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What role does compliance play with registered investment firms, and why is it important to you?

BY JIM PRATT-HEANEY



Left to right:
Jim Pratt-Heaney,
Kevin Burns,
Bill Loftus

LLBH PRIVATE WEALTH MANAGEMENT LLC

33 Riverside Avenue, 5th Floor, Westport, CT 06880
2121 Avenue of the Stars, Los Angeles, CA 90067

800.700.5524

PARTNERS

Kevin Burns, Founding Partner

Bill Loftus, Founding Partner

Jim Pratt-Heaney, CIMA®, Founding Partner

Michael Kazakewich, CFP®, CRPC®, Partner

ASSETS UNDER CARE

\$1.6 billion (approximately, as of 12/31/2015)

MINIMUM FEE FOR INITIAL MEETING

None required

MINIMUM NET WORTH REQUIREMENT

\$10 million

FINANCIAL SERVICES EXPERIENCE

200 years (combined)

COMPENSATION METHOD

Asset-based fee

PRIMARY CUSTODIAN FOR INVESTOR ASSETS

Pershing, A BNY Mellon Company

PROFESSIONAL SERVICES PROVIDED

Financial planning, asset management, concentrated stock hedging, lending, cash management, alternative investment, due diligence and family office services

ASSOCIATION MEMBERSHIPS

Financial Planning Association, Investment Management Consultants Association

EMAIL

jpratt-heaney@llbhpwm.com

WEBSITE

www.llbhpwm.com

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Egistered Investment Advisors have a fiduciary duty to their clients. This means that they have a fundamental obligation to act and provide investment advice in their clients' best interest. For SEC-registered firms, the Commission dictates that Registered Investment Advisors "owe clients a duty of undivided loyalty and utmost good faith."¹¹ In order to comply with this important requirement, we believe it is crucial for a firm to have in place a solid compliance program.

But what does that mean for you, the client? As a client, you should be confident that your selected firm has a compliance program which not only protects your assets, but also your information and privacy. At the same time, the firm should reveal any conflicts of interest and monitor its marketing and performance claims to ensure their accuracy. At LLBH, we take this responsibility quite seriously and have listed below the components of a strong culture of compliance that we think a client ought to look for in a firm:

1. Clearly Defined Compliance Program. Firms registered with the SEC are required to adopt and implement written policies and procedures that aim to prevent violations of the Investment Advisors Act of 1940. In many compliance programs, an appointed chief compliance officer will oversee a review of these policies at least once a year. In

our view, such policies should cover:

- a. The portfolio-management process
- b. Accuracy of disclosures made to investors
- c. Internal and personal trading activity
- d. Safeguarding of client assets
- e. Creation and maintenance of required books and records
- f. Privacy protection of client records and information as part of a data security plan
- g. Trading procedures that address best execution and soft dollar arrangements
- h. The process to value client holdings and fee assessment
- i. Business continuity plans

2. Disclosure Requirements (Form ADV).

Firms registered with the SEC must prepare and file certain disclosures via Form ADV, which for many advisors includes a written disclosure brochure that the advisor is also required to deliver to its clients. The disclosure brochure contains important information for clients, such as services provided, fees charged and custodian and broker dealer status. It is a requirement that this brochure be written in "plain English" and be available to the public. Clients should diligently read and ask any questions they have about the ADV before hiring a firm.

3. Code of Ethics. Firms registered with the SEC must have a code of ethics which sets forth the standards of business conduct expected of their employees, officers and directors and require compliance with federal securities laws. This code requires all members of the firm to report their own trades and investments to the chief compliance officer, to prevent any use of insider information and to ensure that clients' interests always come first.

4. Books and Records. Firms registered with the SEC are required to maintain certain books and records for specific retention periods. These records include business financials and accounting statements. These records also include investment advice and transactions in clients' accounts, including orders, confirmations and written requests for funds and deposits.

5. Marketing and Advertising. To protect investors, the SEC has restrictions on how firms registered with the SEC may advertise their services and performance in various mediums. Any false or misleading claims are prohibited by the SEC. Every chart, graph and performance number should be represented in a clear manner and be substantiated by reportable records. For example, when illustrating a set of returns, the advisor generally must note whether the results are inclusive or noninclusive of fees.

Selecting a wealth advisory firm is a significant decision. As such, we think prospective clients should delve beyond the performance and services provided by an advisor and carefully examine the compliance structure that the advisor has in place. In our view, a quality firm should be proud of its compliance and regulatory procedures and be glad to review them with you. For the safety of your assets and your privacy, we feel it is paramount that you not underestimate the importance of a strong culture of compliance. ●

¹¹While this article generally discusses requirements for SEC-registered firms, state-registered firms are often subject to many of the same or similar requirements. Registration with the SEC as an investment advisor does not imply a certain level of skill or training.

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ABOUT US

LBH PRIVATE WEALTH MANAGEMENT IS AN INDEPENDENT REGISTERED INVESTMENT ADVISOR OFFERING A FULL RANGE OF WEALTH-MANAGEMENT

SERVICES. Often referred to as a "virtual family office," LLBH strives to bring clarity and control to the financial lives of its clientele by delivering customized personal and business solutions. From its offices in Westport, Conn., and Los Angeles, LLBH services high net worth individuals, families and foundations on both coasts and nationwide. ●



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Founding Partner

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Jim Pratt-Heaney, CIMA®
Founding Partner

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Westport, CT 06880

2121 Avenue of the Stars
Los Angeles, CA 90067

Tel. 800.700.5524

ssimon@llbhpwm.com
www.llbhpwm.com

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