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Submitter Information

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General Comment

I am writing to voice concerns over the Financial Factors in Selecting Plan Investments. I have managed just shy of $150 million in assets under management, and my financial analysis has been featured in the Wall Street Journal, Yahoo! Finance, and the Bloomberg Brief, and on financial programs such as CNBC and Mad Money with Jim Cramer. I also hold the designation of Chartered Market Technician.

The current proposed legislation binds advisors to purely focus on financial gains and risk management while taking no other factors into account. In most cases, this is not problematic. Over the years, this has been my primary focus as a portfolio manager. Within a hedge fund portfolio where profitability is the sole goal, this is not an issue. Investors are fully aware prior to allocating resources what the purpose of the fund is per the stated investment strategy and agree it will not be customized to the individual. Hedge fund investors must be accredited and typically only care about return on investment. This is not the case and should not be the case for retirement savings.

Retirement accounts should be focused on the specific goals of the individual. Whether this be growth, safety, or ESG. Fiduciary responsibility is the duty to act ethically and legally with the other party's best interest in mind. According to the proposed legislation, this is only financially. The best interest of the individual should not exlude their ethics. Each individual should have the right to choose whether they believe profitability to be of utmost importance or if other factors should be included such as ESG. For example, if a tobacco and liquor fund will yield the highest returns, should a faith baed retirement fund be forced to invest in it as profitability is the only concern? This should be a personal choice by the participant and their respective advisor and not that of the government.

According to Morgan Stanley, 25% of the worlds investments are in ESG funds. The result would likely be massive portfolio rotation and retirement funds becoming indexed out of necessity. While this may meet the standards of diversification within an individual portfolio, it would cause the industry participants to heavily overweight a small subset of investments. Near term, this would buoy the underlying stocks but selloffs would become more intense due to the narrowing of industry holdings. Moreover, Morgan Stanley also found that there was little to no difference in total returns and sustainable funds sustained 20% smaller drawdowns than traditional funds.

Fees should be reasonable and taken into consideration. However, in many cases, you get what you pay for. A sizable portion of fees are allocated to portfolio research. If the underlying investment performs poorly, increased fees will only further add to losses. There must be middle ground though. If only choosing investments by those with the lowest fees, there are two likely outcomes; investment in mutual funds that do not provide adequate due diligence or, again, indexing.

While there should be diversity within portfolio, there should be diversity among asset managers. As a result, I cannot support the proposed rule as currently written. In fact, not only do I believe that ESG should not be eliminated, I also believe more investment options should be added to the standard ERISA plan.