

# Integrity

Pine Haven Investment Counsel, Inc. – Commentary – 2nd Quarter 2017

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***Integrity: noun*** in·teg·ri·ty \in-'te-grə-tē\ **Definition: 1: firm adherence to a code of especially moral or artistic values: INCORRUPTIBILITY; 2: an unimpaired condition: SOUNDNESS**

James Comey, former FBI director, in front of the US Senate Intelligence Committee stated: "...It should be about the facts and the law.... ...I think people should look at the whole body of my testimony, because, as I used to say to juries, and when I talked about a witness, you can't cherry-pick it. You can't say, 'I like these things he said, but on this, he's a – he's a dirty, rotten liar.' ... You got to take it all together. "

It is telling that a long-tenured director of the FBI would feel compelled to describe how to determine the caliber of character. Our regulatory and legal world, in general, has become cumbersome and confusing and it's especially so in the financial industry. Whether it's Mr. Comey speaking to Congress or the Department of Labor (DOL), it's no wonder they would see a need to define or legislate integrity.

When a consumer seeks assistance from a financial representative, their expectation is that their best interest is at heart. Rules, regulations, customs and profit collide and muddy the waters as to what exactly is in clients' best interest. It should be clearer. During the past administration, the DOL sought wide-ranging input and debated the merits of "the Fiduciary Rule". (A fiduciary is one who serves every client's best interest). In April 2016 the DOL issued its final rule expanding the definition of an "investment advice fiduciary" with respect to **retirement assets**. The best interest standard has two components: a professional standard of care or prudence and loyalty based on the interest of the customer rather than the adviser or firm. Additionally, advisers are only allowed to charge clients "no more than reasonable fee" for their services. This first part of the overhaul has been controversial as some have claimed it is unnecessary or onerous (Big banks and some traditional brokerage firms have been opponents). The DOL has always governed company retirement plans, but the expanded rule extends to any person providing advice on retirement assets including Individual Retirement Accounts (IRAs). Regardless, it is a wake-up call for those of us serving clients in the financial industry.

The current administration has been on a mission to reduce red tape and The President has stated "I think we can cut regulation by 75%, maybe more." The proposed DOL rule change was one of the first on his agenda. The goal was to review and possibly rescind the DOL Fiduciary Rule. However, after an initial 60 day delay the rule went into effect June 9<sup>th</sup>. The overall goal of the rule change is better protections and more transparency for consumers and investors.

We at Pine Haven endeavor to be as transparent and clear with any possible conflict of interest or grey area. Because of this, we operate our business as a Registered Investment Adviser (RIA) registered with the Securities and Exchange Commission (SEC). We are compensated only by the management or planning fees we charge, not by a commission on any investment we may recommend. In this framework, we have always been a fiduciary. The recent ruling changes our practice only slightly: when we discuss rolling over a 401k

or other company retirement plan to our management, it must be clear that we will benefit by increased fees. As an objective fiduciary, we must outline the costs and benefits of this action.

A Registered Investment Adviser is defined by The Investment Advisers Act of 1940 as a "person or firm that, for compensation, is engaged in the act of providing advice, making recommendations, issuing reports or furnishing analyses on securities, either directly or through publications." RIA's are either registered with their state or the SEC and are subject to the duty of loyalty and due care with their clients. They are typically compensated by asset management fees and are expected to act in the best interests of their clients.

Professional certifications require the integrity and ethics of a fiduciary. At Pine Haven, Kori is a Certified Financial Planner® (CFP®) and Paige is a Chartered Financial Analyst (CFA®). Both of these designations require us to always put the clients' interests first.

To earn the distinction of the CFP® or CFA®, one must study and pass rigorous exams. There are also formal education, work experience, and continuing education requirements. CFP® professionals must complete 30 hours of Board approved continuing education and two of those hours must be an ethics program every two years. Continuing education must be reported to the Board to continue to use the CFP® marks. The CFP Board enforces its Standards of Professional Conduct. CFA members are encouraged to complete 20 hours of continuing education each year with 2 of those hours dedicated to "Standards, Ethics and Regulations (SER)". Annually members attest to their continuing educational activities when they renew their license. Both organizations publish disciplinary actions for transparency and accountability.

Gretchen, Paige and Kori are also registered investment advisor representatives. This required additional exams administered by FINRA (Financial Industry Regulatory Authority). These tests are some of the same exams which brokers must pass.

It is in our personal and firm values to put our clients' best interests before our own. As James Comey said, "You have to take it all together." From our licensing, education and daily activities we expect a fiduciary standard for ourselves whether or not there is a Department of Labor Fiduciary rule. We prefer to not cherry-pick when it comes to ethics.