



Registered Investment Advisor Firm

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Industry Changing Face

The Department of Labor (DoL) announced the final adoption of its Conflict of Interest Rule on Retirement Investment Advice. There has been speculation whether the rule helps or hurts American investors.

The rule, which fully takes effect in 2018, spells out that financial advisors (whether brokers or Registered Investment Advisors (RIAs)) must act in the client's best interest when giving retirement advice, *which DIG already does*. Firms must also ban financial incentives for advisors not to act in the client's best interest, *DIG does not do this*. This is the fiduciary model that a vast majority of RIAs already follow, *of course DIG already does*. Charles Schwab sees the potential for the ruling ultimately to be a competitive advantage for advisors who are and have always been fiduciaries, *like DIG*.

Another aspect of the rule is that it clarifies commissions could still be collected from proprietary products (including variable annuities and

REITs) but they must be disclosed under the regulation's Best Interest Contract Exemption (BICE), *DIG has no proprietary products*.

Inherent to acting in a client's best interest is ensuring costs are reasonable, an Employee Retirement Income Security Act (ERISA) concept brokers need to understand. What is reasonable? Unfortunately this may be left to the lawyers and the courts to decide.

You may be wondering how DIG acts in your best interest:

- We choose from a list of thousands of no-load mutual funds and no to low-load ETFs
- We choose only the consistent top performing funds and ETFs
- No incentives to select certain funds or fund families
- Almost all fund families are available
- No conflict of interest
- No proprietary products
- No incentives to buy or sell an asset to generate commissions
- Lower management fees than most firms, large or small
- Fees are paid in arrears

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- Expertise and experience of the adviser
- Benchmarking to compare results
- Updates to the risk/reward matrix
- No additional fees for trading, except Charles Schwab fees for stocks, bonds and options
- Avoid prohibited transactions

Now the list of some questions about the rule:

- What is 'reasonable' cost?
- Will the rule boost public trust?
- Will the rule spur industry upheaval?
- Will the rule spur lawsuits?
- Will small IRA account holders be neglected?
- Will the rule trigger a shift to ETFs?
- How will the DoL enforce the rule?
- Will congress plan to kill the rule?
- Will the rule spark acquisitions of smaller RIAs and Broker-Dealers?
- Will robo's be the low cost strategy?
- Will target-date fund be the answer?
- Will other firms follow Schwab in eliminating load funds?

You may be wondering why I am spending so much time and newsletter space for this subject. One reason is to identify some of the differences between RIAs and brokers.

Another reason is point out there are major changes brewing in the Financial Industry, some good, some not so good.

A final reason was to unabashedly promote DIG and Bob Davis.

If you want more info or explanations about this subject, please feel free to call or email me.

FED Watch

Still holding .25%-.5%. April produced no changes with a slight chance of a rate hike at the next meeting. Some of the concerns: low inflation at home, slow growing overseas economies and the potential British exit from the European Union (EU).

Next meeting is June 14th and 15th.

Still on the edge of our seats.

Davis Investment Group

Davis Investment Group is a fee-based Registered Investment Advisor firm servicing the needs of clients across the United States.

Davis Investment Group custodies all client assets at Charles Schwab & Co. Davis Investment Group's home office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at:

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