



## Ruminations on Ethics

The best known (and most parsimonious) rule of ethics is what is known as the “golden rule” which most of us learned as “Do unto others as you would have them do unto you.” This maxim is found throughout history and in almost all religions. For example,

In ancient Greek philosophy:

- Do not to your neighbor what you would take ill from him. – Pittacus
- Avoid doing what you would blame others for doing. – Thales
- What you do not want to happen to you, do not do it yourself either. – Sextus the Pythagorean.
- Do not do to others what would anger you if done to you by others. – Isocrates
- What thou avoidest suffering thyself seek not to impose on others. – Epictetus
- It is impossible to live a pleasant life without living wisely and well and justly (agreeing 'neither to harm nor be harmed'), and it is impossible to live wisely and well and justly without living a pleasant life. – Epicurus
- One should never do wrong in return, nor mistreat any man, no matter how one has been mistreated by him. – Plato's Socrates

In the Bible, the Apocrypha, and Torah (those three overlap in what is considered canonical):

- Thou shalt not avenge, nor bear any grudge against the children of thy people, but thou shalt love thy neighbour as thyself: I am the LORD. – Leviticus 19:18
- But the stranger that dwelleth with you shall be unto you as one born among you, and thou shalt love him as thyself; for ye were strangers in the land of Egypt: I am the LORD your God. – Leviticus 19:34
- Therefore all things whatsoever ye would that men should do to you, do ye even so to them: for this is the law and the prophets. – Matthew 7:12
- And as ye would that men should do to you, do ye also to them likewise. – Luke 6:31
- Do to no one what you yourself dislike. – Tobit 4:15
- Recognize that your neighbor feels as you do, and keep in mind your own dislikes. – Sirach 31:15
- That which is hateful to you, do not do to your fellow. That is the whole Torah; the rest is the explanation; go and learn. – Talmud, *Shabbat* 31a

In the eastern religions of Confucianism and Hinduism:

- Do not impose on others what you yourself do not desire. – Confucius, *Analects* XV.24
- One should never do that to another which one regards as injurious to one's own self. This, in brief, is the rule of dharma. Other behavior is due to selfish desires. – Brihaspati, *Mahabharata* (Anusasana Parva, Section CXIII, Verse 8)

Some of these formulations are superior to others. Those worded in the positive (“Do unto others as you would have them do unto you.”) are unworkable. There is no natural limit to the amount of self-sacrifice involved. (E.g. I would like it if everyone gave me all their money, so I must give away all my money to others.) The negative formulations are superior (“Do not do unto others what you would not have them do unto you.”) but still have a problem in that people's desires can be, and generally are, different.

As George Bernard Shaw said in *Maxims for Revolutionists* in 1903, "Do not do unto others as you would that they should do unto you. Their tastes may not be the same." In other words if we should treat others as *we* want to be treated, then a masochist following the golden rule becomes a sadist.

Perhaps a better ethical formulation can be found in Immanuel Kant's categorical imperative, which can be stated, "Act only according to that maxim whereby you can, at the same time, will that it should become a universal law." This is a deontological (as opposed to utilitarian) view of the world, which holds that ends cannot justify means. Indeed as Emerson believed, the ends pre-exist in the means.

Thus, the fundamental code of ethics at Financial Architects is Kant's. In addition, the myriad designations and memberships held by principals at Financial Architects subject us to numerous other codes of ethics and standards of professional conduct. They may be found in the appendices on the following pages.

## Appendix 1

### **CFP Board's Code of Ethics and Professional Responsibility**

CFP Board adopted the *Code of Ethics* to establish the highest principles and standards. These Principles are general statements expressing the ethical and professional ideals certificants and registrants are expected to display in their professional activities. As such, the Principles are aspirational in character and provide a source of guidance for certificants and registrants. The Principles form the basis of CFP Board's *Rules of Conduct*, *Practice Standards* and *Disciplinary Rules*, and these documents together reflect CFP Board's recognition of certificants' and registrants' responsibilities to the public, clients, colleagues and employers.

**Principle 1 – Integrity:** Provide professional services with integrity. *Integrity demands honesty and candor which must not be subordinated to personal gain and advantage. Certificants are placed in positions of trust by clients, and the ultimate source of that trust is the certificant's personal integrity. Allowance can be made for innocent error and legitimate differences of opinion, but integrity cannot co-exist with deceit or subordination of one's principles.*

**Principle 2 – Objectivity:** Provide professional services objectively. *Objectivity requires intellectual honesty and impartiality. Regardless of the particular service rendered or the capacity in which a certificant functions, certificants should protect the integrity of their work, maintain objectivity and avoid subordination of their judgment.*

**Principle 3 – Competence:** Maintain the knowledge and skill necessary to provide professional services competently. *Competence means attaining and maintaining an adequate level of knowledge and skill, and application of that knowledge and skill in providing services to clients. Competence also includes the wisdom to recognize the limitations of that knowledge and when consultation with other professionals is appropriate or referral to other professionals necessary. Certificants make a continuing commitment to learning and professional improvement.*

**Principle 4 – Fairness:** Be fair and reasonable in all professional relationships. Disclose conflicts of interest. *Fairness requires impartiality, intellectual honesty and disclosure of material conflicts of interest. It involves a subordination of one's own feelings, prejudices and desires so as to achieve a proper balance of conflicting interests. Fairness is treating others in the same fashion that you would want to be treated.*

**Principle 5 – Confidentiality:** Protect the confidentiality of all client information. *Confidentiality means ensuring that information is accessible only to those authorized to have access. A relationship of trust and confidence with the client can only be built upon the understanding that the client's information will remain confidential.*

**Principle 6 – Professionalism:** Act in a manner that demonstrates exemplary professional conduct. *Professionalism requires behaving with dignity and courtesy to clients, fellow professionals, and others in business-related activities. Certificants cooperate with fellow certificants to enhance and maintain the profession's public image and improve the quality of services.*

**Principle 7 – Diligence:** Provide professional services diligently. *Diligence is the provision of services in a reasonably prompt and thorough manner, including the proper planning for, and supervision of, the rendering of professional services.*

## Appendix 2

# CFA Institute Code of Ethics And Standards of Professional Conduct

### The Code of Ethics

Members of CFA Institute (including CFA charterholders) and candidates for the CFA designation (“Members and Candidates”) must:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets.
- Place the integrity of the investment profession and the interests of clients above their own personal interests.
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.
- Practice and encourage others to practice in a professional and ethical manner that will reflect credit on themselves and the profession.
- Promote the integrity of and uphold the rules governing capital markets.
- Maintain and improve their professional competence and strive to maintain and improve the competence of other investment professionals.

## I. PROFESSIONALISM

**A. Knowledge of the Law.** Members and Candidates must understand and comply with all applicable laws, rules, and regulations (including the CFA Institute Code of Ethics and Standards of Professional Conduct) of any government, regulatory organization, licensing agency, or professional association governing their professional activities. In the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation. Members and Candidates must not knowingly participate or assist in and must dissociate from any violation of such laws, rules, or regulations.

**B. Independence and Objectivity.** Members and Candidates must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Members and Candidates must not offer, solicit, or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise their own or another’s independence and objectivity.

**C. Misrepresentation.** Members and Candidates must not knowingly make any misrepresentations relating to investment analysis, recommendations, actions, or other professional activities.

**D. Misconduct.** Members and Candidates must not engage in any professional conduct involving dishonesty, fraud, or deceit or commit any act that reflects adversely on their professional reputation, integrity, or competence.

## II. INTEGRITY OF CAPITAL MARKETS

**A. Material Nonpublic Information.** Members and Candidates who possess material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.

**B. Market Manipulation.** Members and Candidates must not engage in practices that distort prices or artificially inflate trading volume with the intent to mislead market participants.

### III. DUTIES TO CLIENTS

**A. Loyalty, Prudence, and Care.** Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests.

**B. Fair Dealing.** Members and Candidates must deal fairly and objectively with all clients when providing investment analysis, making investment recommendations, taking investment action, or engaging in other professional activities.

**C. Suitability.**

1. When Members and Candidates are in an advisory relationship with a client, they must:

a. Make a reasonable inquiry into a client's or prospective client's investment experience, risk and return objectives, and financial constraints prior to making any investment recommendation or taking investment action and must reassess and update this information regularly.

b. Determine that an investment is suitable to the client's financial situation and consistent with the client's written objectives, mandates, and constraints before making an investment recommendation or taking investment action.

c. Judge the suitability of investments in the context of the client's total portfolio.

2. When Members and Candidates are responsible for managing a portfolio to a specific mandate, strategy, or style, they must make only investment recommendations or take only investment actions that are consistent with the stated objectives and constraints of the portfolio.

**D. Performance Presentation.** When communicating investment performance information, Members and Candidates must make reasonable efforts to ensure that it is fair, accurate, and complete.

**E. Preservation of Confidentiality.** Members and Candidates must keep information about current, former, and prospective clients confidential unless:

1. The information concerns illegal activities on the part of the client or prospective client,

2. Disclosure is required by law, or

3. The client or prospective client permits disclosure of the information.

### IV. DUTIES TO EMPLOYERS

**A. Loyalty.** In matters related to their employment, Members and Candidates must act for the benefit of their employer and not deprive their employer of the advantage of their skills and abilities, divulge confidential information, or otherwise cause harm to their employer.

**B. Additional Compensation Arrangements.** Members and Candidates must not accept gifts, benefits, compensation, or consideration that competes with or might reasonably be expected to create a conflict of interest with their employer's interest unless they obtain written consent from all parties involved.

**C. Responsibilities of Supervisors.** Members and Candidates must make reasonable efforts to detect and prevent violations of applicable laws, rules, regulations, and the Code and Standards by anyone subject to their supervision or authority.

## V. INVESTMENT ANALYSIS, RECOMMENDATIONS, AND ACTIONS

### A. Diligence and Reasonable Basis. Members and Candidates must:

1. Exercise diligence, independence, and thoroughness in analyzing investments, making investment recommendations, and taking investment actions.
2. Have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

### B. Communication with Clients and Prospective Clients.

Members and Candidates must:

1. Disclose to clients and prospective clients the basic format and general principles of the investment processes they use to analyze investments, select securities, and construct portfolios and must promptly disclose any changes that might materially affect those processes.
2. Use reasonable judgment in identifying which factors are important to their investment analyses, recommendations, or actions and include those factors in communications with clients and prospective clients.
3. Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

**C. Record Retention.** Members and Candidates must develop and maintain appropriate records to support their investment analyses, recommendations, actions, and other investment related communications with clients and prospective clients.

## VI. CONFLICTS OF INTEREST

**A. Disclosure of Conflicts.** Members and Candidates must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients, prospective clients, and employer. Members and Candidates must ensure that such disclosures are prominent, are delivered in plain language, and communicate the relevant information effectively.

**B. Priority of Transactions.** Investment transactions for clients and employers must have priority over investment transactions in which a Member or Candidate is the beneficial owner.

**C. Referral Fees.** Members and Candidates must disclose to their employer, clients, and prospective clients, as appropriate, any compensation, consideration, or benefit received from or paid to others for the recommendation of products or services.

## VII. RESPONSIBILITIES AS A CFA INSTITUTE MEMBER OR CFA CANDIDATE

**A. Conduct as Members and Candidates in the CFA Program.** Members and Candidates must not engage in any conduct that compromises the reputation or integrity of CFA Institute or the CFA designation or the integrity, validity, or security of the CFA examinations.

**B. Reference to CFA Institute, the CFA Designation, and the CFA Program.** When referring to CFA Institute, CFA Institute membership, the CFA designation, or candidacy in the CFA Program, Members and Candidates must not misrepresent or exaggerate the meaning or implications of membership in CFA Institute, holding the CFA designation, or candidacy in the CFA program.

## Appendix 3

# **Financial Planning Association Code of Ethics & Standard of Care**

### **Integrity**

*An FPA member shall offer and provide professional services with integrity.*

FPA members may be placed by clients in positions of trust and confidence. The ultimate source of such public trust is the FPA member's personal integrity. In deciding what is right and just, an FPA member should rely on his or her integrity as the appropriate touchstone.

Integrity demands honesty and candor, which must not be subordinated to personal gain and advantage. Within the characteristic of integrity, allowance can be made for innocent error and legitimate difference of opinion; but integrity cannot co-exist with deceit or subordination of one's principles.

Integrity requires an FPA member to observe not only the letter but also the spirit of this Code.

### **Objectivity**

*An FPA member shall be objective in providing professional services to clients.*

Objectivity requires intellectual honesty and impartiality. It is an essential quality for any professional. Regardless of the particular service rendered or the capacity in which an FPA member functions, an FPA member should protect the integrity of his or her work, maintain objectivity, and avoid subordination of his or her judgment that would be in violation of this Code.

### **Competence**

*An FPA member shall provide services to clients competently and maintain the necessary knowledge and skill to continue to do so in those areas in which the designee is engaged.*

One is competent only when he or she has attained and maintained an adequate level of knowledge and skill, and applies that knowledge effectively in providing services to clients. Competence also includes the wisdom to recognize the limitations of that knowledge and when consultation or client referral is appropriate.

In addition to assimilating the common body of knowledge required and acquiring the necessary experience, an FPA member shall make a continuing commitment to learning and professional improvement.

### **Fairness**

*An FPA member shall perform professional services in a manner that is fair and reasonable to clients, principals, partners, and employers and shall disclose conflict(s) of interest(s) in providing such services.*

Fairness requires impartiality, intellectual honesty, and disclosure of conflict(s) of interest(s). It involves a subordination of one's own feelings, prejudices, and desires so as to achieve a proper balance of conflicting interests. Fairness is treating others in the same fashion that you would want to be treated and is an essential trait of any professional.

### **Confidentiality**

*An FPA member shall not disclose any confidential client information without the specific consent of the client unless in response to proper legal process, to defend against charges of wrongdoing by the FPA member or in connection with a civil dispute between the FPA member and client.*

A client, by seeking the services of an FPA member, may be interested in creating a relationship of personal trust and confidence with the FPA member. This type of relationship can only be built upon the understanding that information supplied to the FPA member or other information will be confidential.

In order to provide the contemplated services effectively and to protect the client's privacy, the FPA member shall safeguard the confidentiality of such information.

### **Professionalism**

*An FPA member's conduct in all matters shall reflect credit upon the profession.*

Because of the importance of the professional services rendered by FPA members, there are attendant responsibilities to behave with dignity and courtesy to all those who use those services, fellow professionals, and those in related professions.

An FPA member also has an obligation to cooperate with fellow FPA members to enhance and maintain the profession's public image and to work jointly with other FPA members to improve the quality of services. It is only through the combined efforts of all FPA members in cooperation with other professionals, that this vision can be realized.

### **Diligence**

*An FPA member shall act diligently in providing professional services.*

Diligence is the provision of services in a reasonably prompt and thorough manner. Diligence also includes proper planning for and supervision of the rendering of professional services.

### **Standard of Care**

All financial planning services will be delivered in accordance with the following standard of care:

- Put the client's best interests first;
- Act with due care and in utmost good faith;
- Do not mislead clients;
- Provide full and fair disclosure of all material facts; and
- Disclose and fairly manage all material conflicts of interest.

## Appendix 4

### The American College's Code of Ethics and Procedures

Each designee is required to adhere to The College's Code of Ethics and Procedures. Embodied in the Code are the Professional Pledge and the eight Canons.

#### **The Professional Pledge**

"In all my professional relationships, I pledge myself to the following rule of ethical conduct: I shall, in light of all conditions surrounding those I serve, which I shall make every conscientious effort to ascertain and understand, render that service which, in the same circumstances, I would apply to myself."

#### **The Canons**

- Conduct yourself at all times with honor and dignity.
- Avoid practices that would bring dishonor upon your profession or The American College.
- Publicize your achievements in ways that enhance the integrity of your profession.
- Continue your studies throughout your working life so as to maintain a high level of professional competence.
- Do your utmost to attain a distinguished record of professional service.
- Support the established institutions and organizations concerned with the integrity of your profession.
- Participate in building your profession by encouraging and providing appropriate assistance to qualified persons pursuing professional studies.
- Comply with all laws and regulations, particularly as they relate to professional and business activities.

#### **Notes:**

*The analysis in this report has been prepared by David E. Hultstrom, MBA, CFP<sup>®</sup>, CFA<sup>®</sup>.*

*Mr. Hultstrom is the president of Financial Architects, LLC, a financial planning and wealth management firm. Questions or comments are welcome, and he may be reached at [David@FinancialArchitectsLLC.com](mailto:David@FinancialArchitectsLLC.com) or (770) 517-8160.*



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