



## The “F” Word

**F**iduciary. A fiduciary is a person to whom property or power is entrusted for the benefit of another, in other words someone who puts the interests of others before his or her own interests. In the context of those who manage the investments of others, like Investment Counsel, it is accepted that it means we act in the best interest of clients - always, and without exception.

The issue of investment advisors acting in a fiduciary capacity has recently been once again brought to the forefront. President Obama has recently put his efforts behind the movement to have one consistent standard for those who manage the investments of others. Last month the Executive Office released the report: *The Effects of Conflicted Investment Advice on Retirement Savings*.

Perhaps, shockingly, you'll realize that such a movement means that, currently, not all advisors are required to act in the best interests of their clients. As an investor, one has to admit that any renewed focus on this issue is a major step in the right direction. Should new legislation come from these efforts it could be a major protection for investors, provided, of course, that any new legislation has the teeth to be effective.

### The Fiduciary and Suitability Standards in Practice

The issue of the “fiduciary standard” versus the much less stringent “suitability standard” is a complex one and perhaps a comparison between

Advisors and Brokers is the best illustration of some of the differences.

	Registered Investment Advisors (RIA's)	Stock Brokers, Insurance Agents, Financial Planners
<b>Commonly Referred to as:</b>	Financial Advisors or Investment Advisors	Financial Advisors or Investment Advisors
<b>Fees</b>	“... typically lower...”	“... conflicted, undisclosed payments...”
<b>Typical Methods of Payment</b>	Percent of assets, flat fee, hourly	trade commissions, mutual funds sales commissions, wrap fees
<b>Standard of Care</b>	Fiduciary Standard – recommendations need to be in the client's best interest	Suitability Standard – recommendations need only to be suitable for the client

Quotes are sourced from *The Effects of Conflicted Investment Advice on Retirement Savings*

From the above table it should be clear that in most cases investors would pay more for a Broker while receiving a lower level of care from the provider. Costs are important because studies show high fees are highly related to lower investment returns.

A lower standard of care allows for many more conflicts of interest to arise such as recommending one investment over another because it provides a greater financial incentive to the Broker not necessarily the best expected result to the client. Conflicts of interest are best avoided yet the current standards for Brokers seem to ignore their dangers.

The President's report exposes the issue of cost

coupled with conflicts of interest quite well when it states:

*"... the essential finding of this report: conflicted advice leads to large and economically meaningful costs..."*

The opinion of the report is that a stringent set of rules should apply to the entire investment profession. Of the two options, the fiduciary standard, putting the interests of others before their own interests, is much preferred to the less attractive suitability standard. Should legislation fail to move ahead with a single standard, a viable consolation may be to at least require brokers to identify themselves as such, rather than using the more ubiquitous term of Financial Advisor.

Ultimately the goal is to move the industry to a model of lower cost, greater transparency, fewer conflicts and always acting in the best interest in the client. While these are notable goals, they are not new, but ones that Investment Counsel has practiced since our founding over 85 years ago.

For further reading on this topic see The Effects of Conflicted Investment Advice on Retirement Savings, from the Office of the President of the United States, at the web address below. ([http://www.whitehouse.gov/sites/default/files/docs/cea\\_coi\\_report\\_final.pdf](http://www.whitehouse.gov/sites/default/files/docs/cea_coi_report_final.pdf))

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## Outlook for Stocks

Our outlook for the US market is still cautiously optimistic as our economy is growing unlike that of many other global economies. Many indicators (consumer confidence, consumer spending, unemployment) point toward further gains in the equity markets.

Non-US markets, however, seem to be struggling. The Eurozone is fighting off another recession, with recent reports showing drops in German industrial output, while China, a long-time driver of growth has shown significant signs of slowing as well. Japan is expanding their version of Quantitative Easing (QE) in the hopes of mimicking our results from the program.

Overseas markets can, and do, have an effect on US companies. We will be carefully observing global markets and monitoring the effects on the names we own, particularly those names that

have significant overseas operations.

The price of oil has moved sharply downward lately – to the lowest levels we've seen since 2010. This move is being driven mostly by an increase in supply from new oil sources coming online. Lower transportation costs are a good sign for the economy as it leads to greater consumer spending. However, there are unforeseen effects that dramatic price shifts often cause that we will have to watch for and carefully consider if/when they come to the forefront.

## Outlook for Bonds

We expect interest rates to rise, which will decrease bond prices. Industry consensus seems to be mid- to late- 2015 for the first Federal Reserve rate hikes although recent developments suggest its more likely that will be pushed back rather than moved forward.

While bonds are still a critical component of most portfolios, providing invaluable diversification and risk management, some types of bonds are more sensitive to interest rate changes than others. Highly sensitive bonds should be adjusted accordingly to limit downside risk from rising rates. On the whole bonds are priced at a premium.

## INVESTMENT COUNSEL NEWS

### *Inside the Office*



*The deadline for filing taxes is quickly approaching. We're here to help if you have any questions regarding gains/losses or income from your investments.*

### *Outside the Office*



*The 63rd annual Autorama classic and custom car show is coming to Detroit. Car aficionados like Mike and Dorothy's husband, Kirk are excited!*