



## **A Modest Proposal for Wealth Managers: First Do No Harm**

By Scott Welch, CIMA®  
Senior Managing Director  
Investment Research & Strategy  
[Fortigent, LLC](#)  
March 17, 2009

*Advisor Perspectives welcomes guest contributions. The views presented here do not necessarily represent those of Advisor Perspectives.*

In *A Modest Proposal*, written in 1729, the noted Anglo-Irish satirist Jonathan Swift suggested that the impoverished Irish could ease their economic troubles by selling their children as food. He went so far as to suggest that, "A young healthy child well nursed is, at a year old, a most delicious nourishing and wholesome food, whether stewed, roasted, baked, or boiled; and I make no doubt that it will equally serve in a fricasee, or a ragout."

In today's chaotic market environment, many wealth advisors find themselves impoverished as well – impoverished with respect to their clients' *trust*.

Advisors survived the market collapse in 1987 following the systemic failure of "portfolio insurance"; they survived the market chaos of 1997-1998 following the "Asian Contagion" and the collapse of Long-Term Capital Management; and they even survived the research analysts' scandal and the bursting of the tech and telecomm bubbles in the early 2000s.

But 2008 brought a collapse of the global markets, the destruction of trillions of dollars of personal net worth, the failure of asset allocation and the diversification it preaches and, perhaps worst of all, the moral failure of the repugnant scandals involving Bernie Madoff, Arthur Nadel, and Allen Stanford.

Advisors were left questioning their long-practiced "buy-and-hold" investment philosophy

This "perfect storm" of events created a crisis of confidence among investors. Many investors no longer trust their wealth management professionals. Instead of addressing the long-term financial objectives of their clients, many advisors find themselves defending against the accusation, "Prove to me you are not Bernie."



How does a wealth advisor demonstrate their integrity without sounding, well, defensive? Should they adopt a Swiftian solution and fricassee their junior analysts or turn their baby bankers into a “delicious ragout”?

Tempting perhaps but, fortunately, no.

One useful framework for addressing this issue is presented by industry consultant [Charles Green](#), who offers the following “trust formula”:

$$\text{Trust} = (\text{Credibility} + \text{Reliability} + \text{Intimacy}) / \text{Self-Interest}$$

From a wealth management perspective, this simple formula illustrates the loss of trust created by industry-inherent conflicts of interest, such as selling proprietary products or the more insidious agent / fiduciary paradox – the conflict faced by all wealth managers who are

- Hired by their clients under an assumption that they will always act in their clients’ best interests, but
- Are paid and rewarded by their employer for bringing assets into their firm and/or selling revenue-generating products.

Building off of this framework, our modest proposal is for wealth advisors to go on a “trust offensive” and adopt as a standard part of their practice, a wealth management version of the medical profession’s Hippocratic Oath.

One partial modern version of the Hippocratic Oath is as follows

1. *I will teach medicine to the sons of my teacher;*
2. *I will practice and prescribe to the best of my ability for the good of my patients, and to try to avoid harming them;*
3. *I will never do deliberate harm to anyone for anyone else’s interest;*
4. *I will avoid violating the morals of my community;*
5. *I will not cut for stone, even for patients in whom disease is manifest; I will leave this operation to be performed by practitioners, specialists in this art [That is, I will not attempt to do things beyond my training and/or capability, but will instead bring in appropriate specialists]; and*
6. *I will keep the good of the patient as my highest priority.*

Replace the word “patient” with the word “investor” or “client” and this simple oath serves as a surprisingly powerful start to rebuilding client trust.

So what might a “Wealth Management Hippocratic Oath” look like? Here is our suggestion:



1. *We will fully educate and inform our clients with respect to what is in their investment portfolios, and why we chose those investments;*
2. *We will define for our clients precisely what our responsibilities are with respect to our wealth management relationship;*
3. *We accept full accountability and responsibility for the wealth management advice we provide;*
4. *We will acknowledge and explain to our clients any agent / fiduciary conflicts we have in serving our clients, and we will explain up-front how we will manage that conflict over the life of our relationships;*
5. *We will provide full transparency and full disclosure of all aspects of our client relationships – including how we get paid and any and all conflicts of interest inherent to our relationship;*
6. *Our clients will always know how they are invested and where their assets are held.*
7. *We will agree with our clients up-front what constitutes a successful relationship, including clearly measurable objectives and metrics for evaluating progress toward those goals;*
8. *We will define specifically the service model our clients can expect, including*
  - a. *The team*
  - b. *Services provided*
  - c. *Deliverables*
  - d. *Fee structure*
  - e. *Communication frequency*
9. *We will act morally, ethically, and legally at all times;*
10. *We will never deliberately act against the wealth management interests of our clients, and we will keep our client's wealth management "health" as our highest priority.*

A Wealth Management Hippocratic Oath that addresses the collective issues of credibility, reliability, intimacy, and conflict of interest will go a long way in creating a trusting, collaborative relationship between advisors and clients.

No wealth advisor can control market performance, and no wealth advisor can control the behavior – moral or otherwise – of other professionals in the industry. But it is imperative that we acknowledge that the foundations of our clients' trust have been severely shaken by the events of the past year, and that we have serious rebuilding to do.

Our modest proposal for a wealth management "Hippocratic Oath" will not solve all that ails the industry. But a simple, clear, and comprehensive declaration to our clients that we know there is a problem, that we know we have work to do,



and that our pledge to do everything in our power to build and maintain trust is an appropriate – and critical – first step.

*Fortigent, LLC delivers a fully integrated and customizable business-to-business outsourced wealth management solution to banks, trust companies, and independent advisory firms.*

© Fortigent, LLC

[www.advisorperspectives.com](http://www.advisorperspectives.com)

For a free subscription to the Advisor Perspectives newsletter, visit:  
<http://www.advisorperspectives.com/subscribers/subscribe.php>