PERSPECTIVES

by Gene Dongieux, Chief Investment Officer

A newsletter for
the clients and friends
of Mercer Advisors

MERCER ADVISORS™

TO BE A TRUE FIDUCIARY

Summer vacation is over, school is back in session and this means I am back on the road attending educational industry and academic investment conferences — one of the things I love to do most. I thrive on these experiences as they give me the opportunity to delve into the minds of the industry brain-trust to find new opportunities to improve our strategies and services.

As a result of this continual search, in August, we announced one of our most exciting opportunities for your portfolios in years: Momentum Investing. Momentum Investing adds a 4th dimension to our 3-factor investing model with improved expected returns and reduced expected risk. We are offering this strategy through Momentum specialists, Applied Quantitative Research (AQR) Capital Management of Greenwich, Connecticut, and if you missed the information sent to you with your last Quarterly Performance Report, you can learn more about the Momentum phenomenon by calling your Strategic Advisor or visiting our website at www.merceradvisors.com/momentum.

In August we also announced a new custodial relationship with TD Ameritrade Institutional. Again, always seeking to provide what is best for our clients, the integrity of our custodians — the companies that have physical possession of your assets — is as vital to us as the integrity of our investment strategies and we only work with the best. TD Ameritrade is 45% owned by one of the few triple-A-rated banks in the world* and is a premier provider of brokerage services to Registered Investment Advisors (RIAs) like Mercer Advisors. Together, with Mercer Advisors being one of Charles Schwab's largest custodial clients and our new TD Ameritrade relationship, Mercer Advisors is aligned with two of the best custodial providers in the industry giving us the opportunity to offer you tremendous value, flexibility, and security.

This new relationship ties closely to many of the discussions I am encountering on my current travels as legislative reform is taking groundbreaking steps forward to restore and secure the integrity of the investment industry.

One area of discussion is the creation of an exchange for derivatives. This is a wonderful step in the right direction as the legislature works to reign in the wild use of derivatives on Wall Street that contributed to the economic meltdown. Another important discussion involves a different form of risk. We often hear of risk in terms of whom you invest with or how you invest. But one of the areas of risk that is so fundamentally important, but not often discussed, is the risk of investing with a broker versus a true fiduciary.

Right now, due to devastating scandals in the brokerage world, legislators are grappling with the question: can a broker be a fiduciary? The straight answer is no. The reason lies in understanding the two models and the incentives driving them.

Mercer Advisors is a Registered Investment Advisory firm and classified as a true fiduciary which, by definition, means keeping the best interests of the client in mind, making it illegal to sell products or advice on a commission basis.

In the fiduciary model, the success of the client dictates the success of the advisor so the incentive is to keep the best interests of the client paramount. In the brokerage model, broker-dealers work with a "suitability rule" requiring them to meet the client's investment needs, timeline, and risk appetite, but are not restricted from offering commission-based products or advice to satisfy their client's investment suitability.

If you can sell for a commission, the commission is ultimately the incentive, and there is always a risk of steering a client in the direction of a product or service for personal gain. And even if this product or service satisfies the suitability rule, it may not be what is truly best for the client, and this is in direct violation with fiduciary regulations making it clear that a broker cannot be a fiduciary.

Beyond incentives, as a true fiduciary, Mercer Advisors can give investment advice, but we cannot execute the advice; we must partner with a "custodian" such as TD Ameritrade or Charles Schwab to execute the investment strategies and report the returns.

This creates a critical "separation of church and state" missing from the broker model. In further contrast to a fiduciary, brokers are allowed to execute their investment advice, and they are allowed to be the sole entity reporting investment performance (when they even bother to report performance — many don't). As a Mercer Advisors client, the RIA/custodian relationship creates the critical separation safeguard of dual reporting. And as Bernie Madoff's clients sadly discovered, this function's absence can be devastating.

Each month you receive a holdings statement from Charles Schwab or TD Ameritrade, and each quarter you receive a Quarterly Performance Report from Mercer Advisors. These dual reports give you the ability to compare the numbers, preventing either entity from fabricating investment value.

Fraudulent reporting is how Bernie Madoff devastated his clients by cooking the books year after year to estimated totals of $68 billion in missing client funds and fabricated earnings[†]. Without a second independent institution's report as a comparison, Madoff's clients had no way of knowing of the worthlessness of their investments.

The Dodd-Frank legislation signed into law in July gives the SEC the option to create a universal standard of care for anyone providing personalized investment advice to individual clients. The SEC has mandated a study due in January of 2011 to determine if it is possible to apply fiduciary regulations to broker-dealers and recent reports look as though the SEC is leaning toward crafting a way to make this happen[‡]. However, as long as the brokerage model continues to be founded on commission-based products and advice, there is always a risk of self-serving counsel.

Once again, I am proud to discover through my travels validation that our model continually proves to be superior to the competition in its performance, integrity, and security, and beyond that, knowing Mercer Advisors and its clients have aligned incentives for mutual success.

*Toronto Dominion is triple-A rated by Moody's.

†Bray, Chad (March 12, 2009). "Madoff Pleads Guilty to Massive Fraud". The Wall Street Journal (Dow Jones, Inc). http://online.wsj.com/article/SB123685693449906551.html?mod=djemalertNEWS. Retrieved September 23, 2010.

‡Schoeff Jr., Mark (September 27, 2010). "Is leader of SEC fiduciary study leaning towards single standard?" Investment News. http://www.investmentnews.com/article/20100927/FREE/100929922 Retrieved September 27, 2010.

ABOUT MERCER ADVISORS

Established in 1985, Mercer Advisors provides investment management, financial planning, and practice management consulting to dentists, creating consistently successful results in each area of expertise.

QUICK FACTS

- The largest dental practice consulting and transitions company in the U.S. with more than 150 employees including CFP®s, CPAs, MBAs, JDs, attorneys, practice consultants, and transition specialists
- Ranked by Forbes and Investment News as one of the largest fee-only Registered Investment Advisors in the U.S. with more than $3.2 billion in assets under management
- Unprecedented four-time consecutive Townie Choice Award® winner for Practice Management Consultants of the Year Endorsed by dental and medical associations across the country

Kendrick Mercer, the Oregon lawyer who established Mercer Advisors, was dedicated to improving the lives of dentists both professionally and personally. This dedication continues today as Mercer Advisors currently works with more than 3,000 clients helping them reach their life goals.

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