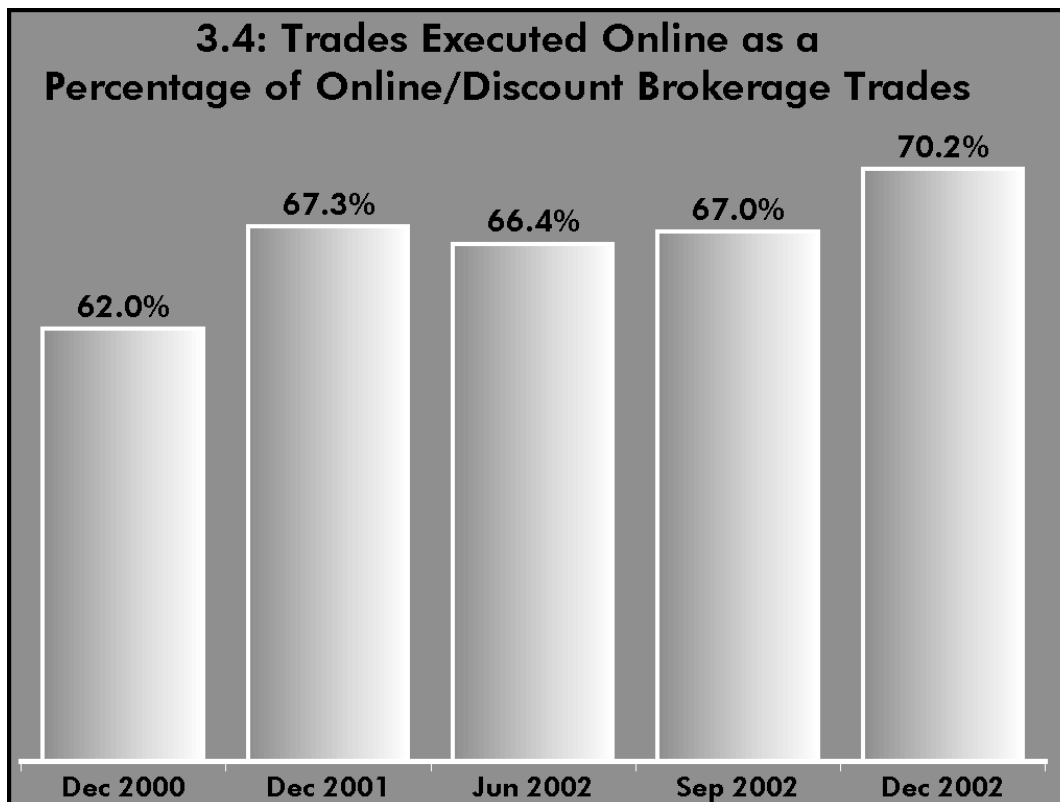


► Trading is a critical aspect of the online/discount revenue picture, and there has been widespread concern about the bear market's impact on this channel. Interestingly, Figure 3.2 shows that online/discount firms processed more transactions in 2002 than during 1998 and 1999, when the stock market was booming. It also highlights the tech wreck in March 2000 and the impact of the 9/11 attacks in 2001. Aside from 9/11, quarterly



trading activity looks fairly consistent.

➤ After a poor third quarter, online/discounters returned to the average of 1.1 trades per account they had last spring. Full-service brokers showed more of a gain from the third quarter, but were still well below last June's level. This too may reflect their growing emphasis on fee-based programs that don't require trading to generate revenue.



➤ Online/discount firms continue to move trading to the Internet, their cheapest and fastest way to receive orders. More than 70% of their fourth-quarter trades were web-based, an all-time high. Registered representatives came next with 27.9% of orders, down slightly from the third quarter.

3.5: Quarterly Trading Activity at Online/Discount Brokers

	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002	Yr/yr growth
Number of trades in thousands	3,475	3,802	3,382	2,921	3,309	-4.8%
Registered representative phone orders	986	1,095	1,002	877	924	-6.3%
IVR phone orders*	128	131	113	86	62	—
Internet orders	2,337	2,549	2,245	1,957	2,323	-0.6%
Share	100.0%	100.0%	100.0%	100.0%	100.0%	—
Registered representative phone orders	28.4%	28.8%	29.6%	30.0%	27.9%	—
IVR phone orders*	3.7%	3.5%	3.4%	3.0%	1.9%	—
Internet orders	67.3%	67.0%	66.4%	67.0%	70.2%	—

*IVR: Interactive Voice Response.

Section 4: Economics

➤ Both channels enjoyed revenue gains during the fourth quarter of 2002. Interestingly, revenue growth outpaced asset growth from quarter to quarter, but the year-over-year revenue decline was greater than the year-over-year asset decline.

Brokerage revenues totalled \$1.2 billion at the end of the fourth quarter—up 7.5% from the third quarter, while assets were up 5%. The year-over-year decline was 4.4%, while assets contracted by just 1.5%.

4.1: Quarterly Full-service versus Online/Discount Broker Revenues
In millions of dollars

	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002	Change 3 mos.	Yr/yr
Full-service brokers	1,021	1,071	1,024	895	945	5.6%	-7.4%
Online/discount brokers	244	249	234	230	264	14.8%	8.1%
Total revenues	1,266	1,320	1,258	1,125	1,210	7.5%	-4.4%

Full-service revenues grew 5.6% for the quarter to \$945 million. They consequently spent the second half of 2002 below the billion-dollar mark. Year over year, they were down by 7.4%. The picture was much brighter for online/discount firms. Their revenues surged 14.8% for the fourth quarter and 8.1% for the year.

Three online/discount brokerage firms reported a revenue decline for the year. The remaining firms all had gains, and a couple of them cited significant double-digit growth.

➤ Online/discount brokers reported year-over-year gains in all revenue categories, as itemized in Figure 4.2. The strongest growth—at over

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4.2: Estimated Quarterly Online/Discount Broker Revenues
In millions of dollars

	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002	Yr/yr growth
Commissions	150	155	135	130	157	5.0%
Trailer fees	22	21	22	20	23	6.1%
Account fees	4	6	5	4	4	15.3%
Other (interest, foreign exchange, and others)	69	66	73	76	80	15.0%
Total revenues	244	249	234	230	264	8.1%
Commissions	61.2%	62.5%	57.4%	56.4%	59.5%	
Trailer fees	8.9%	8.4%	9.2%	8.8%	8.7%	
Account fees	1.5%	2.4%	2.0%	1.9%	1.6%	
Other (interest, foreign exchange, and others)	28.4%	26.7%	31.3%	33.0%	30.2%	
Total revenues	100.0%	100.0%	100.0%	100.0%	100.0%	

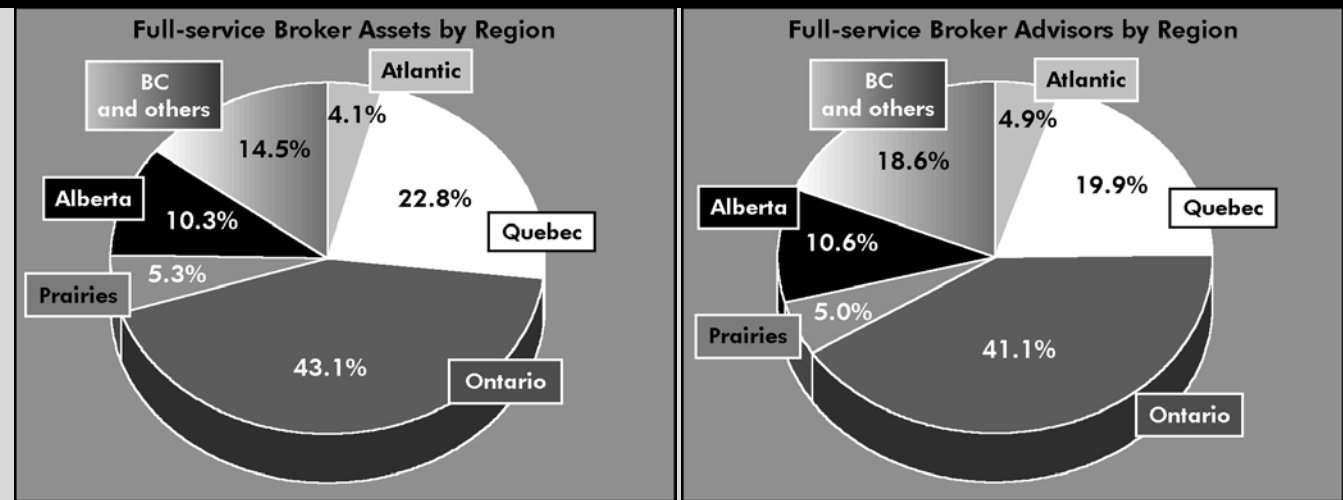
4.3: Regional Breakdown of Assets at Full-service Brokers*

ASSETS	Assets in billions of dollars					Change	
	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002	3 mos.	Yr/yr
Atlantic	17	18	17	16	16	2.7%	-5.5%
Quebec	94	94	91	87	91	4.6%	-3.4%
Ontario	176	179	172	165	172	4.1%	-2.7%
Prairies	21	21	22	21	21	2.6%	2.8%
Alberta	42	44	41	39	41	4.4%	-2.5%
BC and others	58	60	57	56	58	3.6%	-1.4%
Total assets	409	417	400	383	399	4.1%	-2.5%

ADVISORS	Number of advisors					Change	
	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002	3 mos.	Yr/yr
Atlantic	458	448	438	432	428	-1.0%	-6.7%
Quebec	1,838	1,839	1,820	1,725	1,746	1.2%	-5.0%
Ontario	3,769	3,749	3,671	3,656	3,612	-1.2%	-4.2%
Prairies	485	494	466	436	437	0.2%	-9.9%
Alberta	976	943	928	938	929	-1.0%	-4.8%
BC and others	1,692	1,691	1,669	1,661	1,631	-1.9%	-3.6%
Total advisors	9,218	9,162	8,992	8,849	8,783	-0.8%	-4.7%

*Based on survey respondents.

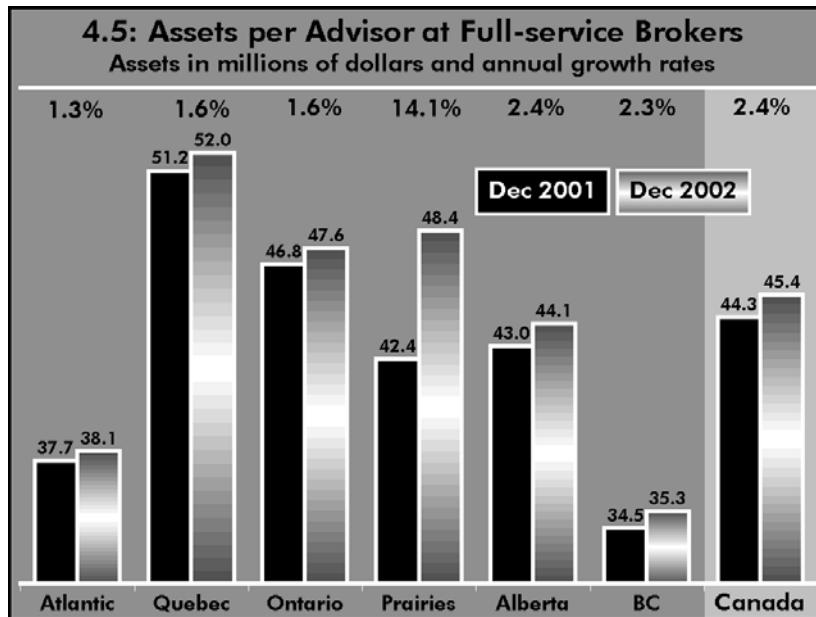
4.4: Full-service Broker Assets and Advisors by Region



continued from page 31

15%—was in ancillary activities (i.e. account fees and the “other revenues” category, which mainly reflects interest and foreign exchange). Trailer fees were up by 6.1%. Commissions grew 5% despite poor markets. They accounted for 59.5% of this channel’s revenue picture at December 31.

➤ Full-service brokers experienced fourth-quarter asset growth in every region. The best gains were in Quebec (at 4.6%) and Alberta (at 4.4%). But all regions were down for the year, except the Prairies, where assets ended 2002 at 2.8% above their 2001 level. Ontario—



which ranked third in quarterly growth and fourth year over year—dominates the industry, with 43.1% of total assets.

The headcount of advisors fell for both the fourth quarter and the whole year. There were 8,783 full-service advisors at the end of 2002, off 4.7% from the end of 2001. Quebec and the Prairies increased their corps of advisors during the fourth quarter, but were still down for the year. Indeed, the Prairies had the largest year-over-year shakeout, losing 9.9%. The Atlantic Provinces came next, down 6.7%.

➤ There was no significant shift last quarter in the regional relationships between share of assets and share of advisors. Ontario, Quebec and the Prairies have the most productive advisors. Their share of national assets exceeds their share of advisors. Ontario leads in bulk—it has the highest percentage of both assets and advisors. But Quebec has the best assets-to-advisors ratio—1.15 based on 22.8% of assets and 19.9% of advisors. The Prairies are next at 1.06—5.3% of assets and 5% of advisors. Ontario stands third with a 1.05 ratio—43.1% of assets and 41.1% of advisors. The other regions have a higher percentage of advisors than assets. British Columbia has the lowest ratio, with 14.5% of assets and 18.6% of advisors. This is most likely due to the presence of regional brokerage firms whose advisors have much smaller books of business.

➤ Average assets per advisor grew year over year, reflecting the decline in the number of advisors. The national average was \$45.4 million per advisor versus \$44.3 million at the end of 2001. Quebec advisors have the largest average at \$52 million. This has been a recurring situation as they continue to benefit from the “old money” established long ago when Montreal was Canada’s economic capital. The Prairies moved ahead of Ontario during the year to take second place, at \$48.4 million per advisor. Of course, firms in that region shed 9.9% of their advisors. Ontario was close behind, with \$47.6 million per advisor. Overall, the average book size increased 2.4% over the year. The Prairies were the only region with above-average growth. British Columbia and Alberta ranked second and third in the year-over-year growth standings.

Section 5: Insurance

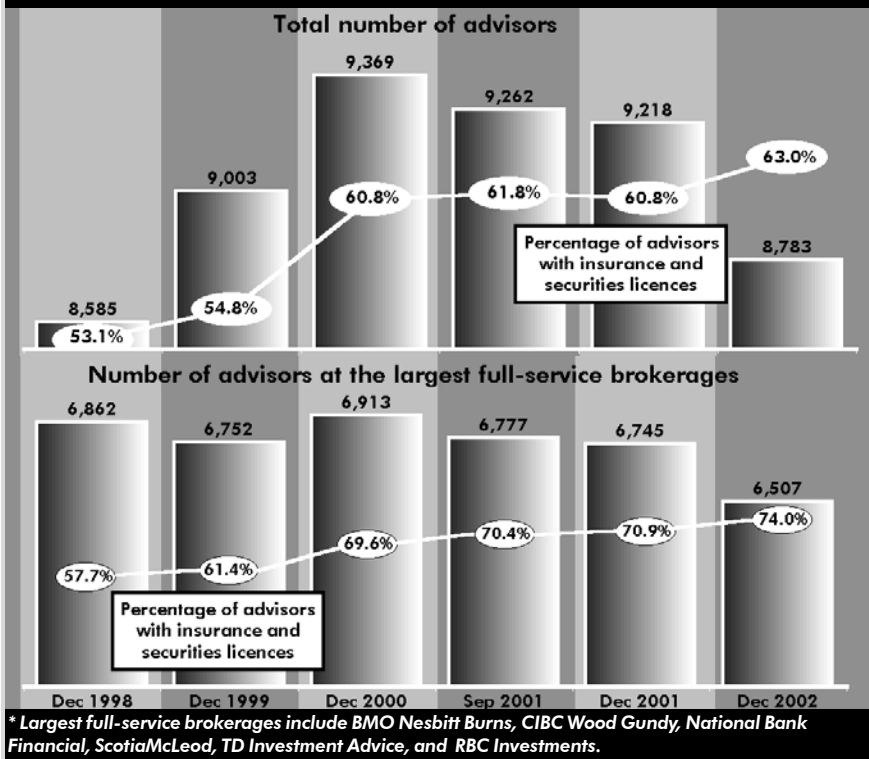
This section measures the insurance business of the full-service brokerage firms owned by the Big Six banks.

► The industry's corps of advisors suffered more than its asset base during 2002. In proportional terms, the number of advisors fell by almost twice as much as assets. The advisor headcount at December

31 was off by 4.7%, while assets were down by 2.5%. Advisor attrition at the big banks was not as bad—down 3.5%. The industry closed the fourth quarter with 8,783 full-service brokers. Nearly two-thirds of them are licensed to sell insurance as well as securities—nearly 75% of those at the bank-owned firms. The number of dual-licensed brokers was up 3% from the prior year. Generally, the advisors leaving the business have been those with just securities licences.

► Segregated fund assets under management closed the fourth quarter at \$38.9 billion, down 8.6% from the prior year. Only three of the large full-service

5.1: Number of Advisors in the Full-service Brokerage Channel



5.2: Best-selling Segregated Fund Sponsors at Full-service Brokers* Frequency in five best-sellers

	Dec 2002	Sep 2002	Jun 2002	Mar 2002	Dec 2001
Manulife	3	3	3	5	6
CI	2	3	2	5	4
Transamerica	2	1	3	4	6
Standard Life	2	—	—	—	—
TDAM	1	1	2	1	3
Maritime Life	1	1	1	2	4
AIC	1	1	—	3	5
Sun Life	1	1	—	—	—
Canada Life	1	—	—	1	1
Talvest	1	—	—	2	—

5.3: Best-selling Annuities Providers at Full-service Brokers** Frequency in five best-sellers

	Dec 2002	Sep 2002	Jun 2002	Mar 2002	Dec 2001
Standard Life	5	5	4	6	6
Canada Life	5	5	4	6	6
Transamerica	5	5	3	6	4
Manulife	5	5	2	4	4
National Life	3	—	—	—	—
Sun Life	3	—	1	1	1
Empire Life	2	—	—	—	1
Industrial Alliance	1	—	—	—	—
Maritime Life	—	2	2	5	3

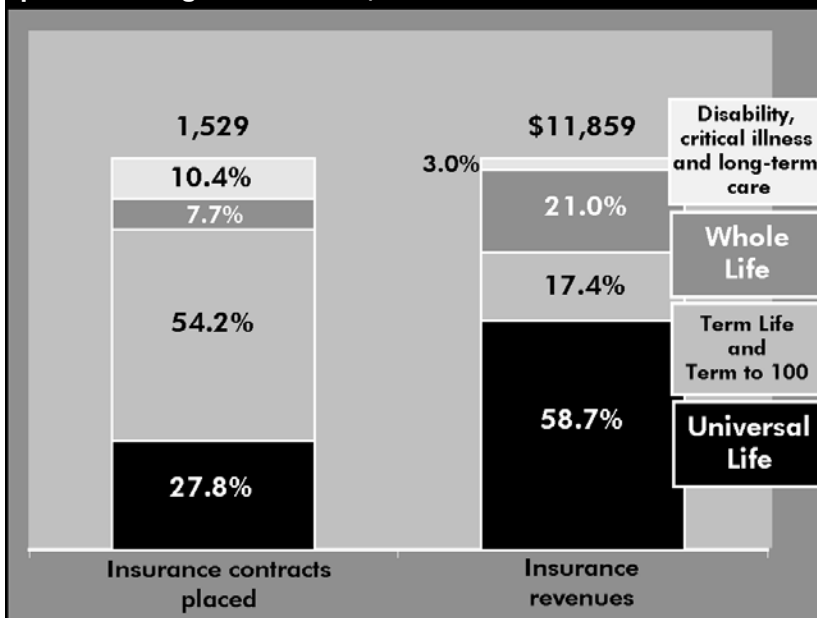
*Out of three respondents as of June 2002 and six prior to that quarter.

**Out of five respondents.

5.4: Distribution of Insurance Business of Full-service Brokers

Number of contracts placed in the quarter						Change	
	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002	3 mos.	Yr/yr
Total number of contracts placed	1,900	1,732	1,818	1,520	1,529	0.6%	-19.5%
Universal life	977	706	669	440	425	-3.4%	-56.5%
Term life (including term to 100)	725	853	952	819	828	1.1%	14.2%
Whole life	62	67	86	111	117	5.4%	88.7%
Disability/long-term care/critical illness	136	106	110	150	159	6.0%	16.9%
Total number of contracts placed	100.0%	100.0%	100.0%	100.0%	100.0%		
Universal life	51.4%	40.8%	36.8%	28.9%	27.8%		
Term life (including term to 100)	38.2%	49.2%	52.4%	53.9%	54.2%		
Whole life	3.3%	3.9%	4.8%	7.3%	7.7%		
Disability/long-term care/critical illness	7.2%	6.1%	6.0%	9.9%	10.4%		
Revenues earned in the quarter							
Total revenues in thousands of dollars	\$14,970	\$15,439	\$13,515	\$11,489	\$11,859	3.2%	-20.8%
Universal life	9,205	8,900	9,111	6,054	6,956	14.9%	-24.4%
Term life (including term to 100)	3,748	2,098	1,542	1,377	2,061	49.7%	-45.0%
Whole life	1,808	4,277	2,699	3,805	2,488	-34.6%	37.7%
Disability/long-term care/critical illness	210	164	162	253	353	39.5%	68.4%
Total revenues	100.0%	100.0%	100.0%	100.0%	100.0%		
Universal life	61.5%	57.6%	67.4%	52.7%	58.7%		
Term life (including term to 100)	25.0%	13.6%	11.4%	12.0%	17.4%		
Whole life	12.1%	27.7%	20.0%	33.1%	21.0%		
Disability/long-term care/critical illness	1.4%	1.1%	1.2%	2.2%	3.0%		

5.5: Distribution of Insurance Business
Number of contracts placed and insurance revenues in the quarter ending December 31, 2002



brokerage firms reported their best-selling funds for the fourth quarter. This could be an indication of the continuing decline of interest in this product. Manulife was the best-selling sponsor for the third straight quarter. They closed 2002 with 15.5% of the total segregated funds market, according to research done for our *Insight* investment funds research and advisory service. Manulife was the only company cited by all respondents. CI, Transamerica and Standard Life shared second place. Interestingly, this was the first time in 2002 that Standard Life appeared on the best-selling list.

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5.6: Universal Life Quarterly Statistics

	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002	Change	
						3 mos.	Yr/yr
Number of policies placed	977	706	669	440	425	-3.4%	-56.5%
Face value of policies placed in millions of dollars	565	579	449	401	334	-16.8%	-40.9%
Average face value of policies placed in dollars	578,374	820,646	670,152	911,680	785,124	-13.9%	35.7%
Distribution of policies placed by face value							
\$250,000 and under	55.8%	42.8%	40.3%	45.0%	44.2%	-1.8%	-11.6%
\$250,001 - \$500,000	18.3%	26.6%	30.5%	25.0%	26.1%	4.4%	7.8%
\$500,001 - \$1,000,000	13.8%	17.6%	15.7%	14.5%	16.2%	11.4%	2.4%
\$1,000,001 - \$5,000,000	11.3%	11.2%	12.7%	15.2%	12.4%	-18.4%	1.2%
Over \$5,000,000	0.9%	1.8%	0.9%	0.2%	1.1%	363.2%	0.2%
Revenues in thousands of dollars	9,205	8,900	9,111	6,054	6,949	14.8%	-24.5%
Gross premiums in thousands of dollars	15,302	14,476	11,386	10,960	9,894	-9.7%	-35.3%

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► As with our third-quarter report, four companies again tied as best-selling annuity issuers. The list is unchanged: Standard Life, Canada Life, Transamerica, and Manulife. The next four companies did not appear last quarter—National Life, Sun Life, Empire Life, and Industrial Alliance. These rankings reflect responses from five brokerage firms.

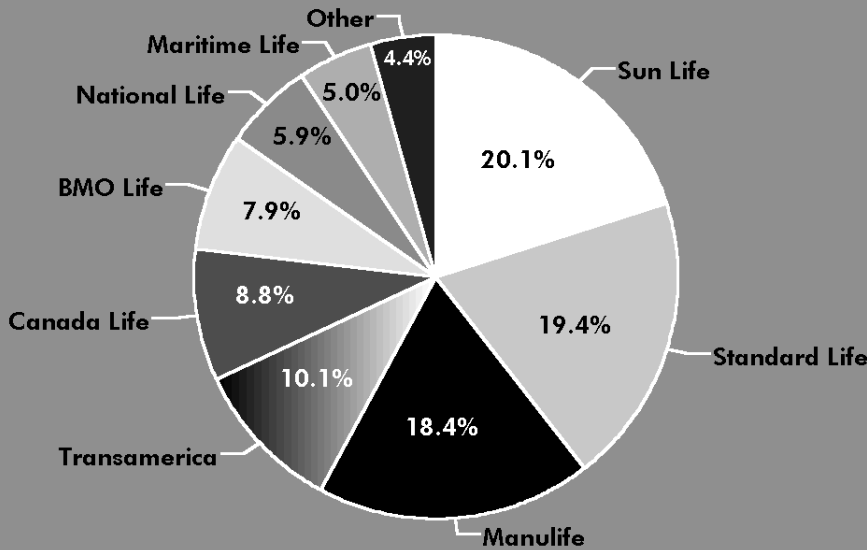
► Full-service brokers sold a total of 1,529 insurance policies during the fourth quarter, a marginal gain on the third quarter but down 19.5% from the fourth quarter of 2001. The loss was due to universal

life, whose sales plunged 56.5% year over year. Meanwhile, sales increased for term, whole life, and disability insurance. Term accounted for 54.2% of all policies sold during the fourth quarter, up from 38.2% for the same period the year before. UL's

5.7: Universal Life: Key Statistics

	2001	Mar 2002	Jun 2002	Sep 2002
Number of policies (in thousands)				
Number of in-force policies	1,143	1,179	1,224	1,258
Number of new policies sold	198	47	52	47
New policies as share of in-force policies	17.3%	4.0%	4.3%	3.7%
Face amounts of policies (in billions of dollars)				
In-force policies	221	228	235	242
New policies	38	9	10	8
New policies' face amount as share of in-force policies	17.0%	3.8%	4.1%	3.5%
Average face amount per policy (in thousands of dollars)				
In-force policies	193	193	192	193
New policies	189	186	183	181

5.8: Insurance Companies' Share of Universal Life Revenues at Full-service Brokers:* Quarter ending December 31, 2002



*Based on top five insurance companies' share of revenues at each brokerage.

share slipped from 51.4% in the final quarter of 2001 to 27.8% in the final quarter of 2002. UL ranged from 16% of sales at one firm to a high of 33% at another.

► The brokerage-based insurance market features a lopsided ratio of new sales to revenues. (We used to chart new policies and revenues separately, but have combined them in Figure 5.5 for easier comparison.) While the volume was in term insurance during the fourth quarter, the money was in permanent coverage. Term accounted for

54.2% of contracts placed, but just 17.4% of the \$11.9 million in total revenues. UL accounted for 27.8% of new policies, but nearly 60% of revenues. Whole life accounted for only 7.7% of all contracts placed, but 21% of revenues. UL and term revenues fell on a year-over-year basis. Whole life and disability revenues each increased, but on a much smaller base.

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5.9: Term Life (including Term to 100)

	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002	Change	
						3 mos.	Yr/yr
Number of policies placed	789	853	952	819	828	1.1%	4.9%
Face value of policies placed in millions of dollars	434	392	468	446	426	-4.5%	-1.9%
Average face value of policies placed in dollars	550,471	459,504	491,909	544,919	514,730	-5.5%	-6.5%
Distribution of policies placed by face value							
\$250,000 and under	42.8%	43.5%	44.6%	44.1%	35.8%	-18.8%	-6.9%
\$250,001 - \$500,000	33.2%	32.1%	33.0%	32.4%	37.9%	17.2%	4.8%
\$500,001 - \$1,000,000	17.6%	17.8%	15.3%	16.2%	17.6%	8.1%	-0.1%
\$1,000,001 - \$5,000,000	6.4%	6.4%	6.8%	6.8%	8.6%	25.8%	2.2%
Over \$5,000,000	0.1%	0.1%	0.2%	0.5%	0.1%	-75.9%	—
Revenues in thousands of dollars	3,802	2,098	1,542	1,377	2,059	49.5%	-45.8%
Gross premiums in thousands of dollars	3,144	2,719	1,795	1,262	1,155	-8.5%	-63.3%

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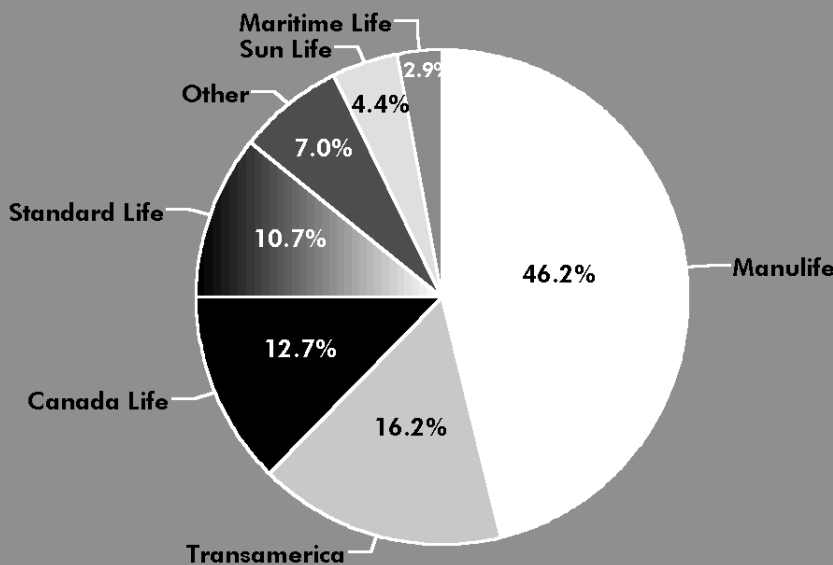
► While the number of UL contracts sold during the quarter was down sharply from the year before, the average face value was up—\$785,124 versus \$578,374. The 35.7% rise in face value partly offset the 56.5% decline in new contract placements. Consequently, total face value for all policies sold was down 40.9%, at \$334 million. Lower unit counts with higher face values indicate brokers are increasingly targeting more affluent clients. This is apparent from the distribution of policies by face value shown in Figure 5.6. Policies for \$1 million or more accounted for 13.5% of fourth-quarter sales, up from 12.2% a year ago. That’s year-over-year; the quarter-over-quarter view is somewhat different. Average face value fell 13.9% from the third quarter, when it was \$911,680. The share of \$1 million-plus policies slipped from 15.4% at September 30 to 13.5% at December 31. The significance of such a short-term change is questionable, however, since the market for these high-value policies is fairly small. Here, just 10 policies made the difference.

► By focusing on higher value customers, full-service brokers appear to be losing share among UL distributors, according to data gathered for our *Fee-based Report*. This information—for the first three quarters of 2002—is summarized in Figure 5.7. The number of UL policies sold through all channels grew during the second and third quarters, while sales by full-service brokers began a decline that continued through the fourth quarter. But the

\$911,680 average face value of policies sold by brokers in the third quarter dwarfed the \$189,000 average for other channels. Full-service brokers account for about 15% of total UL distribution.

► Sun Life ranked first in fourth-quarter UL revenues from full-service brokers. Its 20.1% share represents a big 4.8 percentage point leap from the third quarter, when it ranked third. Standard Life remains second, but its share slipped to

5.10: Insurance Companies' Share of Term Life Revenues at Full-service Brokers:* Quarter ending December 31, 2002



*Based on top five insurance companies' share of revenues at each brokerage.

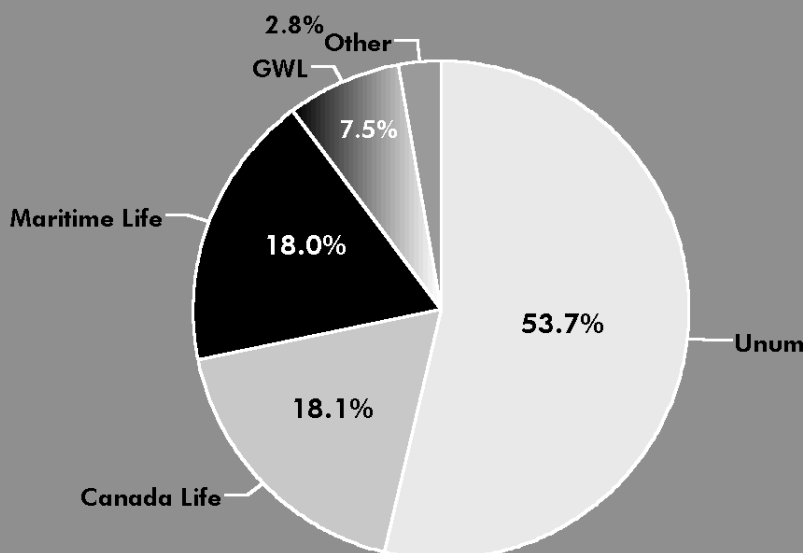
5.11: Disability Insurance

	Dec 2001	Mar 2002	Jun 2002	Sep 2002	Dec 2002	Change	
						3 mos.	Yr/yr
Number of contracts placed	103	77	68	88	130	47.7%	26.2%
Revenues in thousands of dollars	153	131	92	127	199	56.8%	30.7%
Gross premiums in thousands of dollars	173	146	132	150	227	51.1%	31.3%

19.4% from 23% for the third quarter. Manulife, which led the pack for the third quarter, placed third at the end of the fourth, with 18.4% of the market. New to the scene is BMO Life, which sells UL policies underwritten by National Life. BMO Life has gained a 7.9% share in a market where shelf space is critical.

➤ The number of term policies sold during the fourth quarter increased 1.1% from the third quarter and 4.9% year over year. Activity varied widely among firms—from a double-digit decline at one to a double-digit increase at another. While more policies were sold, the average face value fell by 4.5% from the third quarter and 1.9% over the year. The face value of all policies sold in the fourth quarter totalled \$426 million, down from \$434 million the year before. The distribution by face value indicates that only 8.7% of new term policies were for \$1 million or more. In relative terms, that’s about two-thirds the High End weighting for UL. Nearly three-fourths of new term contracts were for \$500,000 or less.

5.12: Insurance Companies' Share of Disability Revenues at Full-service Brokers:* Quarter ending December 31, 2002



*Based on top five insurance companies' share of revenues at each brokerage.

➤ Manulife still commands the largest market share of the term market—with 46.2% of fourth-quarter revenues, from 41.7% last quarter. Transamerica’s 16.2% share—a four percentage point gain—drove it to second place from fourth, trading spots with Standard Life. Canada Life remained in third place. It will be interesting to see what happens if Great-West Life acquires Canada Life. Term has not been a large part of GWL’s business, but

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Canada Life's book may well alter that.

► The disability insurance business continues to grow—strongly! Bear in mind that disability is the most complex insurance product available, and even full-time insurance agents often try to avoid selling it on their own. The number of contracts placed by full-service brokers in the fourth quarter increased significantly to 130, from 88 in the third quarter and 103 in the fourth quarter of 2001. This is 47.7% quarterly growth, and 26.2% year over year. Revenue and gross premiums have also experienced strong growth. Fourth-quarter revenues were up 56.8% from the third quarter and 30.7% for the year. Gross premiums grew 51.1% for the quarter and 31.3% for the year.

► Unum continues to hold the majority of the disability market. Their 53.7% share at the end of 2002 was up from 46.2% three months before. Canada Life continues to rank second, Maritime Life third, and GWL fourth. Unum was the only company that gained market share in the quarter, taking a little from each of the other firms. Canada Life had the biggest loss; its share fell from 25.8% to 18.1%.

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