



INSIST ON A HIGHER WALL STREET STANDARD

Physician's Money Digest: July 15, 2003

by Stephen Holt Abernathy

Over the past 10 years, professional ethics in the United States have taken a pounding. We've heard about CEOs falsifying earning reports, research analysts hyping stocks, and major accounting firms signing off on fraudulent income statements and balance sheets. It's fair to say that there are few professions in America that remain unblemished.

The medical profession is one of the few. Physicians have come through this period relatively unscathed. Despite several well-publicized scandals, the public continues to behave ethically and look out for their patients' interests. Medical professionals continue to set the standard for research, education, and ethical behavior.

Financier's Oath

What is it about the medical community that makes doctors less likely to yield to unethical temptations? Unlike other professionals, doctors make a public declaration to ethical behavior (i.e. the Hippocratic oath). What is interesting is that the percentage of doctors who take the oath has grown to almost 100%. In 1928, only 24% of doctors took the oath.

The financial community should adopt the use of their own professional oath, in which they publicly commit themselves to provide advice and services that will enable their clients to reach their financial goals. The public oath should declare their intention to manage their clients' assets in a responsible fashion, and in the manner agreed on between the advisor and the client.

Would such an oath accomplish anything? In similar rituals where people make a free and public commitment to certain behavior, the oath acts as a force that encourages the person to maintain their commitment and helps prevent them from abandoning it. In addition, such an oath would mean that the financial community could no longer cry "caveat emptor" when one of its members uses their client's money to further their own investments.

Return to Ethics

In the medical community, the FDA and other organizations make the rights and interests of patients their number-1 priority. Perhaps another aspect of the medical community that should be adopted by the financial community is stronger oversight by the government and other regulatory agencies to protect the interests of those served by the professional, and not the professionals' interests. Most of us cringe at the thought of increased government oversight, but unfortunately, in the financial community scoundrels, the lucrative carrot that goes to those who break the rules will continue to promote bad behavior. Punishment will encourage companies to nip unethical behavior in the bud, before it can impact a large number of investors. Fortunately, it seems the new SEC Commissioner William H. Donaldson has made tough enforcement a

priority. And several successful financial firms, such as Berkshire Hathaway, require their principals to have the vast majority of their assets coinvest with their clients' assets. What they have placed in their clients' portfolios is also in their own personal portfolios.

If all the financial professionals coinvested with their clients in this fashion, it would move the financial community closer to a natural survival-of-the-fittest business model. The best financial professionals would succeed because, in addition to attracting more clients, their investment results would be superior. The worst financial professionals would be out of business because they would lose both their own money and their clients.

In addition, financial professionals would no longer be tempted to mismanage their clients' capital to secure investment banking deals, since they would then also be mismanaging their own money. If the financial community at large adopted this model, ethical problems would decrease while investor returns would increase. It might be true that Wall Street will never be as pure as the driven snow. As long as there is money to be made in exploiting people, there will be someone there to do it. But the time has come for financial professionals to acknowledge that, like physicians, they are charged with a serious duty. In taking a public oath, increasing government oversight, and coinvesting with their clients, financial professionals would demonstrate that they no longer take this duty lightly.