

**“The lady doth protest too much, methinks.”
- Shakespeare**

In the wake of the myriad corporate scandals that have come to light this year, and the revelations of Wall Street securities researchers tainted by conflicts of interest, legitimate concerns have surfaced about the behavior of investment advisors. Are adequate safeguards in place to protect investors from unscrupulous operators? By and large, it is quite difficult in the state of Michigan for registered investment advisors to outright “steal” client assets because managers are prohibited from taking possession of said client assets. Further, investment advisors are regulated by either the Securities and Exchange Commission or the state in which they do business, and at the very least clients can inquire of these regulators to ensure that the advisor is indeed registered. Regulations aside, though, investor confidence will only be assured if the firm has a long-standing reputation for integrity and uncompromised ethics.

As the President of **Sigma**, it is my responsibility to articulate the firm’s core principles. What can clients expect from **Sigma**? Before launching my discussion, I need to invoke the wisdom of the NRA bumper sticker (I am not a member of the NRA, nor do I

necessarily agree with all of their positions), which says, “If you outlaw guns, only the outlaws will have guns.” The wisdom, applied to the investment management business, is the realization that if you attempt to regulate “ethical behavior,” then those that are unethical will surely claim to be ethical while they rob you blind. By discussing the firm’s ethics, I also run the risk of inviting suspicion such as that evoked in Hamlet, with the oft-quoted line serving as the title of this piece. So I go out on a limb when I say that all **Sigma** employees sign an affidavit indicating compliance with the firm’s code of ethics, which spell out how they conduct themselves and their own personal investment activities (a copy of the code will gladly be provided to anyone requesting it, or it can be viewed on our website at www.sigmainvestments.com).

Further, as many of the professionals at **Sigma** either hold the Chartered Financial Analysts (CFA) designation, or are members of the granting body, the Association for Investment Management and Research (AIMR), they have adopted and subscribe to this Code of Ethics too, which states that members shall:

- **Act with integrity, competence, dignity, and in an ethical manner when dealing with the public, clients, prospects, employers, employees, and fellow members.**
- **Practice and encourage others to practice in a professional and ethical manner that will reflect credit on members and their profession.**
- **Strive to maintain and improve their competence and the competence of others in the profession.**
- **Use reasonable care and exercise independent professional judgment.**

This code focuses on character and competence, for which the absence of either could spell disaster for an investor. In our industry, where trust is of vital importance, there is no room for compromise when it comes to character. The first three words of the code are straightforward, and there is no mistaking the meaning: Act with integrity. This means, do what is **right** for the client.

As in many industries, there is no shortage of opportunity to profit at a client’s expense. Early in my career a life insurance salesman approached me. This individual

was focusing on a product called “second to die” insurance, which meant that when the second of a married couple died, the life insurance proceeds would be paid out. This is a popular product used to pay estate tax obligations. The death benefit on this type of insurance will typically be a million dollars or more, and the premium can be as high as \$200,000, depending upon the ages of the insured. This particular agent offered to pay me \$40,000 if I were to refer him a client that subsequently purchased such a policy from him. I asked if he had the option of discounting the policy to the client by \$40,000 instead of paying me \$40,000. He could not and I informed him that I would not be inclined to send him clients.

Of course, in this instance, a transaction could occur and clients would never know. Equally obvious, this would not be doing what is **right** by the client.

Therein lies the issue. The moment you put a price tag on integrity, you start down the slippery slope.

At **Sigma**, the only monies we receive are the fees that our clients pay us for assisting them with their financial affairs. Further, any expense that we incur in the operation of our business is paid by **Sigma**. While this may seem to be stating the obvious, there is a completely legal practice in the investment management business whereby certain of a firm’s expenses can be paid with “soft dollars.” Simply put, an investment management firm can direct that a portion of the brokerage commissions that are generated from client portfolios be used to pay expenses of the investment management firm. At **Sigma**, we take the position that if there are monies available for such expenses from the brokerage firms where our clients’ assets are custodied, we would prefer to

negotiate those commissions down by this same dollar amount and pass the savings on to our clients. We do not utilize “soft dollars.” Hence, even though this practice of paying an investment advisor’s expenses is legal and widespread, we question the appropriateness.

The point is not to make this a “holier than thou” missive, but to convey in as plain terms as possible, the manner in which we conduct ourselves. We realize that we have to earn the privilege to manage our clients’ assets every day, and we simply do what we think is **right** for our clients, every day.

As always, we would welcome your questions or comments. Also, our **warmest wishes for a happy and blessed holiday season.**

Written by:

Robert M. Bilkie, Jr., CFA

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We will be offering our monthly newsletter “Sigma Summaries” electronically to those of our clients and friends who are interested in receiving it this way. Please provide us with your e-mail address by calling the office at 248-223-0122 or by e-mailing us at sbilkie@sigmainvestments.com. Thank you for your consideration.

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The Securities and Exchange Commission requires, under Rule 204-3 of the Investment Advisers Act of 1940, that investment advisers offer, annually, a copy of Form ADV, Part II, which is a written disclosure document containing information concerning the background and business practices of the advisor.

Sigma Investment Counselors is pleased to provide a copy, and hereby offers to deliver the brochure to any client upon receipt of your written request.