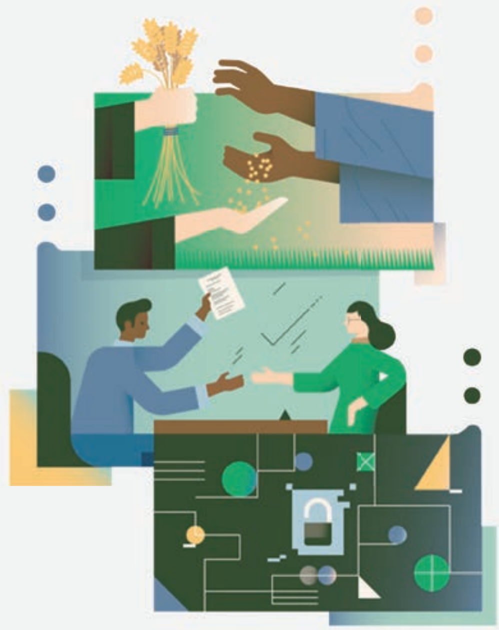
A Series of Timelines

The Trust Economy

Trust is, and always has been, at the core of the economy. For hundreds of years, that trust has been tested and reinforced, and it's now more important than ever.

Illustrations by Jamie Jones



INTRODUCTION From the first barter of goods, every exchange of value has rested on a foundation of trust. Globalization and new technology have led to a tangle of increasingly complex financial products and investment tools, making the trust of investors ever more reliant on the transparency, accountability, and high standards of investment advisors.

What follows are timelines of market changes in investing, accountability, and technology that have continually challenged investor trust throughout history and helped lead to the rise of specialized professionals that can help investors navigate those changes. Guidelines for responsible professional behavior, such as the fiduciary standard, which requires certain types of financial advisors to act always in the best interest of the clients, also developed to help their clients reinforce investor trust.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HISTORY'S LESSON IN TRUST

Investing in History

THE ACT OF INVESTING is an ancient one, but its modern iteration is the result of more than a thousand years of evolution. In that millennium, landmark moments have demonstrated shifts in the meaning and process of investment, but trust between individuals has remained a key factor in the success of any financial transaction.

1000 Money as an institution

As cities grow, trade and labor become increasingly specialized, inspiring guild and merchant groups to begin trusting each other with trade secrets and collective pools of money. This motivates them to act in each other's best interests. That trust helps form the foundation for growth of urban centers and financial systems. It also makes collaborating members responsible for each other's shared assets, since they were available to any member in need.

1792 The opening of the New York Stock Exchange

Twenty-four brokers on Wall Street sign the Buttonwood Agreement, pledging to trade financial assets only with each other based on the mutual confidence that had been established among its members. That group would become the New York Stock Exchange, a space for traders to buy and sell stock on behalf of investors, under the assumption that they would do so only to benefit those investors.

1940 The Investment Advisers Act

The increasingly complex world of investing leads to the rise of investment advisors. Recognizing their importance to the financial system, a new federal law gives the Securities and Exchange Commission the responsibility to provide oversight, ensuring that advisors register themselves and abide by the fiduciary standard, which requires they act in their clients' best interests. Starting small with approximately 700 advisors, the Act further reinforces the level of trust between advisor and investor.

2008 The Great Recession

The power of marketplace forces to overwhelm caution and prudence demonstrates the need for greater vigilance and stronger protections for individual investors. Market manipulation and the proliferation of mortgage-backed securities and other derivatives led to the most severe economic crisis since the Great Depression. The recession and market collapse make it clear that the trust economy was in need of retooling.

2017 The present day

New policies address practices that led to the recession. But as the political climate changes, the fate of those policies is uncertain. Investors need to make informed decisions now more than ever, and advisors can help investors make those decisions. As part of their research process, investors can consider working with advisors, such as Registered Investment Advisors, who are required to act in their clients' best interests. However uncertain policy may be, investors keep trust at the heart of their financial relationships.

> "INVESTORS NEED HELP FROM A TRUSTED ADVISOR. TRUST MEANS INTEGRITY AND CONFIDENCE, LOOKING OUT FOR AN INVESTOR'S BEST INTEREST."
>
> **YONHEE G.**
> REGISTERED INVESTMENT ADVISOR

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HISTORY'S LESSON IN TRUST

The Rise of Accountability

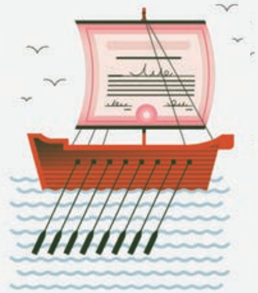
FOR EVERY MOVE potential investors plan to make, they deserve a standard of reliability and transparency; it's necessary that they can trust that their assets are secure and being used responsibly. In finance, one of the stewards of this trust is the fiduciary standard, which holds certain types of advisors accountable to act always and only in their clients' best interests. With roots in ancient Babylonia but a firm foothold in the modern-day regulatory matrix, accountability allows investors to keep tabs on their assets—and history has made it clear that there are consequences when it is absent.

1754 B.C. Code of Hammurabi

Financial accountability is one of many legal issues that Babylonian King Hammurabi's code addresses: "If any one give another silver, gold, or anything else to keep, he shall show everything to some witness, draw up a contract, and then hand it over for safekeeping." Hammurabi's law outlined the mechanism necessary to build trust in finance: a top-down mandate of transparency that is in service of the client.

1550–1600 Joint stock companies

As exploration boomed in the New World, external funding was needed—and that required mechanisms to ensure trust in enterprises. The issuance of stock certificates allowed multiple investors to pool assets with confidence as they and the enterprise agreed on methods and goals. This made the promise of integrity and accountability a matter of law.



1929 The Great Depression

In eight months, the U.S. stock market fell by 89 percent, almost $400 billion in today's currency, wiping out great fortunes and investments alike—and exposing stark betrayals of trust. Banks, for example, had been using depositors' money to invest in stocks without telling them. It took a broad range of new financial regulations during FDR's New Deal, including formation of the Securities and Exchange Commission, to rebuild investors' trust in the market.

1961 The Case of Cady, Roberts & Co.

Aviation company Curtiss-Wright exposed another gap in accountability when it decided to reduce its shareholder dividends. A board member told the firm Cady, Roberts & Co. before the news became public, allowing the firm to cut its losses. As a result, SEC Chairman William Cary ruled that anyone with inside information would have to disclose it or avoid the investment. The practice, "disclose or abstain," remains a cornerstone of trust across the industry.

2017 The present day

In the aftermath of the Great Recession came waves of new regulation to steady and restore trust in financial institutions. The Accountability Act of 2009 demanded a radically greater level of transparency, requiring bailed-out companies, for example, to disclose their use of public funds in detail. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 initiated discussion about the potential for a broader application of the fiduciary standard (a discussion still ongoing today), among other provisions. In an increasingly complicated market, it's vitally important to trust the right people. For investors, it's worth the time and effort to consider an independent advisor who is also a fiduciary, one who puts their clients' best interests ahead of their own and helps their clients understand the best ways to achieve their financial goals.

See more about the trust economy here:
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Timeline

HISTORY'S LESSON IN TRUST

Tech's Impact on Finance

FINANCIAL TECHNOLOGY HAS BROUGHT RAPID, UNPREDICTABLE CHANGES to the way people organize, access, and talk about their money. It has also created new, low-cost opportunities for investors to participate in markets and build portfolios based on a dizzying array of new tools, with tips and data available at any time. The tech-driven evolution of markets has continually challenged the role and scope of investment advisors, whose sophistication must match the speed of change in order to keep the trust of their investors.

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1950 The credit card

Credit cards spurred consumer spending in the mid-20th century by making money fluid and easier to spend. That required attention to issues relating to individual credit from limits to ratings. Foreign purchases meant keeping up to date on currency-exchange platforms. Credit-related issues became an area where investors sought expertise from advisors.

1971 Electronic trading

As stock trading went digital, the market became faster and easier to enter, which required greater agility from investors and advisors. The establishment of NASDAQ in 1971 and Globex two decades later required understanding algorithms and lightning-fast trading, making individual investors more likely to reach out to their advisors to help navigate the digital marketplace.

1983 Online banking

With the advent of online banking, clients could access and move assets after hours and on weekends, anywhere, which meant advisors also needed to make themselves available for increasingly complex and time-sensitive questions.

2000s Social media

According to a recent Sysomos study, 40 percent of investors make investment decisions based on information from social media, a channel that varies in its level of truthfulness. In the age of ubiquitous information, vetted expert advice with a more solid foundation than online "tips" is more important than ever.

2017 and beyond Cybersecurity

As online finance has become increasingly sophisticated, so have hackers' methods of infiltration, requiring vigilance not only from lawmakers but also from investment advisors, who must protect their communications and investors' transactions. Discretion is the essence of trust, and in a time when danger to investors can come from anywhere, adherence to the fiduciary standard will depend on the technological as well as financial sophistication of advisors.

Learn more at FindYourIndependentAdvisor.com

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