

# summaries



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## Now this is Excitement!

According to the Merriam-Webster dictionary, compliance is the act or process of doing what you have been asked or ordered to do. To me, this does not sound like a very “fun” word. In fact, it sounds downright boring and/or dreadful. Yet, within the securities industry, it serves a vital function. The Securities and Exchange Commission (SEC), which is the primary regulator of the United States’ capital markets, enacted the Investment Advisers Act of 1940 as a direct result of the scandals that took place within the financial industry during the 1920’s and 1930’s. In order to try to avoid further abuse within the system, the “Act” imposes a number of requirements on both the operations and the activities of investment advisory firms and their advisors.

In its simplest form, the Investment Advisers Act attempts to reinforce the fiduciary obligation that an advisor owes to his or her clients. This “fiduciary duty” encompasses a number of components. For example, the investment advisory firm and its employees must act with integrity, competence, diligence and respect. The clients’ interests must be placed above the firm’s and its own employees’ interests at all times. Reasonable care must be exercised to avoid misleading the client. Ethical behavior must be promoted within the firm. These standards are accomplished by adopting and implementing policies and procedures

that are reasonably designed to prevent fraud and abuse as well as the ability to detect and promptly correct any violations of the federal securities laws should something occur.

Each firm that is registered with the SEC must adopt and implement compliance policies and procedures that are unique to that specific firm. These policies and procedures should address the practices and risks that are not only distinctive to the firm, but the course of action or strategy that should be pursued as well. Although there is not a “one size fits all” view of what should or should not be included, there are a number of areas where the SEC requires a firm to take action. For example, portfolio management processes, trading practices, marketing and business continuity plans must be included. Additional items that a firm may want to consider are policies regarding e-mails, social media, political contributions, gifts and entertainment.

Case in point, our business continuity plan reflects the obligation that we have to protect our clients’ interests from being placed at risk as a result of the inability to provide advisory services after a disaster, such as a flood or fire. In the unlikely event that we were displaced from our office, we have established an alternate site for business operations with redundant

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equipment so that all employees may conduct business as normal. Moreover, all of our data is not only stored at our main office in Southfield, Michigan, we also have daily backup to a third party data center in Reading, Pennsylvania as well as in Salt Lake City, Utah. We use 256-bit encryption to insure that our records remain confidential.

If a key employee becomes incapacitated, a succession plan has been put in place to make certain that there is a smooth transition from one portfolio manager to another or from one administrator to another. All portfolio managers have a backup portfolio manager on their accounts. All backup portfolio managers are kept up to speed on the accounts for which they serve as a backup and our administrators are able to take on each other's responsibilities with little disruption to the process. On an annual basis, Sigma tests the plan to make sure that if there are any weaknesses, they are exposed. The test may be as complex as running a simulation of an actual disaster, including the restoration of data to alternate systems, or as basic as testing the employee call tree.

Sigma's trading policy encompasses areas such as the aggregation and allocation of trades and trading errors. The aggregation, or blocking, of client transactions allows Sigma to execute trades in a timely and equitable manner. The procedures that are put in place regarding the allocation of trades insure that all transactions are allocated fairly and equitably to all clients so that one is not favored over another.

Sigma has the responsibility to effect orders correctly, promptly and in the best interest of its clients. In the event of a trading error, it is Sigma's policy to identify and correct any error as promptly as possible. Sigma is also responsible for any client loss resulting from an inaccurate or erroneous order, not the client. A "best execution" committee that consists of Sigma's Chief Investment Officer, Chief Compliance Officer, Portfolio Manager and Research Assistant review the above on a quarterly basis.

By monitoring and testing these policies on a regular basis, the Chief Compliance Officer can determine the adequacy and effectiveness of internal controls. These reviews (risk assessments) should bring to light potential conflicts of interest, possible violations and/or the inadequacy of certain procedures. While each policy and procedure that is put into practice must be reviewed "not less than" annually, Sigma oftentimes conducts internal audits on a more frequent basis including daily, weekly, monthly and/or quarterly basis as circumstances warrant.

For example, on a quarterly basis, samplings of client accounts are examined. Management contracts, Investment Policy Statements, invoices, brokerage statements and client notes are inspected to make certain that everything is in order and accurate. If an Investment Policy Statement is not up to date, a reminder is sent to the portfolio manager. If the end of quarter market value on the brokerage statement does not match the end of quarter market value on the

client's quarterly invoice, the account is scrutinized. The discrepancy is usually due to the settlement date of the trades that were placed at the end of the month. Most trades settle three days after the purchase or sale of a trade so that a trade that was placed on September 30th would not settle until October 3rd. Sigma's invoice would reflect the purchase or sale of the trade on September 30th - the brokerage statement would show it as pending.

In closing, while compliance is not very "fun", it is a necessity whether it pertains to an investment advisory firm, an accounting firm, a law firm, or a medical practice. A strong culture of compliance within an organization helps to prevent fraud and other unethical practices, which is a good thing for all!

Shari A. Bilkie, IACCP®  
Chief Compliance Officer

*As we mentioned in our January newsletter, 2013 is Sigma's 40th Anniversary year. In honor of this, our employees are sharing personal "Sigma Stories" with you each month. We hope you enjoy!*

## Counting our Blessings

Recently I wrote a short blog on our firm's 40th anniversary celebration and our outing to pack food

for the Gleaner's Food Bank. It is my turn this month to share a Sigma story and I decided to write more about my experience at Gleaners.

It was a cold and rainy Saturday morning; I woke earlier than usual on a Saturday because my husband and I had committed to volunteering at Gleaners. To my dismay, I woke up sick, unable to speak and feverish. My husband tried to get me to stay home, he was happy to go and represent us, but I being my stubborn self, refused!

Upon arrival in the warehouse, just in the nick of time for instructions, it became apparent that we were the most boisterous group in attendance. What I appreciate about my Sigma team is the camaraderie, and the inability for an outsider to determine the "ranking" of my colleagues. We were all teasing each other and taking pictures, laughing and introducing our families. The group thought it was hysterical that I could not talk, not realizing that I did not feel well, and I was the butt of a few jokes as I was using hand signals and faces to communicate.

We went into the back of the warehouse and lined up at our stations for the assembly line. The boxes started to move and everyone placed their foodstuffs in the boxes that would feed a family for a week. We talked about how grateful we were for our many blessings and felt an overwhelming sadness that for some families this box of food is all that they would have in the coming week.

local independent personal accessible  
interactive creative local independent personal  
knowledgeable thoughtful ethical experienced

After about a half an hour I really started to falter, it was difficult for me to keep up because I felt so sick and I was tiring quickly. Without a word, Shari on my right and Wenny on my left rolled up their sleeves a little higher and helped me. They cut my boxes open, moved the piles and helped to keep me on track.

I was not surprised by Shari and Wenny's help; that is what the Sigma team does for each other. Over the past two and half years I and several of my colleagues have had health issues that set us back a bit and I have seen every last one of us dive in to help, no questions

asked, no discussion, no thought but to take care of our clients and to give the team member peace of mind to know that all was well and to concentrate on healing rather than worrying what was happening in the office.

I am proud to be a part of the Sigma team and appreciate all of my colleagues for their friendship, sense of humor, and work ethic.

Suzanne M. Antonelli, CFP®

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**Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives**

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