Chapter 8 Ethical Dilemma

By: Tyler Madill & Ryan Keller

Background Info

- You are an investment analyst for one of the largest providers of retirement funds in the U.S.
- A friend from college who now works for a large brokerage firm tells you about an investment he has heard about that is expected to earn high returns over the next few years.
- The one piece of info he shared was that this investment consists of a combination of securities whose values are based on debt instruments issued by governments.

Factors

- Because you have no idea about how much risk is involved with this investment, it is hard to make a call on whether or not you should recommend this investment to your company
- Because U.S. securities are involved, it would lead you to believe that the risk factors are very low, as they often are with government securities.
- However, with the potential return being so high, and the knowledge you have about investments in general, lead you to believe that an investment opportunity with such high expected returns would have greater risk than an investment with lower expected returns.

Solution

- We thought that even though the investment is based on government securities, the little knowledge we had about the risk of the investment was too big of a factor to ignore.
- Plus, our friend called us pretty much asking us to get him out of debt, which seems a little fishy.
- Just because a friend recommends an investment, doesn't mean we should invest into it. Especially if the friend has had a history of bad investments, and is trying to quickly get his family out of a financial crisis.
- We would not recommend this investment to our company because of the little knowledge about its risk, the investment history of the guy recommending the investment, and the cost it would have on our company if the investment didn't work out.

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- Your friend made it clear that he wants you to consider recommending this new investment, and he wants you to buy it through him and his brokerage firm because he would earn a high commission that would get him and his family out of financial hardship that was caused by "bad luck" they experienced with their investments
- You asked your friend about the riskiness of the investment, be he doesn't know much, and further research didn't provide any more information about the investments risk

Problem

- Do you recommend this investment to your company, purchase the investments, and help your college friend out?
- Or do you pass on the investment because of risk factors that you do not know about?
- The investment is very enticing because the company can attract more clients if increases the return offered on its investments, and if the return on the investment you recommended is high, you will earn a sizable commission.

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