Are Investment Advisors/Consultants Ethical?

By Mark Harbour, CPA, CIMA®, CFA®

When I lead the section about ethics for the Certified Investment Management Analyst® (CIMA®) program at the University of Chicago, I usually begin with a story about a couple my wife and I met on vacation sometime after the 2008 market mess. We exchanged pleasant conversation and humorous stories while getting to know each other, then I asked the husband what he did for a living. He looked over his left shoulder, then his right, and lowered his voice to just above a whisper. “I’m a hedge fund guy,” he said. “Perhaps we can keep that between us?”

When I tell that story, most people chuckle, and some also say they’ve had similar experiences.

Recently I was preparing for a presentation aimed at helping surviving spouses conduct appropriate due diligence in hiring an advisor. I read a book by Steven G. Blum called Negotiating Your Investments, where I was surprised to read that the term “professional” is considered inappropriate for investment advisors because typically we do not put the interests of our clients first.

I have been an active volunteer for many years with Investment Management Consultants Association® (IMCA®), the CFA Society of Los Angeles, and the CFA Institute, and I have met and had the distinct honor of working with a huge number of our professional colleagues—both highly seasoned as well as relatively new to the business.

By and large, most of the people I have met and worked with over the years are passionate about helping their clients and their clients’ families. Indeed, many articulate to me that they are in the business because they want to help people. This attitude is clearly not well-acknowledged these days. Simply put, we need a stronger voice at the table.

In studying behavioral finance and ethics, and in the work I have done as part of the Ethics Task Force charged with revising IMCAs Code of Professional Responsibility and IMCAs Standards, I have observed that ethical behavior is encouraged by moving from a rules-based code of conduct (think externally imposed compliance) to a values-based code of ethics (think self-imposed decisions and actions).

There are some clear examples of our industry (IMCA, CFA, FPA, etc.) taking steps to move in the right direction. The following are a few observations:

- The CFA Institute has formulated and presented a growing number of training programs with case studies that preview potential ethically challenging situations to engage our thinking to improve our values-based framework leading to better decisions (and actions). IMCA is also assembling a number of case studies as part of the upcoming revision of its Code and Standards with the same objective.
- A number of volunteer subgroups throughout the CFA Societies as supported by the CFA Institute have been formed to publicly advocate for our profession and to contribute ideas for improving ethical standards and behavior among our colleagues.
- The CFA Institute and CFA Society of Los Angeles recently formed a collaborative working relationship with the Neely Leadership and Ethics Institute at the University of Southern California’s Marshall School of Business. Our initial meeting reviewed an extensive discussion for diagnosing actions that need improvement as well as exploring possible fee models that would more effectively align an advisor’s interest with the client’s interest. More importantly, we began a discussion of what metrics should be used to evaluate progress in this area.
- Initiatives to form more effective communication and exchange ideas that collaborate with local key industry professional centers of influence and exchange ideas of value for improving public relations are underway.
- Financial literacy programs in which industry professionals volunteer to help adults and students are growing. These demonstrate our commitment to add value to society and improve the quality of financial decision-making.
- Passive/active fund selection and recommendation perhaps can contain conflicts of interest due to fees, but including net-of-fee comparisons of actual performance to benchmarks can add credibility.

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• Recently a colleague suggested that industry professional organizations consider exploring a method to audit advisors whose membership in specific professional organizations includes being held to a fiduciary standard. The intent is to validate that their actions are aligned with this standard.
• We could do a better job of clarifying what services clients receive for their fees.
• We could start accumulating stories of real-life situations in which advisors make a difference for their clients and should be celebrated for their work (if you have some, please pass them my way).

• The new IMCA Applied Behavioral Finance Certificate Program is clearly designed to help advisors improve the quality of their clients' financial decision-making.

I think an answer for improving the state of ethics and the public perception of our industry is summarized nicely by the CFA Institute when they say, "It begins with you."

We can and will be better perceived by the public and our clients when each of us begins to take at least some action to make it so. Your help can and will make a difference. Thanks in advance for getting involved.

Mark Harbour, CPA, CIMA®, CFA®, has served various volunteer roles and most recently was chair of the Ethics Task Force that worked to revise the Code of Professional Responsibility and Standards for Investment Management Consultants Association (IMCA); he is the I&WMT ethics editor. He is a past president of the CFA Society of Los Angeles. Contact him at harboal@ca.rr.com.

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