# NEWS RELEASE

**FIDUCIARY360**

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**FOR IMMEDIATE RELEASE**

## What Can The Investment Industry Learn From Katrina?

**Pittsburgh, PA, September 15, 2005 —** The tragic images of Katrina have driven home a number of lessons of which many are applicable to the investment industry.

**Don’t Ignore a Fractured Infrastructure.**

Everyone knew the levees eventually would fail – everyone. Nevertheless, resources earmarked to shore up the levees always ended up getting allocated to other projects that promised politicians greater short-term gains.

For the investment industry a similarly fractured infrastructure is our retirement and Social Security systems. Everyone knows the current structures will fail to provide a secure retirement for today’s workers – everyone. Yet our politicians and employers are reluctant to make the necessary changes to the systems because of the short- and intermediate-term financial pain that such changes might cause.

**Experience Matters.**

You don’t appoint a person who lacks industry experience to a critical senior government policy and leadership position.

Search the biographies of senior regulatory officials and you probably won't find a single person that has hands-on investment industry experience. How can we expect regulators to define a bright line to mark the demarcation between a broker and an investment consultant when there is no one on the staff who has served in either capacity? How can we expect regulators to define a fiduciary standard of care for investment consultants when no one on the staff has ever been an investment consultant?

**Let the Leaders Lead.**

The resources and people needed to respond to Katrina were available, but they were not employed until it was too late. In the military world, there is a familiar saying: *"Lead, follow, or get out of the way!"* We will probably discover that proper and timely responses were thwarted by bureaucrats who couldn't get out of the way of their own procedures.

There are countless investment consultants who want to provide their clients investment fiduciary services but are thwarted by their own organizations. It is a well-known fact that the very word "fiduciary" is deemed to be the most offensive word a person can whisper within the walls of most financial services firms.

A message to the industry: *"Let your leaders lead."* Recognize and support those professionals who are making an effort to deliver to the public a higher standard of care. In the long run you will have better, more profitable organizations. The public has made it clear that it is not going to let *Wall Street* return to business as usual – *Wall Street* has to demonstrate that it is willing to be held to a higher standard of care, one that is best defined as a fiduciary standard.

**Follow the Coast Guard's Example.**

Our first images of the aftermath of Katrina were Coast Guard helicopter crews rescuing survivors from the rooftops. I am a graduate of the U.S. Coast Guard Academy and served for ten years as a Coast Guard officer, mostly as a helicopter rescue pilot. I can't recall a single instance when we needed to be reminded that our mission was to serve the public; we didn't need to be told - it was part of our DNA; our genetic makeup. The Coast Guard's mission attracts that type of person.

Investment consulting should attract a similar type of person. Unfortunately, that is not always the case. Investment consulting is so poorly regulated that the public, and even the regulators, cannot distinguish the true professionals from the "thin veneer" consultants – the people who promote the appearance of being an objective, independent third party; but underneath are ready to parlay their position of trust for personal profits.

We have to make it clear that the term “investment consultant,” and every other similar sounding title (financial advisor, wealth manager, financial consultant, investment advisor, and private banker), confers a high level of trust and requires uncompromising fidelity. It should be understood that only people who are willing to serve in such a capacity, and who agree to abide by such higher standards, are welcome.

We can see numerous parallels between the mistakes that were made in response to Katrina and our own investment industry. We continue to ignore the overwhelming evidence that our retirement systems will fail to protect our citizens during their retirement; we appoint people who lack hands-on industry experience to senior-level positions; we thwart the efforts of leaders who attempt to do the right thing; and, we continue to ignore the need to establish a professional corps of investment consultants. If we fail to act in a timely manner, the negative impact on our nation’s fiscal health will be of far greater magnitude and duration than the effects of Katrina.

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*About Fiduciary360:* ***Fiduciary360*** *is the identity brand for a trilogy of organizations focused solely on the subject of investment fiduciary responsibility. The associated organizations include the* ***Foundation for Fiduciary Studies****, which has developed the financial industry’s first practice standards of care for fiduciaries; the* ***Center for Fiduciary Studies****, which is associated with the* ***University of Pittsburgh Joseph M. Katz Graduate School of Business****; and* ***Fiduciary Analytics*** *which develops Web-based tools to support the decision-making process of investment fiduciaries.*

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