

## Who's Trading Your Account?

By Gary Case

When you invest money, who has authority or discretion to make and execute decisions with respect to your investment? Discretionary access to your investment account can work to your benefit or your detriment, depending on the effectiveness of the one who is exercising that discretion.

If you open a brokerage account, you may grant authority to someone other than yourself to do all the trading in the account, buying and selling positions such as stocks, bonds, mutual funds, certificates of deposit, and the like. By granting a limited power of attorney to another, be that a manager, broker, portfolio strategist or even a relative, your attorney may trade in your account, presumably for your benefit.

Investment managers and investors alike may benefit from discretionary actions. When you purchase a mutual fund, you grant authority to buy and sell securities in that fund to the fund manager, according to conditions outlined in the fund prospectus. The fund manager exercises discretion to act without your prior knowledge to benefit you. Consider if that mutual fund manager had to contact each shareholder separately to receive authorization for each trade! Besides being terribly time consuming for the fund manager, there would likely be shareholders who, because they were contacted earlier than others, would receive a better price on the particular deal being pursued by the manager. Often the timing of purchases and sales of portfolio positions can make a significant difference in the return realized on a specific security. Of course, a fund manager is bound to observe conditions set forth in the prospectus and act in the best interest of the fund shareholders.

You may grant your broker discretion to trade your account for similar reasons. When this occurs, it is extremely important to understand that the broker may have conflicts between allegiance to the firm and allegiance to the client. Conflicts may be minimized when the broker accepts fiduciary responsibility towards his/her clients.

A portfolio strategist, usually a company you hire to allocate and invest your money, can also provide a valuable service on a discretionary basis, that of replacing money managers (which could include mutual funds or other structured investment products). Just as timely and wise individual trades have a bearing on account performance, so does replacing a manager that may no longer fit your portfolio.

Knowing who has discretion over your investment accounts and how that discretion is exercised can provide great insight into how your portfolio is managed and what you should expect from the various parties to your account. Your financial planner should be able to explain who has discretion in your portfolio.

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