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the official newsletter of sigma investment counselors

November 2017

Understanding the Benefits of Employing a Fiduciary

Sigma Investment Counselors is a Registered Investment Advisor with the US Securities and Exchange Commission under the Investment Advisor Act of 1940. This act, combined with an earlier act (the Securities Exchange Act of 1934) established a regulatory structure for monitoring advisers with the goal of guarding investors through asset protections as well as bans against self-dealing.¹ A framework for a code of ethics was also established. The act requires, as one of its primary provisions, that Investment Advisors act as a fiduciary. This is in contrast to the broker/dealer community (Merrill Lynch, Wells Fargo, etc.) which were specifically exempted from the fiduciary standard of the Investment Advisor Act as long as certain conditions were satisfied.² Sigma Investment Counselors indeed serves as a fiduciary for its clients and most clients are aware of this. Less understood though, is what fiduciary duty really means.

Attention has been drawn to the concept of fiduciary duty in the press over the past two years as the US Department of Labor (DOL) has proposed new rules for retirement accounts. The DOL is charged with the oversight of all retirement accounts, be they large pension funds, 401k plans or individual IRAs. The proposal, if enacted, would require the standard of fiduciary care to apply to a

broader investment professional constituency. The proposal was initially scheduled to be enacted this past spring. However, the regulation and implementation has been delayed pending further review by the current administration. Knowing the standard of care required to be considered a fiduciary is helpful in better understanding the services and benefits for clients.

Encompassed in the role of a fiduciary is the duty to act in good faith and best interest of the client. By imposing these duties, the law reduces the risk of abuse of a client by the advisor. The interest of the client must come before the interest of the advisor. While that seems intuitive, a simple example may help understand the issues that can arise.

Sigma's interpretation of this duty is that we can not serve two masters. At Sigma we do not sell or use any investment products which results in our receiving any type of compensation or enticements (free trips, etc.). This would include the sale of some mutual funds share classes, insurance products, annuities, etc. Offering clients investment products that provides compensation or an enticement to the provider clearly presents the opportunity for a conflict of interest. Oftentimes, the compensation received by the advisor is not

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disclosed to the client. Sigma receives no remuneration or compensation from anyone or enterprise other than its clients. Fees are fully disclosed on invoices each quarter.

There is also the duty of confidentiality. As fiduciaries, Sigma is required to keep client information confidential. This would include not only the value of assets under management but the entire financial situation of each client. At Sigma it is required that disclosure of information to any party other than the client be provided in writing before such information is released, regardless of whether the individual is a family member or another advisor, such as an accountant or lawyer.

Another important fiduciary facet is a duty of prudence. This requires a fiduciary to exercise an appropriate degree of care, skill, and caution in the exercise of investment advising. While open to interpretation, Sigma strives to well exceed any minimum bar required by law. Much of this revolves around training and education. All of Sigma's investment professionals have either gone through, or are in the process of going through, the rigorous study, examination and work requirements of the CFA® (Chartered Financial Analyst) and/or the CFP® (Certified Financial Planner) programs. A significant portion of the training for these designations focuses on prudent and appropriate activity for client portfolios.

The duty of prudence also requires that investment portfolios be adjusted as

appropriate. This means there exists an ongoing analysis of the appropriate investment strategy for each client. At Sigma, significant time and attention is given to understanding each client's unique situation and circumstances and this is articulated in each client's Investment Policy Statement and reviewed on an annual basis or more often as required. The Investment Policy Statement is also the basis for discussions at client meetings. This is in contrast to the one time sale of a product that requires ongoing payments and may or may not be appropriate at a future time although the investment may remain in the client portfolio.

We do not take lightly the trust and confidence clients have placed in Sigma. As a Registered Investment Advisor and a fiduciary the primary focus of the firm is to provide prudent stewardship for the assets entrusted to it by clients.

Denise Farkas
Chief Investment Officer

Footnotes:

1. 6 15 USC §§ 80b-1-80b-21 (1940)
2. Marianne Jennings, CFA Institute Research foundation *Investment Professionals and Fiduciary Duties* pg 4 9/26/2013

Beneficiary Designations

Many individuals incorrectly assume that only those with very large estates need to worry about estate planning. Although estate taxes can indeed take a large bite out of inheritances, even estates under the exemption (\$5.49mm for 2017) can be reduced by probate costs if assets do not pass by trust or by law.

To avoid probate, assets must be held in trust, held in joint tenancy with rights of survivorship (or tenancy by the entirety), or have a Transfer on Death (TOD) designation. Simply having a will does not allow assets to avoid the probate process, which can be costly, and contested by heirs who believe they are entitled to more than they received.

At Sigma, we are reviewing your accounts to ensure that if assets are not held in trust, there is both a primary and contingent beneficiary named. We are also working with clients to add TOD designations to accounts held in joint tenancy, to ensure that if something should happen to both owners concurrently, the assets will pass to the desired heir(s). We recommend you review your accounts held outside our management as well. A simple beneficiary designation form can save money, and ensure your assets are distributed in the manner you desire.

Amanda E. Lehnert

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

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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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