

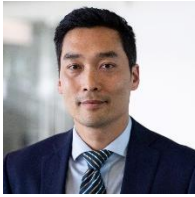


CFA Society Tampa Bay

SERVING THE GREATER TAMPA BAY AREA

Ethics Invitational
March 27, 2025

2025 Ethics Invitational Case Study



David Miller, CFA
Senior Manager
LT Financial Advisors

Laura Johnson's supervisor



LT Financial Advisors

The investment advisory firm itself, including its management team and compliance department



Laura Johnson, CFA
Recently hired financial
advisor at LT Financial
Advisors

Primarily works with retirees and small business owners.



High Stakes Venture Fund, LP

A new technology-focused private equity fund

Reports to David Miller

LT Financial Advisors (LTFA), a well-regarded SEC-registered investment advisory firm, prides itself on providing clients with personalized investment strategies. The firm's financial advisors are expected to offer recommendations that align with each client's financial goals, risk tolerance, and investment time horizon.

LTFA's Senior Manager, David Miller, in his quarterly assessment of the firm's financial performance, realized that LTFA was falling short of the company's goals for growth in assets under management and that, because of this, his annual bonus was in jeopardy. Market performance had been strong of late, and David Miller believed that a contributing factor to the firm's slow growth was that LTFA's investment strategies were too conservative compared to its competitors. He recommended that the firm's financial advisors promote a recently launched, private equity limited partnership – High Stakes Venture Fund, LP. The private equity fund promised returns above those of publicly traded stocks. However, it required a multi-year commitment of capital and came with substantial risk of loss due to its focus on technology startups.

Laura Johnson reviewed the details of the new High Stakes fund and agreed that it would make sense for many of her clients. However, in the following months – amidst a severe pullback in business lending triggered by a surprise bank failure - several of Laura's clients began to experience significant losses in their investment portfolios and had difficulty getting cash out of their accounts when they needed it. An internal review by the firm's compliance department revealed that these clients – primarily retirees and small business owners - had been heavily invested in the private equity tech startup fund.

In a lawsuit against LTFA, it was discovered that prior to promoting the fund to his firm's financial advisors, David Miller and a guest had been invited to California to meet with senior executives of High Stakes Venture Fund and to play a round of golf at the exclusive Pebble Beach Golf Course. In addition, and unbeknownst to anyone else at LTFA prior to the lawsuit, Laura Johnson had been Dave's "plus one" on this exclusive trip.

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Ethics Invitational Case Study – Spring 2025

Questions to consider:

What issues are present in this case with the potential to lead to unethical decision-making?





Based on her clients' reactions, how might Laura Johnson have failed to provide advice aligned with their goals, risk tolerance and overall investment strategies?

How might the firm have contributed to creating a culture of unethical behavior?

What long-term repercussions might exist for LTFA and its employees following this incident?

CFA Institute Ethics Decision Making Framework

The CFA Institute Ethical Decision-Making Framework is a tool for analyzing and evaluating ethical scenarios in the investment profession. The Identify—Consider—Act—Reflect framework advances a decision-making structure for situations that often fall outside the clear confines of “right” and “wrong.” Neither a linear model nor checklist, the framework provides a summary of the key elements of making ethical decisions. The framework is offered with the understanding that there likely will be additional influences, conflicts, and actions unique to each ethical scenario and beyond those detailed below.

 IDENTIFY	 CONSIDER	 ACT	 REFLECT
<p>ETHICAL PRINCIPLES Which fundamental investment profession principles—fair dealing, full disclosure, loyalty, or diligence (among others)—are at issue?</p> <p>DUTIES TO OTHERS To whom do you owe a duty—your client(s), employer, colleagues, and/or others? Some duties, such as protecting the integrity of the capital markets, may be more important than others.</p> <p>IMPORTANT FACTS What facts do you know and what additional information do you need to make an informed decision?</p> <p>CONFLICTS OF INTEREST Are there any encumbrances, relationships, or incentives influencing your actions?</p>	<p>SITUATIONAL INFLUENCES Are outside pressures (such as conformity to group opinion, obedience to authority) or internal biases (such as overconfidence) affecting your decision making?</p> <p>ALTERNATIVE ACTIONS Have you brainstormed multiple solutions and avoided a particular preconceived path?</p> <p>ADDITIONAL GUIDANCE Have you sought the independent, objective assessment of other parties to gain additional perspective?</p>	<p>BY MAKING A DECISION The specific action required may vary based on the individual aspects of the situation. Your decision may require multiple actions or steps, or none at all.</p> <p>BY ELEVATING THE ISSUE TO A HIGHER AUTHORITY Alternatively, the best course of action may be to elevate your concerns to a more appropriate party. You may remain connected to the scenario, so you may need to follow up with the other individual to ensure appropriate action is taken.</p>	<p>ON WHAT YOU’VE LEARNED Once you have taken action, take the time to review the path taken. The lessons you learn will help you reach ethical decisions more quickly in the future.</p> <p>ON STRENGTHS AND WEAKNESSES Regardless of whether your decisions and actions bring about positive or negative consequences, understanding your strengths and weaknesses will help you make ethical decisions in the future.</p>

CFA Societies Florida Ethics Invitational Fall 2023

Team Ranking Sheet

Judge:

Team: _____		
Rating (1 – 10)	Category	Notes
	<i>Analysis</i>	
	<i>Recommendations</i>	
	<i>Presentation</i>	
	<i>Overall</i>	
	Total Points for _____	