



## **ETFs Gain Powerful Momentum Among Canadian Brokers, New Research Shows**

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A new study for the Canadian Exchange Traded Funds Association (CETFA) captures the powerful momentum of ETFs among brokers, with even higher future uptake foreseen in the data.

The June 2021 Broker ETF Study presented recently to CETFA members found that nine-in-ten (89 per cent) Canadian brokers use ETFs to some extent, with more than half (56 per cent) reporting they have increased their use in the past year. Three-quarters (76 per cent) say they plan to use them more over the next five years. And what are the key reasons for this increase according to Environics Research? ETFs keep expenses and fees low, while also offering efficiency, a good fit with fee structures and diversification.

### **ETFs are a Good Fit that Address Investor and Broker Needs**

The increasing adoption of ETFs by brokers reflects the combined impetus of client loyalty, financial considerations and practice pressures, observes Environics Research Vice President, Robert Stel. “Advisors and their firms need to keep fees low, secure practice efficiencies, diversify portfolios, and access specific sectors, classes or products for their clients. Advisors also face very real regulatory demands (especially KYP/KYC), time constraints and client management challenges.”

As a result, brokers overwhelmingly expect to continue using ETFs but there’s a sizeable range in how and what they use them for: the two key considerations relate to the product and to their practices, notes Stel. “Brokers are seeking to generate cost efficiencies because ETFs are less expensive than mutual funds or individual securities. And they’re also seeking efficiencies for their practices: ETFs provide much more efficient access to specific strategies and products, not only from a cost perspective but also for achieving desired client outcomes efficiently.”

### **Brokers Have a “Fierce Loyalty” to their Clients’ Financial Well-Being**

Brokers’ sense of independence means that they typically prefer to build or customize client portfolios themselves rather than deferring to dealer or outsourced solutions. Advisors are driven by a “fierce loyalty to their clients, a desire to help them and to working collaboratively with their clients to protect their interests and preserve their wealth,” says Stel. This – along with other changes in their practices (including client contact disruptions resulting from COVID-19 that frustrates interaction and co-ordination) – makes brokers open to considering where ETFs fit in their clients’ portfolios and to regard ETFs as an increasingly valued solution.

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Among brokers who expect to increase their usage of ETFs in the future (almost uniformly the case), the investment categories where they're most likely to place their clients' money is in: international equities (53 per cent), followed by fixed income (44 per cent), U.S. equities (42 per cent) and ESG (41 per cent). "From a financial advisor's perspective, the key priority is to provide the best possible outcome for their clients by coaching them to make the best possible financial decisions for their lives and beyond," says Stel. "For financial advisors, they must be efficient with their use of time and balance portfolio selection with time spent working with clients. If they create a more efficient portfolio using ETFs as a component, they can spend more time with clients."

CETFA asked Stel about where ETFs show the most promise for meeting investor needs versus mutual funds. "ETFs work well in containing costs, especially where fees do not achieve a better outcome – where advisors do not see a better outcome, fees must maximize the benefit," he said. "For advisors working with individual securities, ETFs can be the better option in the trade-off and if the securities selection does not have a benefit for the client, ETFs are better. This also applies in specific areas where costs are high or risk is high, such as cryptocurrency ETFs."

Interestingly, against the burgeoning growth in RI- and ESG-focused ETFs, the study found that brokers favour using mutual funds to access this category, likely because of product availability and an association in brokers' minds between ESG and mutual funds' active selection model. Nonetheless, Stel perceives that a shift may occur over time: "ESG ETF adoption will continue and will be driven by client demand and product awareness will drive it. There are not a lot of constraints on brokers – it's more about integrating them into portfolios."

### **Brokers are Exceptionally Open to Learning More About ETFs**

Beyond the broad adoption of ETFs and expressions of interest in future use, brokers also expressed a surprising openness to learning more about ETFs. Only 11 per cent of those who participated in the study said they're not using ETFs at all; only one per cent said they're not receptive to learning more. The reasons cited for rejecting ETF consideration ranged from satisfaction with current models to the absence of any perceived need to change. Some of this small group may also have concerns about capital gains, changing their approach in light of KYP obligations, creating new models or how ETFs fit with their existing compensation model.

Asked to summarize what he saw as the key observations and surprises of the study in the context of other research he's undertaken on investing trends and behaviours, Stel re-emphasized the core findings about the rising ETF adoption curve and especially how willing brokers are to learning more about ETFs. "Advisors value knowledge and education and achieving more for their clients. They're focused on building the best portfolios and providing the best outcomes for clients, and therefore to exploring ETFs and to having more information on how to use them in overall portfolio construction to achieve those outcomes."

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CETFA is committed to supporting that professional knowledge journey. As of July, our revitalized website features a custom-created [ETF screener](#) to help advisors efficiently compare Canadian ETF investments using a range of metrics and to select products based on their clients' unique goals.

The online survey of IIROC-licensed bank and independent brokers was undertaken for the CTFA via the Environics Advisor Research Panel consisting of 307 advisors between May 19 and 21, 2021.

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