

Pathfinder Investment Outlook

For the week ending August 6th, 2021

Foreign Exchange

This week, we will do something a little different. I want to discuss with you a personal experience I had with my bank that did not go well and I think unfortunately is too common. I went on to my mobile app to transfer \$2,000 from my savings account to my chequing account. I do this from time to time to cover regular family expenses. My chequing account is my “operating account” where automatic payments for bills, utilities and credit card payments are made etc. By mistake, I transferred the money into my US\$ chequing account, an easy error while I was watching the Olympics at night. I realized right away what I had done, and the implications, when I looked at my account balance screen (more on that below). I wanted to “correct it”, so I transferred the full balance in my US\$ chequing account (it was empty when I started) to my C\$ chequing account “to make everything right”. You probably know what happened next.... Only \$1,891.09 showed up. That is a 5.4% round trip commission or 2.7% each way. This is just way too high, in my opinion.

This is where the real fun starts. It was 10pm so I had to wait to call the bank in the morning. At first, I feigned ignorance and told the customer service person there was a problem with the app and it needed to be corrected. He dutifully told me that there was no problem, and my balance was, in fact, correct. “How could this be?” I asked him and suggested they just reverse the transactions. He went away to his manager and came back and said it was impossible to change because the FX rate had been contracted. He then went on to explain the concept of the “Bid /Ask spread”.

Then I explained that we often exchange millions of dollars of FX at Pathfinder and get 10bps off spot rate on regular transactions and far less for larger amounts when negotiated... NOT what the bank is charging for regular transactions: 2.7% or 270bps. This would mean my transaction should have cost \$3,998 and not \$108.91!! I also explained that I can call to get a preferred rate, because I have done that in the past, so it is not “impossible” as the manager said. Lastly, I explained that his rate is just a computer program. There is no actual FX being transacted throughout the day as they will combine it together in a bulk amount and get the institutional spread on a larger transaction, thus making the bank an approximately 2.69% margin (270bps charged to me, less 1bps institutional spread)... on every small dollar amount transacted. He went back and spoke with his manager and credited my account.

“This means that” in our opinion, it is better to be a shareholder of a bank than a customer of a bank. If you can, spend some time finding an alternative provider or at least call the bank and ask for an improved rate if you have to do FX in any large size. I was able to push back because of the experience that we have at Pathfinder and the amount of business that I do with the bank; however, most people will unfortunately not be able to do this. In our business, transparency is a very valuable thing and unfortunately, with current foreign exchange infrastructure, the true cost of exchange remains hidden for the most part.

Michael Rudd, CFA | President, CEO & Portfolio Manager



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Sources: Bloomberg, Pathfinder Asset Management Limited

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