A Modest Proposal for Wealth Managers: First Do No Harm

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In A Modest Proposal, written in 1729, the noted Anglo-Irish satirist Jonathan Swift suggested the impoverished Irish could ease their economic troubles by selling their children as food. He went as far as to suggest, “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 fricassee, or a ragout.”

Aligning this darkly comical comment with today’s wealth management industry, especially following the chaotic market of 2022, many wealth advisors may 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 survived the research analysts’ scandal and the bursting of the tech and telecom bubbles in the early 2000s.

Then came 2008, which brought a collapse of the global markets, the destruction of trillions of dollars of personal net worth, the apparent failure of asset allocation and the diversification it preaches, the seeming failure of a long-practiced buy-and-hold investment philosophy, and, perhaps worst of all, the moral failure of the repugnant scandals involving Bernie Madoff and others.

And now, of course, we’ve just had to endure the mayhem of the COVID years followed by a depressingly steep decline in both traditional equity and bond markets in 2022 and a very uncertain outlook for 2023—not to mention, for those clients involved in crypto assets, the collapse of FTX and the allegedly fraudulent and criminal behavior of its founder, Sam Bankman-Fried.

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This perfect storm of events, combined with the astonishing development of social media and the corresponding disintermediation of information, has created, to some degree, a crisis of confidence among investors. Simply put, many investors may 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 question, “What have you done for me lately and why should I trust you?”

How does a wealth advisor defend against this pointed question without sounding, well, defensive? Should advisors adopt a Swiftian solution and fricassee their junior analysts or turn their baby bankers into a “delicious ragout”?

Tempting perhaps but, fortunately, no.

The importance of client trust cannot be overestimated. Multiple sources and surveys over the years suggest that earning a client’s trust results in:

1. Less price sensitivity from your clients regarding your services;
2. A better ability to cross-sell other financial solutions and services your firm may offer;
3. A higher level of client stickiness with respect to maintaining the relationship, i.e., they are less likely to even think about leaving you; and
4. A higher level of positive client references and referrals to other prospects.

A review of recent literature on the topic of building trust for financial advisors (see sidebar) highlights some common themes about building client trust. Different firms use different terms, but the ideas can be generalized as the following:

Communication. It is almost impossible to over-communicate with your

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clients, especially during down or disruptive markets; that is when you earn your fee and when they need you the most. This does not mean sending them every market update and outlook you can get your hands on—surveys indicate that is not what they want. Clients also loathe it when you speak in industry jargon—using words you assume everyone understands because you live it every day, but they don’t. Paying close attention to the markets is why clients hire you. They want to live their lives believing their investments are in good hands because you are paying attention. Communication in this context means regular contact to check in on their lives and, during troubled markets, making sure they know you are on top of it.

**Transparency.** Be completely transparent in all your interactions with clients. Make sure they know exactly what is in their portfolios and how it is performing, what services you provide them with, exactly how they are paying you and for what, and what conflicts of interest you may have and how you will manage them.

**Timeliness.** Make sure clients get the information they need and expect from you in a timely manner. If clients ever call you wondering where their statements or performance numbers are, you have some work to do within your practice. Part of this is managing expectations. For example, you could respond to an inquiring client with: “We get our month-end performance numbers within three to five days after month end, and it takes us x number of days to process that, so you should expect your report around mid-month. If we have any issues that cause a delay, we will notify you accordingly as soon as possible.” It is a complete cliché, but you can’t go wrong running your practice under the adage of “under-promise and over-deliver.”

**Responsiveness.** Remember, clients hired you to take care of their financial and wealth management lives. If they ever contact you, it is probably because they have a question they want answered or an issue they need help with. So, you need to respond promptly. We all know firms that promise to respond within 24 hours. That’s nice if you can stick to it, but a more practical approach might be a very prompt response explaining that you received the call or email and will get back to them by a certain time or date with an answer. Again, a big part of this is managing expectations and showing that you are paying attention.

**A Hippocratic Oath for Wealth Managers and Financial Advisors**

Another useful framework for addressing this issue is presented by industry consultant Charles Green, who offers the following “trust formula”:

\[
\text{Trust} = (\text{Credibility} + \text{Reliability} + \text{Intimacy}) / \text{Self-Orientatio}
\]

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

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**BUILDING TRUST FOR FINANCIAL ADVISORS: SUGGESTED READINGS**


- **4 Strategies Advisors Use to Build Trust**, [Updated], Remindermedia, 2021. [https://remindermedia.com/blog/four-key-elements-to-building-trust/](https://remindermedia.com/blog/four-key-elements-to-building-trust/).


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Implement a quick “find and replace” of the word “patient” with the word “investor” or “client” and this simple oath serves as a surprisingly powerful start to building and maintaining client trust.

Hired by their clients under the assumption that they will always act in clients’ best interests, but

Are paid and rewarded by an employer for bringing assets into the firm and/or selling revenue-generating products.

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

One partial modern version of the Hippocratic Oath is as follows:2

1. I will practice and prescribe to the best of my ability for the good of my patients, and to try to avoid harming them;
2. I will never do deliberate harm to anyone for anyone else’s interest;
3. I will avoid violating the morals of my community;
4. 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—i.e., I will not attempt to do things beyond my training and/or capability but will instead bring in appropriate specialists; and
5. I will keep the good of the patient as my highest priority.

Implement a quick “find and replace” of the word “patient” with the word “investor” or “client” and this simple oath serves as a surprisingly powerful start to building and maintaining client trust.

What might a wealth management Hippocratic Oath look like? Here is our suggestion:3

1. We will fully educate and inform our clients with respect to what is in their investment portfolios, and why;
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 upfront how we will manage those conflicts over the life of our relationship;
5. We agree up front to full transparency and full disclosure in 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 upfront what constitutes a successful relationship, including clearly measurable objectives and metrics for evaluating progress toward those objectives;
8. We will define specifically the service model our clients can expect, including:
   • the team
   • services provided
   • deliverables
   • fee structure
   • communication frequency
9. We will act morally, ethically, and legally at all times; and
10. We will never deliberately act against the wealth management interests of our clients; we will keep a 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 will go a long way toward creating a trusting, collaborative relationship between advisor and client.

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 we must always behave in a manner that drives and builds client trust.

Our modest proposal for a wealth management Hippocratic Oath will not solve all that ails the industry. However, a simple, clear, and comprehensive declaration to our clients that we know we have a responsibility to do the right thing and that we pledge to do everything in our power to build and maintain trust is an appropriate—and critical—first step.

ENDNOTES

2. For a complete version of the Hippocratic Oath, an example can be found from the National Institute of Health here: https://www.nlm.nih.gov/hmd/greek/greek_oath.html#:~:text=The%20Hippocratic%20Oath%20(%,CE%9F% CF%81%CE%BA%CE%BF%CF%82)%20is,number%20of%20professional%20ethics%20standards.
3. I note and acknowledge that this wealth management Hippocratic Oath is very similar to the Investments & Wealth Institute’s “Code of Professional Responsibility,” https://investmentsandwealth.org/ethics-standards/know-the-code.

REFERENCES
