



McInroy & Wood

PERSONAL INVESTMENT MANAGERS

*“What plea so tainted and corrupt,
but being season’d with a gracious voice,
obscures the show of evil?”*

Merchant of Venice

Fascinating, isn’t it, how the peddlers and pushers manage to spin the rags of self-interest into robes of principle. Their trick is to find a word or phrase that carries the ring of virtue without inviting inspection of its substance, and hang their message upon it. It’s all the easier in a language which lends itself to the beguiler’s art, and in the subtlety of English lies infinite deceit.

Such words and phrases litter every page of junk mail, pad out most political interviews, and get routinely trotted out in company reports, and there’s one in particular that savers might care to take a closer look at – the word “independent”.

A useful adjective this, scattered liberally in financial fields to nourish seeds of comfort and trust. Comforting because the “i” word bears with it the connotation of freedom from interests which might conflict with those of the saver (and, in other contexts, the customer or voter).

The warm glow of independence emanates from a tradition of impartiality handed down by many British institutions. Our civil service and judiciary, for example, command the respect of government and governed simply because, for generations, they have combined professional competence and political detachment. Civil servants deserve, but do not always receive, every support in their fight to resist the influence of unelected apparatchiks in successive administrations.

The BBC upholds a similar tradition and clings tenaciously to its perch of political neutrality, despite being violently shoved to and fro by one ministerial paymaster after another whenever the truth gets too uncomfortable.

In the professions, some of the country’s oldest legal firms exhibit a rich seam of genuine independence and, by habit, place their clients’ interests before their own. They too are heritors of a quality of real substance.

For all its imperfections, the securities industry contains firms of obvious integrity which have distanced themselves from the financial supermarkets and all the monuments to folly and greed constructed in the wake of Big Bang in the 1980’s. Philip Augar, in his stimulating analysis¹ of the decline of UK-owned securities houses, says this, referring to Smith New Court and Cazenove, the City stockbrokers. “The controlled growth strategies of the *independents* [our italics] proved more sensible than the aggressive approach of many of the bigger firms”.

Even in the Houses of Parliament, where party allegiance dominates proceedings, debates have been enriched by independent mavericks, particularly crossbenchers in the House of Lords, who have injected much needed sense and straight talk into factional bickering. Sadly, Martin Bell, the only card-carrying independent in the Commons, was not re-elected in 2001, but he stood in a distinguished line of politicians at Westminster and in local government who have been prepared to distance themselves from propaganda and prejudice.

History radiates warmth around the concept of independence, a concept which in its richest tradition provides the sturdy body of respect upon which the unscrupulous can feed like leeches. Given its credentials, it is no surprise that the word “independent” has been pressed to serve in some pretty dark corners, not least in financial contexts.

¹ “The Death of Gentlemanly Capitalism” by Philip Augar, 2001, Penguin Books (ISBN: 0-140-28668-3)

Consider the business of auditing a company's accounts. Company auditors are appointed – by the shareholders, if you remember – to exercise an independent watch over accounts prepared by the directors and the executives. Auditors are meant to be free of interests which might conflict with their primary duty to shareholders to ensure that a company's accounts present a full and fair view of its financial affairs. Try that one on Enron shareholders whose retirement savings vanished after their watchdog failed to bark, even as the burglars hurled bricks through the window, crashed about the house, loaded the loot onto a pantechnicon, and drove off in the noon-day sunlight. Such a pity the brute was dozing quietly, stuffed to the jowls with a basinful of consultancy fees and corporate lard, generously provided by the burglars themselves.

Look at the way the “i” word crops up again and again in the investment world. Most private savers find sooner or later that they need advice about financial products, often in connection with mortgage repayments or insurance policies. Such products are commonly sold by “independent” financial advisers whose remuneration often consists of a commission paid by the product provider. It does not take a detective or genius – though it has taken financial regulators the best part of a decade – to discover that the products most commonly sold are those providing the biggest commission. All credit to those IFAs, as they are known, who have resisted the pull of commission payments and provided a genuinely independent service.

Other unhappy financial customers may, even now, be shredding the remains of worthless policies issued, naturally, by Independent Insurance – so-called presumably to distinguish itself from dinosaurs like The Prudential, with equally sententious but more familiar brand names.

Fund management groups and securities houses like to insert the magic word in advertisements, aiming to put clear water between themselves and the problems of the grandiose and incoherent financial empires now straddling global markets. One hopes their independence means more than that claimed by some American securities analysts working in investment banks who are meant to recommend investments strictly on their merits but who, according to the New York State Attorney General, have been issuing “biased and distorted stock picks in an attempt to secure lucrative contracts for investment banking services

Surely it is no coincidence that the deodorant of independence is being sprayed about when the stench of financial scams and political sleaze is spreading so quickly. Public disaffection with dishonesty in corporate and political life is already contriving an alternative means of procuring neutrality and fairness. So, regulation and bureaucracy march on in step, hosts of independent commissions get created, and legions of consultants and commissars hold sway, where once the statesman, the director, the professional adviser were trusted to cope.

People have become disillusioned. So much so that cynics looking at commercial life in the markets of today are beginning to conclude that the very idea of independence is an oxymoron, no more than a splash of paint on rotting timber. Certainly businessmen are entitled to promote their own purposes, but when a cloak of high-minded disinterest gets thrown round naked ambition, the warning signals should start to flash and investors, shoppers, and voters had better reach to feel their wallets.

Whenever an invitation to accept a quality on trust is issued, accepted, and then exploited, there is a cost to be paid. But the cost lies less in the material damage, cripplingly high though that has been for countless savers and shareholders, than in the spread of mistrust which it engenders. Here is the road to a “show-me” culture and a society of mean, embittered relationships.

Anyone interested in the breakdown of trust in society should find Dr Onora O'Neill's Reith lectures on the subject compelling (BBC Radio, Wednesday nights). Suffice it to say that the conflicts of interest which have shown up in the gap between the claim and the substance of “independence” bear eloquent witness to the reasons for the breakdown and to financial practitioners' share in it. If the Enron collapse and the other exposures of financial hood-winking provoke a wider debate on the true meaning of independence, their cost will not have been wholly wasted. It is a debate that is long overdue.

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