**FUTURE WORK/DISCUSSION/CONCLUSIONS**

The obligations of the financial industry to their customer – the end investor – have become strengthened over the last several decades. The most recent major change implemented was in July 2017 with full enactment in January 2018, was the “Fiduciary Standard” that required advisors to put the goals and objectives of their customers ahead of their own goals (1). In simple terms, while the financial advisor may have been paid on commissions earned through active trading, or through sales of financial instruments to the customer it could open a conflict of interest, because the specific trades or financial instruments sold, may in a broader view detrimental to the customer’s end goals for investing.

This standard introduces a need for transparency of purpose, documentation, and most likely, better planning on the part of the financial advisor or the financial advisor’s firm to meet a potential future legal challenge from a disgruntled investor. A series of unfortunately timed trades that caused losses for the investor, but that the advisor may still have earned a commission from, could be seen by the investor as a self-motivated trade without benefit to the investor.

Sitkoff (2) spoke about financial advisors’ obligations under earlier law, noting that deterrence is the largest effect of fiduciary responsibility. Advisors should be deterred from making decisions in their own self-interest, and not in the interest of their customers, because of the possible consequences after the fact. The advisor should act out of loyalty and concern for their customer.

Reish (3) cites parts of the standard for fiduciaries and their recordkeepers, calling on fiduciaries to craft specific investment alternatives that fit the standards of their program. We think that in view of the new laws of financial advising, many new data-driven decisions will be born out of a need for transparency and reproducibility, given the financial market’s current standing and the data available to the advisor on a given day.

The employment of specific strategy driven algorithms, like the momentum or mean regression algorithms cited in McKinney (4) would offer an advisor a framework for allocation of funds, given an investor’s agreed upon goal, and produce a suggested mix of securities to achieve the best possible return. As information in the market changes, the model could follow and update the mix of securities periodically to manage for the best possible returns.

The model presented in this paper, the momentum investing strategy, certainly is a simplistic approach to investment management and encompasses only one aspect of the investment management. It could become part of a larger ecosystem devised by an investment firm with the goals of compliance to the regulatory burden imposed by the fiduciary responsibility laws.

One could imagine each interaction between customer and advisor is captured in a detailed set of data that speaks to the customer’s financial planning horizon, their final financial goals, and specific requests that are made during the session. Based on the inputs, the advisor would be provided a best-fit for portfolio, with ability to make specific modifications and record cause for modification. Thus, the investment firm is guiding decisions made by the individual advisors to be in the best interest, with the best known information, about the market at any point in time.

While financial planning often talks of risk, the investment firm and advisors have increased responsibilities, and it could be said, risk with the fiduciary responsibility laws. Mitigation of these risks is likely an objective for any firm in the trade. While good ethics is the baseline way to begin mitigating this risk, there still exists many cases where the advisor’s decisions could be called into question.

The fiduciary rules allow class action lawsuits to be brought against financial advisors for failing to act in their clients’ best interests. One could imagine that the financial risk to a firm could reach a similar level to Citigroup’s settlement from the 2007 subprime crisis - $590 Million dollars to members of a class-action suit for allegedly misleading the investors. Ameriprise Financial paid a $27 million dollar settlement to the members of a class-action lawsuit, for breaking fiduciary responsibilities. Moving towards a rules and data driven system of financial advisement may be a strategy to improve impartiality of the advisor, and reduce exposure to the risk of lawsuits from disgruntled investors.

**RESOURCES**

1. <https://www.nytimes.com/2017/05/23/business/obamas-fiduciary-rule-after-a-delay-will-go-into-effect.html>
2. Sitkoff, Robert H. “The Fiduciary Obligations of Financial Advisers under the Law of Agency.” Journal of Financial Planning 27 (2): 42–49.
3. <https://www.natlawreview.com/article/interesting-angles-dol-s-fiduciary-rule-74-one-more-fiduciary-issue-recordkeepers>
4. The Python textbook, with its incorrect algorithm.
5. https://dealbook.nytimes.com/2012/08/29/citigroup-in-590-million-settlement-of-subprime-lawsuit/