Doug Lennick, CFP®, is chief executive officer and co-founder of think2perform, a consulting firm that helps businesses and individuals achieve sustained optimal performance. Previously he was executive vice president—advice and retail distribution for American Express Financial Advisors (now Ameriprise Financial). He is the co-author with Fred Kiel, PhD, of the book, Moral Intelligence 2.0: Enhancing Business Performance and Leadership Success in Turbulent Times, and the co-author with Kathleen Jordan of Financial Intelligence: How to Make Smart, Values-Based Decisions with Your Money and Your Life.

Harbour: What is your take on the current level of perceived trust in our industry from the public? What actions can and perhaps should we take to improve it?

Lennick: Recently released research regarding levels of trust from Sullivan and Northstar Research Partners suggests to me that trust moves somewhat in alignment with the markets. Specifically, when the markets are up, trust is higher; when they’re down, trust is a bit lower. Overall, while levels of trust have improved (as have markets recently) we think that overall trust is still not as high as we think it should be.

We need to change the language from “gaining trust” to “being trustworthy.” For example, Bernie Madoff could be an example of someone who was trusted but was clearly not trustworthy. In general the level of trust in the industry is too low. I think our industry sometimes sells the investor of trust in the industry is too low. I think clearly not trustworthy. In general the level of trust is still not as high as we think it should be.

At an individual level, we need people who want to make a difference by standing up for what is right in their relationships with clients. In short, we need to own the responsibility to put the needs of the client first.

Harbour: What sort of initiatives has your new research suggested would be appropriate for our industry to pursue to improve the overall level of ethical behavior? Are there other research players whom you would suggest we include in our list of resources?

Lennick: Regulation and oversight matter, but they are not the key to changing an organization.

Leadership of an organization, how they recruit, train, manage, and oversee employees, is the key to instilling ethical behavior. It starts at the top. Leaders have to say we’re going to make money the right way. We need laws, but that is not the solution without incorporating effective leadership in organizations. People have to believe in ethical behavior to do the right thing because that is what is most effective. I believe the vast majority of people in this industry want to make a difference in peoples’ lives. I’m talking about advisors who have the heart of a social worker but the mind of a capitalist. They want to make a living by helping others.

One resource is KRW International (www.krw-intl.com), which suggests measuring “return on character” (ROC) as an interesting metric to consider.

Harbour: What are your thoughts about the current regulatory environment (including the fiduciary versus suitability discussions) and the relative benefit it produces on ethical behavior of investment professionals?

Lennick: The new FINRA suitability rule seems to almost imply fiduciary in its wording. SEC and FINRA seem to be coming together in defining clients’ best interest as a fundamental tenet of our business. I suspect their views will converge. I’m not sure how any company can argue to the contrary. You wouldn’t want to do business with a company that doesn’t want to put the interests of their clients first. Government regulations may have overreached a bit in reacting to public pressure—we’ll see.

Harbour: Can you point out select firms that you believe exhibit exemplary leadership in the pursuit of ethical behavior by their employees/advisors with clients—and what are the actions they take that shape your positive opinion?

Lennick: United Capital is a company that I think is a good example of a registered investment advisor (RIA) model focused on the client. Organizations who take this idea seriously (i.e., what do the clients’ value?) understand and build it into their practice model. They spend less time on money management and more time on the things important to decision making, i.e., the human/behavioral aspects of clients.

Thrivent Financial is another example that has, generally speaking, an ethical culture. Leadership is focused on helping their reps do the right thing.

Another example is when Ameriprise stepped up when the money market fund “broke a buck” to make their clients whole. These are samples of doing the right thing.

Every organization that is focused on the client will make a difference. The senior executive team needs to be committed to this result. It is a matter of how this concept is supported in management actions that sets the standard for the culture of the entity. Every organization needs compliance, but they should be aligned in efforts
versus adversarial—i.e., what you do matters in building trust.

There are also a lot of small shops that do well. One example is Wealth Enhancement Group—they are an RIA and use LPL as their broker-dealer.

What do clients really need and how can we best help clients make the right decisions to meet those objectives? It’s not the products, it is the behavioral selection process that is key to doing the right things. The markets have a way of transferring wealth from the irrational to the rational, but that is not the right answer for individuals who need investment advice.

Harbour: Are there more-effective tools available today (if so, can you point to some examples) for advisors to use in building trust with their clients?

Lennick: We’re working with Kaplan University in the area of behavioral financial advice. A program was launched in March. The intent is to deliver behavioral financial advice. We help advisors and investors understand that investors are influenced by their emotions about outside events. Recognizing and incorporating how that reality can influence decisions needs to be addressed by advisors by getting in touch with what people value—and when that element is understood, and a client is in an emotionally charged situation, advisors will need to interrupt that process in order to help clients recognize their emotional state and reflect on their goals in a way that moves from the emotional brain to the rational brain. The objective is to improve the quality of the decisions. This doesn’t mean that irrational decisions don’t work or that rational decisions always do, but in general the practice is better. Use values-based decision making rather than goals-based decision making.

To make this shift, we suggest that advisors remember “the four Rs,” which are recognize, reflect, reframe your thinking, and respond with a decision more effectively aligned with your goals and values. Clients will be in a better position.

An advisor’s job is not to predict the future but to prepare their clients for it. Educated guesses, yes, but our job is not to be better at guessing the future but instead, helping clients be prepared for it. When advisors do it right, clients are prepared for the certainty of uncertainty.

Harbour: How can/should advisors evaluate the level of trust they have with their clients, with the intent to take actions to enhance it?

Lennick: It is important for advisors to ask their clients the following question: “Is it more important for you to outperform the markets or to achieve your goals?”

Advisors who are more interested in outperforming the market should be in a fund-management role, not an advisor to individual clients. Advisors are decision managers for their clients, not money managers. Helping people achieve their goals is fundamental to the advisors’ relationship of trust.

Advisors can also be more deliberate in setting “contracts” for mutual expectations. I would point to five key points helpful in this process as follows:
• establish a clear purpose of the meeting or conversation;
• clarify your personal point of view and
• clarify the other person’s point of view;
• clarify your personal commitment to the other person; and finally,
• clarify the other person’s commitment to you.

Harbour: Do you have any resources or suggestions for potential clients to use in conducting due diligence to identify an appropriate advisor to hire (i.e., checklists, organizations, etc.)?

Lennick: You may wish to review chapter 9 of my book, Financial Intelligence: How to Make Smart, Values-Based Decisions with Your Money and Your Life, which references interview questions appropriate for clients to pose to advisors.

Look for someone who has the proper certifications—CFP is an example, or CPWA, for people who are clearly adhering to a fiduciary standard of service. CFA is also a strong investment expertise designation, but perhaps should be incorporated with CFP for the financial planning aspects of working with individual clients.

Perhaps simply put, moral and emotional intelligence trump technical investment skills as key elements determining returns on an advisor’s investment in relationships. I think it is hugely important for advisors to be able to effectively stand up to their clients when they are about to make a bad decision.

Harbour: West Point’s Cadet Honor Code reads simply, “A cadet will not lie, cheat, steal, or tolerate those who do.” Should the investment profession incorporate some form of the aspect of not tolerating violations of ethical behavior among our ranks?

Lennick: When you stand up for what is right, there is no compromise. If you see something, do something. I sometimes ask if you had a choice to be someone who is courageous or a coward, which would you choose? The obvious answer is courageous. However, absent fear, there is no courage. When you recognize bad behavior and take action to call it out, in spite of having concerns or fears about it, you are being courageous.

Sometimes advisors need to stand up for their principles in making recommendations. Specifically, they may be required in an unusual situation to say, “I would rather lose you as a client than see you take that action.”

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References