

Hi and welcome to Jenny in the Corner office: Episode #8: Bank on it! I'll be hosting today's podcast and all of the other ones. Who am I? I'm Jen Schell, an Investment Advisor with CIBC Wood Gundy.

Hello Financial friends! Welcome to episode 8, called you can Bank on it, where I will unveil the map to the elusive Canadian banking system that is, which is really just a fancy way to tell you that I'm going to show you how to get what you need from your financial institution.

Sounds simple, but really it took a lot of hard work and a lot of experience and trial and error to see just how this fancy system works. And I'm going to let you know, so that you don't make the same mistakes that I did.

When you look at a bank, you see brick and mortar, friendly faces, colourful logos.... Well, that may be all that you see, but it is really just the tip of the iceberg. It's not just a place to get your money anymore. Now, there is more going on behind the scenes than there is at the bank branch level, except that you don't see those people, because they are often in office towers. And banks actually hold a population that's the size of a small city.

Now, more than ever because we use our smartphones so much, your familiar bank branch is disappearing but that doesn't mean that the basic functions aren't still there. They are just under a different format. But now, I don't know if you've noticed, but now, more than ever, because we use our smart phones so much, our familiar bank branch is disappearing. Or where there was a bank branch, you go back and then you realize that it is no longer there! It's kind of a big mystery. What's happening? Well, this is actually leading to a lot of confusion and causing people to ask where did the people go?

Well, do you know what the answer is, my friends? It's technology. You see, all of our smart phones and all of the people behind the scenes have created these fabulous apps, so that we don't have to get off of our couch. And that we can just do everything from home. We don't have to go anywhere. We don't have to see people, if we don't want to. You know, I can check my bank balances in a matter of a minute. I just have

to log in with my password and there it is! I can see all of my transactions! I can see everything that I did. So, gradually, the bank branches are disappearing.

When you see people who work at the bank, the first thing that came to my mind was my local bank branch and I assumed that everything happened from this location, where I stood in line and waited to take out my money.

Now, more and more we do things online and I hear people in conversation who claim they are trying to keep people's jobs by standing in line to see a customer service person. When I was growing up, we used to call those people tellers. I was actually a teller in University, and I quite liked that job. It was nice, people came in to visit me... I gave them money and everyone was happy. And uh, somehow, in this day of age, it's becoming offensive. Everything is getting offensive. I don't know if you've noticed that, but even Disney songs, and you say something the wrong way or you look at someone the wrong way and all of a sudden everything is offensive. I still don't get what went wrong here and why we don't call them tellers anymore? Maybe because they don't like to be told what to do? That was a really bad joke. I'm really sorry. It just came out. I didn't even give that one some thought. I'm really, really sorry to put you through that.

It's a bit of a lost cause...to stand in line and think that you are going to save people's jobs. It's just –that's what technology does to people. It takes the jobs away from them, but luckily, it gives a job to somebody else. So if you want to prevent companies towards going towards automation, you'll have to prevent cell phone users from using their smart phones. You could go around and start tearing cell phones away from people's hands, but then you might be perceived as unusual.

Think about it...Why would I drive 20 minutes to stand in line for another 20 minutes when I can access my accounts and send money whenever I please from the comfort of my couch?

So don't worry, you may not see your customer service rep who handed you money, but there is someone in the background manically coding away so that you can send money all over the world from the comfort of your couch. They are just hiding out in an area with cheaper real estate with white walls, an ergonomically perfected seat with their

monitor making sure that you and your money are protected in the ether. Welcome to the 21st century!

If you ever wanted to know where to go for your banking needs, I will tell you. For the average person, we never come across the 30,000 employees or so that work for one of the big banks, like CIBC. That's because they are all functioning behind the scenes or they service institutional needs.

In fact, CIBC purchased a majority stake in Wood, Gundy & Co. in **June 1988** for C\$203 million. At the time of its acquisition, Wood Gundy was the leading Canadian investment dealer. Following the acquisition, CIBC formed CIBC Wood Gundy, which offered primarily asset management services for corporate and institutional clients. This is where I work, I'm an Investment Advisor working in wealth management.

But, for the purpose of today, I will walk you through the proper channels to pursue as a retail investor. A retail investor is an individual that makes personal decisions for himself or herself. The other functions of the bank don't apply to us for the moment, so this is one less thing you have to worry about.

When you function in the real world, you want to make things better for yourself and your family so that you can enjoy the lifestyle that you'd like to have.

As retail investor in our channel, because I too am essentially part of the retail channel we also help business owners or decision makers in private companies but for the purpose of this episode, I am going to stick to the typical flow of an individual trying to find his or her way through the system. That's all we have to be concerned about today.

What's in it for you. That's what we will explore and also, how to you use the financial system to your benefit.

If the bank didn't have customers, it wouldn't be successful. And to achieve success, you have to provide products and services that people want.

Trouble happens, when you don't know what you want. So, you need to decide what you want in life and then you have to go for it. When financial professionals ask for you to define your goals, this is what they mean.

I like to think that I am pragmatic and I look at what's feasible and practical. This is why I will walk you through a typical scenario. I will also walk you through the structure so that you can make sure you are in the right place. This will reduce frustration when you aren't getting what you want.

It's like if you were to look for a beach in the middle of a desert. You can walk and drive in circles for as long as you want, but you won't ever find a beach. So, when you ask the gas station attendant, hey: I was wondering if you could point me to the way to the nearest beach, and they just shrug and look at you like you just broke out of District 9, then you'll know that you are probably in the wrong place.

Just like the topography of the world, there are other sections of the Bank that you may not be familiar with.

Now I'm going to break it down for you. When you go to the bank branch, this is where you go to get money, cheques deposited, GIC's, some mutual funds, small personal loans, mortgages and car loans. The first thing that you learn to do is set up a bank account, so that you can deposit your money and earn interest. Generally, you open up a chequing account for your daily operating expenses and a savings account for savings. This account usually provides you with a small interest rate on money you keep at the bank.

Balances held at the bank in savings account are lent out for other short term investments. This is why they give you a small interest rate.

Guaranteed Investment Certificates are very popular at the branch level and they are guaranteed by the bank. You can buy a GIC and often you are locked in for a year, without access to your money. Sometimes it's longer for up to five years. The bank guarantees to pay you interest on your investment. In this instance, the bank loans out your GIC money to their other borrowers at a higher interest rate based on their credit rating and income. It's a give and take, because you are not willing to take any risk and the bank is willing to take the risk that you don't want. For example, if you were to receive an interest rate of 1%, the bank will lend out this money to someone else for 3% and they make a spread of 2%. Since you locked up your money for 1 to 5 years, the

bank knows it's there and can therefore pledge this money as security for someone else to borrow. You have peace in mind that you have security. It's a risk/reward relationship. Since you are risk adverse and prefer to feel safe with your 1% and are happy with that, the bank is happy to take on the risk and lend this money to someone else. The profits that are made are used to pay salaries and expenses and then the remainder is disbursed to shareholders of the Bank Shares. In this case, that could be you or me or your parents... it goes to whoever decides to buy shares in the bank so that they can receive a dividend. More about this later...

This is the case when you apply for a mortgage with the bank. The mortgage rates are usually lower than other forms of credit because they are secured against collateral. The collateral in this case is your home. If you fail to pay the mortgage payments, the bank will go through court proceedings to sell your house. Once they sell it, they will take back the capital that you borrowed and will leave you with the balance of the sale price less the purchasers price. For example, if you sold your house for \$500,000 and owed the bank \$400,000, they would take the \$400,000 and give you a cheque for \$100,000. However, this is a simple example, because there would most likely be transaction costs in addition. So you would might end up with \$70,000 or so. The bank doesn't want to be in the housing business, they are lenders... so they don't want a collection of homes. They want people to pay them payments at their negotiated interest rate. That's the business that they are in.

Car loans work the same way. Other forms of credit are unsecured... because you did not pledge anything, they have nothing to fall back on except your good will, so they charge you a higher interest rate in case you don't pay them back. To assess your ability to pay back credit, they look at your credit rating which has a track record of all the payments you've made in time. The lower the score, the higher the interest rate associated with your loan.

Then when you are 18 years old, you can apply for a credit card. This will most likely be your first foray into the world of debt. This money isn't yours, it's the banks, but they lend it to you, hoping that you will maintain a balance on it. When you do, you are

charged anywhere from 9% percent to 30%, depending on your risk for paying back the credit that they lent you.

It is very lucrative to lend out money to people who like to need things right away. But credit cards are also required to function, such as for car rentals or to purchase a hotel room. Credit cards are convenient and popular and you obtain them from your bank. If you are disciplined, you can collect points and redeem them for merchandise. If you don't hold a balance, you can collect points, redeem them for merchandise and increase your credit rating by showing that you pay back your loans.

Now to get one, instead of sitting down and going through an authorization process, you can fill this form out online and get one sent to you in the mail if you are approved. This is one less task done manually.

You can buy the government of Canada savings bonds and treasury notes which pay the lowest rate of interest because they are secured. The higher risk you take as an investor, the higher your rates that you potentially earn will be.

If you want to invest your money into higher paying investments and therefore want to assume more risk, you can go to the financial advisor and they will help you buy mutual funds. Generally speaking, you can purchase mutual funds with the financial advisor. Most investors who have up to \$250,000 can go to the Bank Branch and have all of their needs met. There are various levels of financial professionals. For investors who have between \$150,000 to \$250,000 they will most likely align you with the Imperial Service Model. You will get some financial planning advice and they will setup a mutual fund portfolio for you.

You can get a tax free savings account, an investment account, frequently called a non-registered account, an RRSP, a RRIF, a LIRA or an LRIF here. Basic insurance products are sold, such as mortgage insurance. With mortgage insurance, as you pay down the balance of your mortgage and should something happen to you, the bank will receive the proceeds to cover your loan. There are other alternatives to keep you safe, but this is a story for another podcast episode.

Once you have more complex needs and you are finding that you need more personalized advice and that you have grown your investments between all accounts to over \$250,000, you can work with an Investment Advisor. Investment Advisors work closely with you and help you through the planning process as well as to help you manage your family wealth so that you can be mindful of taxes and future planning. You have access to most investments, such as GICs, Bonds, Stocks, Mutual Funds, ETFs, Structured products and IPOs, which are initial public offerings. The investment strategies are more complex and personalized. Also, when you have over \$2Million in mortgages or investments, you can get a private banker. This means that you have a dedicated banking person all to yourself so that you can get customized service too. They will take care of more complex lending solutions, credit cards and chequing/savings accounts, as well as US dollar accounts. They will work with you if you have a CIBC Wood Gundy relationship with over \$2,000,000 as well, or a combination thereof.

We are also familiar with other parts of the bank that you may not know. When you earn greater wealth, there are more complex situations that arise such as tax and estate planning or business planning, but this is an episode that I will cover in a later date.

In my next episode, we will talk about venture capital and what's involved in starting a public company from scratch. I will be interviewing a special guest.

Thank you for following my podcasts. Have a good holiday and many happy returns!

And now for the corporate disclaimer:

CIBC Wood Gundy is most appropriate for individuals with household investable assets of \$250,000.

CIBC Private Wealth Management consists of services provided by CIBC and certain of its subsidiaries: CIBC Private Banking; CIBC Private Investment Counsel, a division of CIBC Asset Management Inc. ("CAM"); CIBC Trust Corporation; and CIBC Wood Gundy, a division of CIBC World Markets Inc. CIBC

Private Banking provides solutions from CIBC Investor Services Inc. CIBC Private Wealth Management services are available to qualified individuals. CIBC Wood Gundy is a division of CIBC World Markets Inc. and a Member of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada. This information, including any opinion, is based on various sources believed to be reliable, but its accuracy cannot be guaranteed and is subject to change. CIBC and CIBC World Markets Inc., their affiliates, directors, officers and employees may buy, sell, or hold a position in securities of a company mentioned herein, its affiliates or subsidiaries, and may also perform financial advisory services, investment banking or other services for, or have lending or other credit relationships with the same. CIBC World Markets Inc. and its representatives will receive sales commissions and/or a spread between bid and ask prices if you purchase, sell or hold the securities referred to above. Insurance services are available through CIBC Wood Gundy Financial Services Inc. In Quebec, insurance services are available through CIBC Wood Gundy Financial Services (Quebec) Inc. Clients are advised to seek advice regarding their particular circumstances from their personal tax and legal advisors. The CIBC logo and “CIBC Private Wealth Management” are registered trademarks of CIBC. © CIBC World Markets Inc. 2018.