What I learned at Putnam Investments' analyst meeting from the real Capt. Phillips

Philip Chao: Captain Phillips was not thinking if he should serve in the best interest of his crew ... rather, his fiduciary commitment was on autopilot.

The harrowing tale of a man charged with a boat, cargo and human lives helped think about fiduciary care

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> Brooke's Note: What happens at sea often stays there. And maybe it always will, in the case of this story. There are accounts suggesting Capt. Phillips was anything but a hero But growing up I worked on lobster and fishing boats off the coast of Maine and so I was witness to the way men who pretty much despised each other would rush to save each other's lives. There is a something special that happens out on the seas that we can learn from.

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As a participant in the Putnam Investments 15th annual Research Analyst Meeting in Boston last week, I heard Captain Richard Phillips' keynote speech.

So many of us have seen the Tom Hanks' movie, Captain Phillips, but we were privileged last Monday to hear the real McCoy speaking with greater gravitas — and a much more convincing New England accent — than the esteemed actor.

Phillips, a graduate of the Massachusetts Maritime Academy, was the pilot and chief care officer 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 that bears his name.

Mission and duty

He began and closed by highlighting three things he learned from the experience. You are much stronger than you think. There is true power in a team. And, Winston Churchill had it right with his famous quote: "never give up, never, never give up."

Captain Phillips demonstrated was aided in surviving long enough to collect speaker fees by his clarity about his mission and his duty as the captain and a merchant mariner on the Maersk Alabama. His years of training and the culture of his seagoing trade seared in his consciousness the notion that it is his duty to protect his crew, ship and cargo.

It was obvious that he lived by the motto of the Massachusetts Maritime Academy: “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 afforded the crew and ship the best chance of escaping harm altogether.

The big questions

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 and helped me frame questions. 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 too often been running exactly the opposite direction. 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.

Status quo too low

What keeps this chronic eschewing of scruples and decency in place seems to be a perversion of the ethos of a captain saving, and if need be, going down with the ship. The legacy players see their own interests as the ship that needs saving with the idea that consumers will receive a 'suitable’ but not fiduciary care as a trickle down dividend.

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 its 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. Crew members sign up for the adventure because they can believe in his judgment and 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).

On auto-pilot

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. In other words, the temptation to cut a few corners in our own favor in our business is legion so tempting because ultimately quite often the only ones around to hold us accountable are ourselves.

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 autopilot.

Advisor as hero

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 the 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 to better understand that clients hire us for our expertise and counsel and we owe them our best judgment and sincerest care.

Perhaps when that culture takes hold, the first ever movie will be made of Tom Hanks portraying a financial advisor saving a person's financial future when they could easily have gotten away with much less.

Philip Chao, is a fiduciary investment advisor and principal of Chao & Company, Ltd. in Vienna, Va.

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