ETHICS IN PRACTICE:
Capitalizing on Tax Benefits Is OK, Right?

CASE STUDY
Marte is an asset manager in Puerto Rico, a US territory. Residents of Puerto Rico receive significant tax advantages by investing in local securities. To capitalize on this advantage, Marte's firm offers clients shares in a closed-end investment fund, organized under Puerto Rico's financial laws and regulations, that holds at least 67% local securities and is permitted to borrow against up to 50% of its assets. The fund is usually leveraged to the extent legally permitted. Many of Marte's clients have a modest net worth and conservative or moderate investment objectives. Marte convinces them to invest 85% or more of their assets in shares of the closed-end fund. Marte's actions are

A. appropriate because they take advantage of the fund's unique tax benefits for his clients.
B. inappropriate because the fund uses leverage to boost returns.
C. appropriate as long as Marte fully discloses the risks and benefits of the fund to his clients.
D. inappropriate because the fund is an unsuitable investment for his retail clients.