



CHARTING THE COURSE



Special Series of Briefs About Beacon's Client Services

HOW BEACON PRACTICES GOOD ETHICS!



POLLING OF

INDIVIDUAL INVESTORS:

*Honest Abe Would Have Been A Good
Investment Advisor*

Abraham Lincoln did not invent the internet, nor did he invest clients' money in any **dot.com** companies. Why, therefore, can we surmise that Honest Abe would have been a good investment professional on the eve of Year 20XX? Because our sixteenth president is best known for possessing that virtue investors highly value when seeking an investment professional...**ETHICS**. According to a 2001 study by the CFA Institute (formerly known as AIMR), so important is good ethics to the investor community, that it ranked as the single most important issue in the investment profession today, ahead of investment performance, professionalism, and the quality of research. In fact, so important is reputation of an investment advisor to individual investors, the study showed they were willing to base their hiring decisions on ethical conduct. **How does one objectively determine if an investment advisor is ethical, or if he or she practices good ethics?**

Assuming you cannot ask the investment advisor to take a polygraph test, **Beacon** believes the best way to demonstrate to our clients and prospective clients our commitment to ethical conduct is threefold:

- ♦ SAY WHAT YOU DO, DO WHAT YOU SAY
- ♦ BE ACCOUNTABLE
- ♦ DEMONSTRATE A TRACK RECORD

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SAY WHAT YOU DO, DO WHAT YOU SAY

Investment management is, shall we say, not an exact science, as there are multiple philosophies and approaches. From the first meeting with a prospective client, the investment advisor should clearly describe the investment approach to be taken. This gives the client an opportunity to determine if the advisor's way of investing suits he or she, and it paves the way for clear and open communication ongoing. No single investment approach works in every market all the time, and the ethical investment advisor must stand ready to inform and educate clients about their individual results—good or not so good. For example, **Beacon** practices asset allocation through what we term balanced, global investing (with mutual funds), and we give every prospective client a detailed white-paper describing our approach and process in great detail. If this educational process did not take place, there will be greater opportunity for (bad) surprises and miscommunication, which normally leads to the investment advisor having a former client. To illustrate, if the prospective client believes market timing is a viable investment approach, the investment advisor should stand ready to decline the engagement if he or she does not practice (successfully) the investment approach of market timing. Say what you do, and do what you say!

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BE ACCOUNTABLE

In addition to having, communicating, and practicing a clear investment strategy, the ethical investment advisor should be accountable to clients by adhering to the rules of those organizations charged with oversight of the advisor, either regulatory (government) or self-regulatory (associations). Restated, while **Beacon** watches your money, who watches **Beacon**?

Professional Associations

Beacon's principal (also this writer) is a member of several professional associations including:

- **Certified Financial Planner Board of Standards** – sponsors of the Certified Financial Planner (CFP) license and a Code of Ethics for professional conduct.



CERTIFIED FINANCIAL PLANNER™

CFP®

The certification marks above are owned by Certified Financial Planner Board of Standards Inc. and are awarded to individuals who successfully complete CFP Board's initial and ongoing certification requirements.

- **CFA Institute** – (national) sponsors of the Chartered Financial Analyst (CFA) charter.



- **CFA Society Houston** – (Houston) sponsors of the Chartered Financial Analyst (CFA) charter.

CFA Society
Houston

Each of these organizations holds **Beacon's** advisors to a comprehensive Code of Ethics and Standards of Professional Conduct, in addition to requiring or facilitating significant amounts of continuing professional education each and every year.

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Government Regulators

Beacon is a registered investment advisor (RIA) with the US Securities and Exchange Commission (SEC). Also, our clients hail from over a dozen states, and regulations require us to file "notice filings" in some of those states. As "*the investor's advocate*", the SEC can enter the office of an investment advisor, without announcement, and audit the books and records to ascertain if that advisor is complying with key rules and regulations.



**U.S. SECURITIES
AND EXCHANGE
COMMISSION**

"We are the investor's advocate."

William O. Douglas
SEC Chairman, 1937-1939

**DEMONSTRATE A TRACK RECORD**

The ethical investment advisor will avoid client complaints and/or disputes if a commitment to client education is omnipresent. Since client complaints and/or disputes can be a matter of public record (because registered investment advisors are required to disclose client complaints), prospective clients can gauge something of the ethical conduct of the investment advisor in the regulators' files.

In summary, a commitment to ethical conduct is paramount for investment advisors to gain and retain client trust. In addition to an ongoing commitment to maintaining professional competence, **Beacon** believes demonstrably practicing good ethics is the advisor-centric foundation upon which long-lasting service quality and enduring client relationships are built. Undoubtedly, if our sixteenth President were around today, we think he'd readily agree!

