



The Investor Advocate®

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Declaration of Independence

The Fourth of July always brings out thoughts of independence. The striving for independence has been continuous throughout human history and is fundamental to America culture. Just as independence is important to nations, it is important in investing, both to investors and fiduciaries.

To be free to provide the best possible counsel, an investment consultant should be independent. It is in the best interest of investors, fiduciaries and trustees to assure that their investment consultants are independent.

While the line “We hold these truths to be self-evident...” from the Declaration of Independence is one of the bedrock statements of American liberty, the apparent lack of the same “self-evidence” is one of the bedrock issues of contention in the qualified retirement plan and investment arenas.

In response to a Government Accountability Office (GAO) study on pension consultant conflicts of interest, Bradford P. Campbell, Acting Secretary of the Department of Labor’s (DOL) Employee Benefits Security Administration (EBSA), wrote in a June 25, 2007 letter to the GAO that the DOL regulations “will ensure fiduciaries have the information needed to assess both the

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The Declaration of Independence
July 4, 1776

reasonableness of the fees and potential conflicts of interest by service providers, including pension consultants.”

Mr. Campbell continued in his letter, “We agree that

undisclosed conflicts of interests by pension consultants and other who provide services to pension plans could constitute violations of ERISA, potentially resulting in losses to plans, particularly where the pension consultant or adviser uses its position with the plan to generate additional fees for itself or its affiliates.”

While most people think of soft dollar arrangements when thinking of hidden fees, other product-based compensation agreements, alliances, networks, service and fee bundling and similar arrangements can have a detrimental impact on future investment results. “One-stop shopping,” for instance, is intuitively appealing but its costs are more difficult to calculate and are too often dismissed as insignificant. This is a clear instance where full disclosure better serves both investors and fiduciaries.

While the vast majority of compensation paid for various financial services is done legally and ethically, it was during the infamous *Watergate* investigation that *Deep Throat* said, “...follow the money.” There are many situations where the method of compensation can negatively affect investment results.

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Advocating Your Success

The totally independent, fee-only consultant is free of any compensation constraints or biases, formal or informal, and is compensated directly by clients to serve their best interests. Such a consultant can help review all costs, services, and provide objective investment performance evaluation and comparison.

The State of the Union

No one needs to be reminded of the merger mania behemoths created among financial service firms, banks, brokerage firms, investment managers, mutual fund companies, etc. The advantages of “one-stop shopping” and improved economies of scale are touted as the primary reasons for these combinations. But, big is not always better and advances in technology and communications beg the question as to whether or not the era of mega-service providers is real progress. A world economy, easily disrupted by even hints of negative events, complicates the picture even more.

As a practical matter, investors, investment committees, plan sponsors and their fiduciaries should benefit from the thoughtful perspective offered by the independent investment consultant. This vantage point, or institutional memory as some have called it, is less anecdotal and more reasoned, less focused on the short term and more seasoned, less likely to endorse the “latest and greatest” solution and more oriented toward long term answers that help achieve client objectives. An independent consultant can prove invaluable in helping distinguish between market aberrations and trends, between vendor change and progress.

Investor Advocates®

The Investor Advocate® is a newsletter dedicated to providing useful information to investors and fiduciaries. As Investor Advocates® Highland is committed to serving clients’ best interests. By definition, an investor advocate is and must be an independent, fee-only consultant.

Our role as Investor Advocates® is to help clients reach their investment objectives, meet funding liabilities/requirements, address fiduciary duties, understand and control risk and manage costs. In addition to this independent perspective, Highland brings relevant experience, in-depth data and analytical resources and procedural prudence to assist clients.

As Investor Advocates® Highland will continue to advocate your success.

Please contact us if we can be of assistance.

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