

Prudent Investing in Uncertain Economic Conditions

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The Prudent Investor Rule is a legal principal that requires fiduciaries to act in the best interests of a beneficiary and exercise reasonable care, skill, and caution when making investment decisions, which was codified in Maryland in 1994 by Md. Estates & Trusts §15-114. The Rule applies to fiduciaries, including trust companies, investment managers or advisors, and individual trustees who make a valid §15-114(g) election to be governed by the statutory standards for investing and includes fiduciary assets under management, including trusts, guardianships, and custodians. Under the Rule, a fiduciary must consider the best interests of the beneficiary in diversifying investments and investing and managing assets as part of an overall investment strategy. In doing so, the fiduciary may take into consideration the general economic conditions at the time.

Any regime change in government brings a degree of economic uncertainty to market conditions. Currently, the market is experiencing uncertainty due to the US presidential election, a number of rising geopolitical tensions, natural disasters, and uncertainty surrounding economic policy and regulatory framework that could impact investment and spending decisions.

Under the Prudent Investor Rule, a fiduciary is authorized to invest and manage assets to incorporate both risk and return objectives and to pursue an investment strategy that considers both the production of income and the safety of capital, utilizing a portfolio theory of investing. The directive to fiduciaries to diversify investments is intended to mitigate risk to the beneficiary of investment decisions made by the fiduciary.

For Trustees and other fiduciaries, reliance on the advice and guidance of knowledgeable, experienced, and informed advisors is never more important than in the face of uncertain economic conditions.