Captain Phillips is Not a Hero. He is a Fiduciary

As a participant in the Putnam Investment's 15th annual Research Analyst Meeting in Boston last week, I was privileged to be in the audience during Captain Richard Phillips' keynote speech. Captain Phillips, a graduate of the Massachusetts Maritime Academy, was the captain of the Maersk Alabama. With a crew of 20 and carrying 17,000 metric tons of cargo en route from Oman to Kenya, the Maersk Alabama was attacked and briefly occupied by four Somalian pirates on April 8, 2009. In a lighthearted manner, Captain Phillips told the story that is now a Hollywood movie which bears his name.

He started and closed his speech highlighting three things he learned from the experience: you are much stronger than you think, the power of a team, and, the famous Winston Churchill quote: "never give up, never, never give up." Captain Phillips was clear about his mission and his duty as the captain and a merchant marine on the Maersk Alabama. His years of training seared in his consciousness the notion that it is his duty to protect his crew and cargo. The motto of the Massachusetts Maritime Academy is "Discipline, Knowledge, Leadership." Under his disciplined leadership, he and the crew knew what to do when the Maersk Alabama was under attack and expected to be boarded by pirates. As practiced during drill conditions, the crew were safely hidden in the "secure room." Captain Phillips told the story of how he subsequently got into a lifeboat with three pirates as their hostage. He believed that isolating himself and the pirates was the best strategy for the safety of the crew and the Maersk Alabama and a chance of escaping harm altogether.

As Captain Phillips described his five day ordeal with the pirates and insisted that he was not the hero, but rather the team of Navy SEALs who rescued him, the term fiduciary came into mind repeatedly. What drove Captain Phillips to put the interests of others above his own? What factors gave rise to his decision to put himself at risk so that the people who entrusted him with their lives and property had a greater chance of survival? Is there a greater conflict than the probability of trading one's own life for the safety of others? Why did the first responders run towards the Twin Towers as people desperately clamored to get out of the collapsing buildings on September 11? Would we not live in a better world if we could harness these values for the greater good?

Over the past 10 years, the investment and the financial industry has been doing exactly the opposite. Special interest groups and their mouthpieces have taken every step to avoid advisers, brokers, wealth managers, financial planners, insurance salesmen, and other financial intermediaries (whom all have proclaimed to be advisers) from being subject to the fiduciary standard. To put it simply, the industry is fighting to remain in the status quo which is filled with conflicts of interest. In the case of a captain in the merchant marine, it is understood that the crew that signs up is entrusting their lives to him within his domain. It is also understood that the cargo boarded on the ship is expected to be delivered safely to the intended destination. The foundation of these expectations and understandings is summarized in one word: TRUST. The captain earns this trust because of his education, experience, knowledge, skill, leadership, and conviction. Most importantly, crew members believe in and rely on his judgment and character that he will do "right" by them. In the investment and financial advisory and management business, advisers have an obligation to serve in the client's best interest (in the case of situations subject to ERISA, in the client's sole interest). In a complex financial world where products are created and pushed through a web of relationship between and among product manufacturers, platform providers, distribution channels, and retail advisers, everyone in the process is being paid directly or indirectly. There is a significant incentive within the financial and investment organism to self-sustain and thrive. Change to the status quo is deemed hostile and upsets its self-rewarding equilibrium. The adviser is often the only line of defense for the retail investor. And if and when an adviser serves in the client's "best interest" in name only, the system built on trust is compromised and the retail investor is ultimately injured.

When Captain Phillips was autographing the "A Captain's Duty," I asked what factors made him take on the fiduciary role against his self-interest. Without hesitation, he said that he was trained to behave exactly the way he did. It was a part of his DNA. Captain Phillips was not thinking if he should serve in the best interest of his crew and the Maersk Alabama, rather, his fiduciary commitment was on auto-pilot.

It is common to hear that applying more fiduciary regulations will hurt this industry and ultimately the retail clients. I suggest that the amount of regulation has an inverse relationship with amount of trust in the system. Regulations will diminish when and if conflict wanes. In the financial and investment advice industry, we must train and promote the fiduciary standard from the ground up and create a fiduciary culture that preserves and validates trust with clients in perpetuity. We need to take a chapter from Captain Phillips' book to better understand that clients hire us for our expertise and counsel and we owe them our best judgment and always doing the right thing by them.

Philip Chao
Principal
CHAO & COMPANY, LTD.
703-847-43980
pchao@chaoco.com
www.ChaoCo.com

A version of this writing appears on RIABiz.com on Monday, April 07, 2014. http://www.riabiz.com/a/5008289758707712/what-i-learned-at-putnam-investments-analyst-meeting-from-the-real-capt-phillips