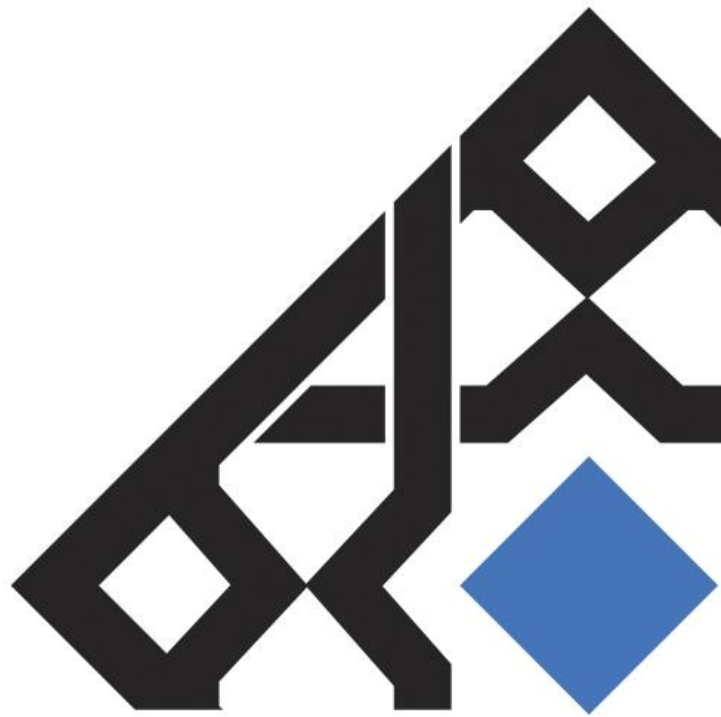




ALHAMBRA
INVESTMENTS



The Benefit of Working with a Fiduciary Adviser





What is a Fiduciary?

You may have heard the term in recent times due to the ongoing debate about whether stock brokers should be held to such a standard. Since doing so would make it harder for them to sell you things that pay them high commissions, peddlers of Wall Street's wares are, as one might expect, opposed to this imposition. And so far, they've been successful in heading off any change to the current system that allows them to follow the self-imposed constraint of selling you only things that are "suitable", a term of considerable flexibility.

So, what does it mean to be a fiduciary and why does it matter to you? **Quite simply, a fiduciary is someone who acts in your stead, solely in your interest and adheres to the Prudent Man Rule** or, to update the appellation for modern times, the Prudent Person Rule. This rule directs trustees "to observe how men (and women) of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation, but in regards to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested".

That quote comes from *Harvard College vs Amory*, a trust case from 1830. Harvard sued the trustee, Francis Amory, for losing money on investments in a trust set up for their benefit. Harvard considered the investments in stocks to be speculative and risky. But Amory had followed the investment guidelines of the trust and Justice Samuel Putnam absolved him of liability writing:

"All that can be required of a trustee is, that he shall conduct himself faithfully and exercise a sound discretion....do what you will, the capital is at hazard."

In other words, you can hold the trustee to a standard of conduct but not to a specific outcome.



Investment Advisers like Alhambra are held to a standard that brokers, newsletter writers, and financial journalists are not. An investment adviser is always a fiduciary – a word whose derivation is *from trust*. In a very real sense, a fiduciary is a trustee to the person or entity to which (s)he owes that duty. And being a trustee is a well-defined relationship with legal obligations.

Fiduciaries must act solely in the interests of their client and when investing the clients' funds must adhere to a prudential standard as defined by Justice Putnam. Prudence is defined as:

- The ability to govern and discipline oneself by the use of reason
- Sagacity or shrewdness in the management of affairs
- Skill and good judgment in the use of resources
- Caution or circumspection as to danger or risk

And prudence is derived from the word *provident* which as a noun means "divine guidance or care" and as an adjective means "making a provision for the future, frugal, saving". Based on those definitions one can see that acting as a fiduciary is a sober, sensible affair when done properly. It does not take divine guidance – although there are certainly times when that would come in handy – or an ability to see the future to follow the rule. But it does require that one observe the present in a clear-eyed manner and invest accordingly - or prudently if you will. **In short, investment advisers have a legal obligation to be humble, honest, and conservative with their advice.**



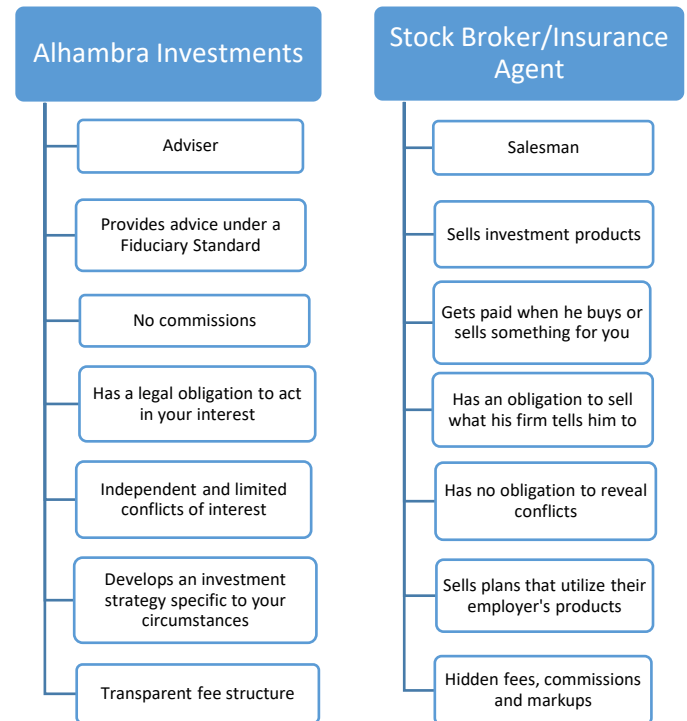
Investing is a difficult endeavor in the best of circumstances. Hiring the right adviser, a fiduciary, does not ensure success. But it does ensure that the advice you receive is not tainted by conflicts of interest and that it will be appropriate for your circumstances. **Think of hiring a fiduciary as hiring a version of yourself with all the necessary knowledge and experience to invest your funds wisely. This ideal investment version of yourself has all your best interests in mind when making decisions for you and your family.** This version of you has lived through bear and bull markets and knows how to control your emotions to make the best decisions in the heat of the moment. This ideal version of yourself knows your risk tolerance and your future financial obligations and implements plans to meet them by investing in a way that allows you to sleep at night.

It is similar to hiring an attorney or an accountant. Not having full knowledge of law or the tax code is not an impediment to getting good advice on those subjects and it isn't an impediment in the case of financial advice either. The attorney or accountant or fiduciary adviser you hire is working directly for you and therefore has fewer conflicts and must disclose any that arise.

Hiring a financial adviser is a difficult decision but knowledge is power. Find an adviser who owes you a fiduciary duty all the time. Find an adviser who is humble enough to understand their own biases and shortcomings. Find an adviser who knows what he doesn't know, with the confidence to hire outside, unbiased experts when necessary. Find an adviser who will work with you to construct a reasonable financial plan that you understand. Find an adviser who shares your values and takes the time to understand not just your "financial situation" but your hopes and desires and goals. And always remember, you are in charge. Your adviser works for you. Make sure they don't forget it.

How We Can Help You

Are you unhappy with your current advisor? Are you unsure if they're held to a higher, fiduciary standard? Are they looking out for your best interests?



Give us a call today at 1-888-777-0970 and we'd be happy to arrange for one of our investment professionals to discuss your situation with you – completely complementary. Alhambra Investments is a Registered Investment Adviser, always working under a fiduciary standard. Let's start the conversation today.

