

# summaries



the official newsletter of sigma investment counselors

May 2015

## Putting Investors First

Recently there has been much discussion in the investment world around the idea of “fiduciary”, or putting clients’ interests first. Often to many investors surprise, a large number of brokers and investment advisers are not held to a fiduciary standard. While this has always been an important topic of discussion, a recent Department of Labor proposal has put it back into the forefront.

The Department of Labor proposal would require a “best interest standard” that would expand the types of retirement advice covered by fiduciary protections. Any advisor that is charging advice regarding retirement accounts (choosing investments in an IRA, giving advice on doing a rollover from a 401k, etc.) would be held to a fiduciary standard and have to put clients’ interests first.

Many investors assume whoever they are working with are putting their interests first and acting as a fiduciary, even if their adviser isn’t currently held to that standard. If an adviser isn’t held to a fiduciary standard when choosing investments, he or she can recommend the investment that pays the adviser the most when picking between investments, even if it isn’t necessarily the best investment for the client.

Commissions and fees often drive an adviser’s recommendation. Unfortunately, many investors are not aware of the fees they are being charged by their adviser. They often report they are comfortable with the fees they are paying, even if they don’t really have a grasp on them. We have often heard from

prospective clients “my current advisor doesn’t charge me” or “I asked my adviser what I was paying, but it was so complicated I really didn’t understand”. What they don’t often see or understand are the underlying commissions or backdoor payments their adviser may be receiving for putting them in a certain investment. Those commissions and fees can eat into an investors return.

The new proposals from the Department of Labor would require all fees on retirement accounts to be clearly communicated to clients. The proposal would require the adviser to provide advice in the clients’ best interest and to adopt policies and procedures that would mitigate conflicts of interest.

At Sigma we have accepted and embraced the fiduciary standard since day one. Our investment committee and compliance department work together to make sure our clients are receiving the best advice for their situation. We make every attempt to be fully transparent with our fees, and the first page of our quarterly reports to clients is our invoice. We do not accept any commissions, back door payments, or compensation other than what our clients pay us.

The idea of fiduciary and putting investors interests first seems simple and straightforward, however in practice it can be difficult, and conflicts of interests abound. CFA Institute, the largest global association of investment professionals and the organization that offers the Chartered Financial Analyst (CFA) designation, recently declared May to be “Putting

Investors First Month”. They are working with their members throughout this month to educate investors and build awareness around the concept of putting investors first. Seven of us at Sigma hold the CFA designation, and the CFA Code of Ethics is embraced throughout our entire organization.

As a part of Putting Investors First Month, CFA released the following “Statement of Investors Rights” to help educate investors as to what they should expect from financial services providers. This list below embodies the fundamental ethical principles that are critical to achieve trust and confidence in any professional relationship.

### Statement of Investors Rights

When engaging the services of financial professionals and organizations, I have the right to...

1. **Honest**, competent, and ethical conduct that complies with applicable law;
2. Independent and **objective** advice and assistance based on informed analysis, prudent judgment, and diligent effort;

3. My financial **interests** taking precedence over those of the professional and the organization;
4. **Fair** treatment with respect to other clients;
5. Disclosure of any existing or potential **conflicts** of interest in providing products or services to me;
6. **Understanding** of my circumstances, so that any advice provided is suitable and based on my financial objectives and constraints;
7. Clear, accurate, complete and timely **communications** that use plain language and are presented in a format that conveys the information effectively;
8. An explanation of all **fees** and costs charged to me, and information showing these expenses to be fair and reasonable;
9. **Confidentiality** of my information;
10. Appropriate and complete **records** to support the work done on my behalf.

Putting investors first simply means an adviser’s primary goal is serving and protecting investors. Sigma’s culture has always been one of putting our clients first. We encourage our clients to review this list and share it with your friends and family.

Marisa A. Bradbury, CFA®, CFP®

The views in this publication are for informational purposes only and do not represent any recommendation of any particular security or strategy and should not be considered investment advice. The publication is prepared for educational purposes and the information presented has been gathered from sources believed to be reliable.