



Lessons from the Downfall of Lance Armstrong

By Charlotte Beyer

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I was afraid for my job. I could not stand to hurt my family. All that I had kept secret for so many years was just too shameful to bear, much less face. All of these were [sentiments](#) of Lance Armstrong's teammates, but they could just as easily belong to advisors who place their own career above the best interests of their clients.

Widespread doping by elite cyclists persisted for so long because the wall of silence was nearly impervious. A twisted conception of teamwork fortified by denial and self-preservation snuffed out any twinges of conscience. To do the right thing would have carried too many unthinkable consequences.

The private wealth industry – where teams of elite advisors are trusted to safeguard the wealth of individuals and families and hold themselves to a fiduciary standard – can take several lessons from what happened at the Tour de France:

1. When bad behavior continues for too long, it becomes almost impossible to uncover.
2. When a close-knit team conspires, it is difficult to get any one individual to break from the team to speak the truth.
3. When wrongdoing is pervasive and deeply ingrained in the culture of a team, both the team and the public have incentives to deny reality rather than face the ugly truth.
4. When the leader of a team is a charismatic proven winner, that golden reputation will not easily unravel – even in the face of irrefutable evidence.

What can we do in the face of such discouraging obstacles? How can our industry rid itself of advisors who do disservice to their clients? Regulatory oversight may at best assuage our anger but rarely captures the culprits, as we all saw in the Bernie Madoff fiasco.

Transparency is the best and most effective antidote, and courageous leaders in the financial service industry should push for four major changes:



1. **Eliminate fees hidden inside products.** Disclose fees in plain English. Communicate fees in relation to other investment alternatives, so that consumers can compare one firm's offering against another's and better understand the tradeoffs.
2. **Eliminate perverse incentives in compensation.** Pay product commissions over three years with a staggered payout and include a clawback for poor outcomes. Disclose the incentive structures of all professionals who serve the client.
3. **Measure the performance of each client's portfolio against his or her goals, not merely a market benchmark.** Provide clients with reports showing how they are faring against their established objectives. Let clients know what other clients have set as goals in order to help them understand how their circumstances are distinct. The consulting industry should transform its reporting to show outcomes for each firm against the aggregated goals of its clients.
4. **Advice should not be free or bundled into an asset-based fee.** Charge the client for advice on a time or project basis, tied to the complexity of the work, if appropriate. Give clients a range of options for how to avail themselves of advice. Offer an industry-wide comparative context to clients so they know the pricing alternatives in the industry and can evaluate what they are purchasing from you in terms of quality and quantity of advice.

These are bold changes that won't be easy to implement. There are business risks to being early adopters. Legitimate questions may be asked about these changes along the way, including how they will affect a firm's culture and its commitments to its clients.

The bold thinkers, the determined innovators and the dedicated professionals, however, already know these changes are essential to our industry's long-term survival. Let's not let the private wealth industry become like the Tour de France, a depressing shambles whose heyday was built on pervasive fraud.

To begin such a transformative endeavor is the hardest part. Let's get started before it is too late.



Charlotte Beyer is the founder of the [Institute for Private Investors \(IPI\)](#), a 20-year old membership organization that connects 1,200 ultra-high-net-worth investors to one another inside an online community and at events throughout the year, seeking to change the way investors work with advisors, and advisors work with investors, for the benefit of both.

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