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ETHICS IN PRACTICE:

Is It OK to Just Quietly Fix Error in Model?

CASE STUDY

Roger Foss is an institutional money manager specializing in a quantitative investment strategy. He developed his own quantitative model that he uses exclusively as the investment decision-making tool for client accounts. Foss heavily markets his "comprehensive and exclusive" model to clients and prospective clients as being an effective tool to manage risk. After using the model for several years, Foss discovers an error that inadvertently eliminated one of the key components for managing risk, leading to underperformance as a result of industry overexposure. During that time, several clients raised questions about their portfolio performance, but Foss attributed it to market volatility. Foss revises the model to address the error and begins to promote his "new and improved exclusive and comprehensive quantitative model." Foss's conduct is

- A. unacceptable because the original model resulted in underperformance.
- B. acceptable because factors in quantitative models are proprietary and do not need to be disclosed.
- C. unacceptable because he failed to disclose the error in the model and its impact on client performance.
- D. acceptable because Foss corrected the error and uses the new model.

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