

SENIOR CONSULTANT

The Voice of the Investment Management Consultant

Cowboy Ethics: What Wall Street Can Learn from the Code of the West

James P. Owen

Editor's Note: Very few have been greater advocates for fiduciary principles and fee-based counsel than Jim Owen. Jim founded the Investment Management Consultants Association and was the first to pioneer institutional consulting services in a retail firm on Wall Street (Bache & Company) nearly 30 years ago. Jim makes a timely call for a higher ethical standard for the industry than can be achieved by regulation. It's time for the industry to wipe its slate clean and move ahead with a new sense of optimism and resolve to fulfill its fiduciary duties. This can't be achieved by regulation; it requires inspiration. We must transform ourselves from the inside out, one person, one firm, one organization at a time. Jim brilliantly uses the metaphor of cowboy ethics to deliver a very powerful message that must get out to our clients and our firms, and has found a very entertaining, unthreatening way to disseminate it.

Having been rocked by one damaging revelation of misbehavior after another, Wall Street is in a state of crisis. Investors are disgusted by the misdeeds of a few and suspicious of the industry at-large. Every firm finds its integrity open to question. Regulators are up in arms, and the industry is facing billions of dollars in costs to comply with a flood of new regulations in addition to billions in fines.

Imagine, however, what could happen if Wall Street firms looked back to a simpler time when a handshake was enough to seal a deal, and right and wrong were as clear as black and white. What if executives, portfolio managers, analysts and traders decided that some things aren't for sale? What if every major investment firm agreed to live by the principle that the client always comes first?

The industry needs to find its way out of the morass in which it is mired. It needs to transform itself, not with the carrot and stick, but from the inside out – one person, one firm, one organization at a time. We can draw inspiration and direction from a different, more simple era of the working cowboy, when a man's word was his bond: when you meant what you said, when actions spoke louder than words, when you could be counted on to do the right thing.

Why We Need Cowboy Ethics Today

Not so many years ago, the denizens of Wall Street inspired awe and envy. They were “masters of the uni-

verse” and had the numbers to prove it. Today, in the wake of trading scandals that have exposed a dark side of the industry, Wall Street is more commonly viewed with suspicion and disgust. The bonds of trust have been broken. Investor confidence has plummeted. Federal regulators are not only slapping wrongdoers with huge fines, but are gearing up to impose sweeping new industry-wide strictures.

Are new SEC mandates really the cure for Wall Street's conduct disorder? I don't think so. More regulations won't solve this mess because unlike principles, regulations can always be bent. What we need isn't more regulation, but more inspiration – something that will touch the deepest part of us and make us want to do better and be better than we are.

I found a source of that inspiration in one of the most enduring American icons: the working cowboy who lived the grueling life of the saddle, but valued loyalty and honor above all. The cowboy was guided not by laws or local

authorities but by a code all his own – the Code of the West – the set of unwritten rules that were known and respected everywhere on the range. To the cowboy, notions such as duty, honor, courage and respect weren't abstract, hazy ideals. These were principles that cowboys lived by each day, often at great cost in sweat, toil and personal danger. Wall Street might seem like a tough place to be right now, given the uncertain markets, the pressures from dissatisfied clients and the regulatory turmoil. But if you think that's tough, try roping an angry 1,500-pound longhorn bull or getting

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several thousand cattle across a hundred miles of desert with no water in sight.

Of course, because the Code of the West was unwritten, the history books don't spell out its tenets. But by delving deeply into cowboy history, first-hand accounts, poetry, literature and classic Western movies, I've deconstructed the Code and translated it into "ten rules of the open range." To me, these ten principles are as meaningful and powerful today as they were on the open range.

Wall Street has good reason to focus on ethical issues as never before. The key "push" factor is, of course, federal regulation and enforcement. The SEC has already punished wrongdoers with fines reaching north of \$2 billion. It is also moving to adopt a whole new body of operating regulations that will impose billions of dollars more in compliance costs. Among other provisions, the SEC is requiring that all registered investment advisors adopt a formal code of ethics, along with procedures for ensuring compliance. Clearly, Wall Street will have to give much more than lip service to this process.

Somewhat lost in the shuffle is an important "pull" factor which would give Wall Street a strong incentive to take a long, hard look at what shapes its values and behavior. As a matter of business survival, investment firms desperately need to regain their clients' trust. Those firms that credibly embrace a meaningful ethical code, both in spirit and in letter, will have an important competitive advantage. Those that can demonstrate their integrity will emerge as winners.

Can embracing the Code of the West as a guidepost and inspiration really have any effect on the way investment firms operate? I've been testing out the concept at my own firm, a growing hedge fund of funds advisor, based in Austin, Texas. Though my partners agreed that integrity is now and always will be a critical issue for investment managers, initially they were lukewarm to the cowboy inspiration, wondering if it was really more than a gimmick. Then we began consciously to apply Cowboy Ethics, with startling results. In most cases, the "right thing" to do was surprisingly clear. When the issue was particularly thorny,

difficult or personal, our discussion would quickly get right to the heart of the matter. What is fair? Where do we want to draw the line? What are we unwilling to compromise? Putting it in these terms helped give us the courage and resolve to make difficult choices and do what had to be done.

My firm has now adopted the 10 principles inspired by the Code of the West as the centerpiece of our code of ethics. In addition, I have been given the responsibility of being our Director of Corporate Values, charged with overseeing ethical principles and practices concerning every activity of the firm.

By no means is the Code of the West anything like the last word on Wall Street ethics, but it can be a profound source of inspiration

BY NO MEANS IS THE CODE OF THE WEST ANYTHING LIKE THE LAST WORD ON WALL STREET ETHICS, BUT IT CAN BE A PROFOUND SOURCE OF INSPIRATION FOR MEANINGFUL CHANGE THAT STARTS WITH THE INDIVIDUAL, PERCOLATES THROUGH FIRMS AND ULTIMATELY HELPS TRANSFORM THE INDUSTRY AT-LARGE

for meaningful change that starts with the individual, percolates through firms and ultimately helps transform the industry at-large. Wall Street desperately needs a way out of its morass; here is a place to start.

John Wayne said it, and he was right: "Everybody needs a code, a creed to live by." With my book, *Cowboy Ethics*, I am challenging the industry to embrace the idea and run with it. It's time for the industry to clean its slate, learn from its mistakes and move ahead with a new sense of optimism and resolve. These are precisely the qualities it took for the cowboys to start each new journey up the trail. In fact, they are the same qualities that define the character of the American people.

What Do Cowboys Have To Do With Wall Street?

I have felt tremendous anger and shame at what has happened to an industry in which I've worked for more than 35 years. Wall Street has lost its way, and its future is at stake. How can we expect clients to entrust us with their hard-won assets when some of our most venerable firms have been tarnished?

Now Wall Street faces a tide of regulations, but I don't believe that new layers of policies and procedures are the real answer. In an era short on genuine heroes, we can find inspiration in one of our country's most enduring icons: the working cowboys who believed that honor and integrity mattered even when no one was looking.

Living by the Code

The Code of the West was unwritten, yet every cowboy knew what the Code was. Based on everything I've learned over the course of a full year of intense research, I believe I know too. This is my own list of the ten timeless principles that capture the essence of the Code of the West. They are true to the spirit of the working cowboy, yet still have meaning for us today.

1. Live each day with courage.
2. Take pride in your work.
3. Always finish what you start.
4. Do what has to be done.
5. Be tough but fair.
6. When you make a promise, keep it.
7. Ride for the brand.
8. Talk less and say more.
9. Remember that some things aren't for sale.
10. Know where to draw the line.

What Wall Street Can Learn From the Code of the West

The challenge we face as an industry is figuring out how we can redeem our reputations and earn back investors' trust. I'm here to tell you that we can't do it with words – only with actions that reflect the character, principles and values at our core. This is the take-home lesson from *Cowboy Ethics*: Everyone needs a code, a creed to live by. John Wayne said that – and so

did SEC chairman William Donaldson, when he spoke to the National Association of Securities Dealers last May. In essence, he told the NASD that while the SEC can issue rules and pursue enforcement actions against wrongdoers, SEC rules aren't enough to do the job. What's needed, Donaldson told the NASD, is "a changed in mindset – one that fosters not only a 'culture of compliance' but a company-wide environment that fosters ethical behavior and decision-making." In his words, a "culture of compliance" means instilling "a company-wide commitment to do the right thing, this time, every time."

The SEC is doing its part by taking enforcement actions against the "bad guys" who compromise the integrity of our entire industry. The rest of the job is up to the 90% of us who want to do the right thing. If we fail to act and fail to create a culture that fosters doing the right thing, we risk losing the privilege of self-regulation. Think about it: Do we really want the lawyers to come in and run our businesses?

I don't deny that "instilling corporate values" sounds like a pretty mushy, amorphous task, but there are some things firms could do right away. For example:

- Every firm registered with the SEC should appoint a Director of Corporate Values who is charged with overseeing ethical principles and practices concerning every activity of the firm. I'm talking about a senior-level individual with the stature to represent the firm's commitment to living by a code.
- Adopt a code and apply this set of principles to every decision of consequence. At my own firm, we adopted the 10 cowboy principles as the centerpiece of our ethical code, and I urge you to do the same.
- Make sure that integrity and character are key factors in every hiring and partnering decision.

Firms can work together, instead of separately, to reinvent the wheel. There's a time to

compete and a time to cooperate, and we need to recognize we're all in this together.

There are also things individuals can do. We don't have to sit back and wait passively for our firms and organizations to step up to the plate. In particular, investment management consultants can play a pivotal role by encouraging and supporting such action by the money managers they entrust with their clients' money. But we all have the potential to lead by example. We can each embrace our own code and reflect it in the things we do each day.

Speaking for myself, I can tell you that since starting this project, I think about things on a whole different level. I've taken The Cowboy's Code to heart, and I'm making a conscious effort to live by it each day. My life has changed as a result, and I hope the difference comes through in my business and personal relationships. Cowboy Ethics has changed my life and, I believe, has the potential to change the industry from the inside out.

Now, you may feel that the Cowboy's Code doesn't fit our times, and it's true that few of us would ever be called to test our courage against perils like a raging blizzard or a runaway herd, but we can have the courage to give clients an honest account of bad news, or to confront a business practice that doesn't put the client first. Every time we make a decision, we can ask ourselves, "Is it right? Is it fair?" We can decide that our honor and our reputations are not for sale. At a time when heroes are in short supply we can all be heroes in our own lives. ■

About the Author

Jim Owen is available to bring his multimedia *Cowboy Ethics* presentation to appropriate business and organizational forums as scheduling permits. For more information about the book, *Cowboy Ethics*, please contact Jim Owen directly at 805-565-5855.

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