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ETHICS IN PRACTICE:

When Is Scrutinizing Risk Not Enough?

CASE STUDY

Aaron Bouchard is a portfolio manager with discretionary control over the portfolios of more than 400 clients. Bouchard pursues a "medium risk, value" strategy for his clients, and they hire him on that basis. After scrutinizing the risk of potential investments, he makes a risk assessment for each of the securities he recommends based on the risks facing the issuer's business. The majority of securities Bouchard invests his clients' assets in are small-cap companies in the oil and gas sector and in commodities that he considers "medium" risk. As a result, Bouchard's client accounts are concentrated in those sectors. Bouchard's actions are

- A. acceptable if he discloses his investment strategy to his clients.
- B. unacceptable because he does not exercise diligence and thoroughness in executing his investment strategy.
- C. acceptable if he maintains appropriate records to support his investment recommendations and actions.
- D. unacceptable because he does not have a reasonable and adequate basis to support his investment recommendations and actions.

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