October 15, 2018 Fourth Quarter 2018

To: Customers & Friends
From: Christopher Weil & Company, Inc.

Some time ago, at my kids' request, I embarked upon a project of penning the occasional autobiographical vignette, something to help Matthew and Kit and Caitlin, and their kids, fill in some of the blanks in the family folklore, and give them a better sense of where I (and, by extension, they) came from. One of these reminiscences led me to reflect on the path that led me to an important decision in my professional life that may be of some interest to the readers of the CWC Quarterly Commentary.

Let me begin my reminiscence with the observation that, in the history of business (ours and, I suspect, many others), there have been any number of entry-level job-seekers whose prospects for success would seem, to an objective observer, unpromising; and you could count among these a 25-year-old Christopher Weil on a cool February morning in 1963, sitting in the passenger seat of a fairly new Cadillac parked on a street in the fashionable Westwood neighborhood of Los Angeles, listening (without understanding) to the pitch of a company recruiter.

My prospects for business success at that time were unpromising because nowhere in my personal history was there a hint that I was destined for a business career, successful or otherwise. In four years of college I had never taken a business or economics course or indeed any course that could be said to teach practical knowledge. Furthermore, my family had never owned anything except a house and personal effects. "Wealth" was whatever cash happened to be in the bank and whatever amount of money was coming in the next paycheck. And, despite my age, I had never held a real job. I had only worked part-time (selling newspapers, clerking in liquor stores and markets, shelving in libraries); and had spent four years in the Navy, which wasn't a job but a trial. Finally, my family had nurtured in me a pro-work but anti-business ethic. In part this arose from my father's commitment to the labor movement (and his corresponding dislike of business, which he viewed as labor's exploitive adversary); and in part from my mother's conviction that business was unworthy of the attention of first-rate minds.

During each of my summer vacations while in college I had worked as a recruiter on temporary active duty at a local Naval Reserve Training Center. July, August and September, I spent convincing 18-year olds that it was better to enlist in the Reserve and spend two years on active duty than enlist in the regular Navy and spend four.

The summer of 1962 should have been my final "enlistment," for I was to graduate in June 1962, then work for three months while looking for a job. But that spring it became all too clear that I was not going to graduate. I discovered that I had managed to take only a year and a half of foreign language, and the requirement for a B.A. was two years.

I was disheartened. We were broke; my wife happened to have pneumonia at the time but, healthy or otherwise, I had her and a one-year old to support; and as my four years of G.I. Bill money had run out I elected not to return to school in the fall. I petitioned the Navy to let me work beyond the normal three-month tour. My petition was approved and I was contracted to spend July l962 through March l963 as a recruiter.

During that summer I had job interviews with whatever enterprise would talk to me. But I must have been an unappealing candidate (a philosophy major without a degree) for I was never called back (by Prentice Hall, the U.S. Public Health Service, the Telephone Company and five or six others). By February l963 I was convinced that I would be spending the next few years pumping gas. The job interviews had petered out and I had, as they say, no prospects.

Then, one evening the phone rang in the tiny student housing apartment we were shortly to forfeit (as UCLA had discovered I was no longer a student and hadn't been since June) and a voice introduced himself as Mr. Mumph (or some such sound) and said that he represented the investment firm Investors Diversified Services and that through a friend he'd learned I was in the job market and could we talk? I agreed to meet him for breakfast that week.

The breakfast meeting lasted two hours and then we adjourned to his car to continue talking. And so it was that I found myself sitting in a car in Westwood, listening but not understanding, on that morning in February.

Soon I was attending my next meeting, this one at the offices of IDS – located in a building just this side of shabby and that side of respectable – on Wilshire near Western, near downtown LA. Present were Mr. Mumph (actually, his name turned out to be Stanley J. Sponholtz), and Don Christopher, IDS's Divisional Sales Manager. I was dressed in my best: slacks, sports shirt, loafers and white socks. We pretty much covered the same ground covered in the first meeting, with pretty much the same result: total lack of comprehension on my part. I asked for a week to think it over.

At our next meeting I made an effort to start at square one and, to my surprise, detected a certain impatience on the part of Sponholtz and Christopher. They thought that these matters had been dealt with. I had sense enough to take another tack. In effect I said that I had no idea what their company did, nor did I have any idea what they wanted me to do, but if they'd pay me $100 a week I'd come to work for them. And so it was agreed. Some months later I discovered that what I had agreed to was, in fact, a draw, otherwise known as an advance against commissions; but at the time the distinction between draw and salary meant nothing to me.

Almost immediately, our little family moved from its 400-square-foot apartment at UCLA to a 600-square-foot apartment in Westchester (a couple of blocks from LAX); and I began to "work" for IDS – which meant going each day to the Wilshire office to prepare for the securities licensing exam I had to pass to be in the business and, not unimportantly, assure the continuation of my $l00 weekly check.

Our trainer employed a rabbinical teaching method. We studied only one document, a prospectus for one of the IDS mutual funds. In those days, a fund prospectus ran to 25 or so pages of closely printed text. We began our study by reading sentence one of paragraph one of page one. After reading the sentence the trainer would provide an explication and then closely question us as to our understanding. When he was satisfied that we (meaning the slowest of us in the class, meaning me) had gotten it, then it was on to sentence two of paragraph one of page one.

And so it went for four weeks.

At least that's the way it went in the mornings. After lunch we shifted from textual explication to sales training.
At some point, during one of those afternoons, it became clear to me that the job I was about to embark upon consisted of 1) telling the mutual fund story to as many people as I could find to listen, and 2) having them buy it (which meant them writing a check to open an account and purchase shares).

With clarity came shock. For quite aside from the fact that "salesman" meant someone in a loud shirt standing outside a car dealership trying to lure unwilling customers inside, I could not imagine how I was to make a living even if, as seemed unlikely, I could learn how to sell. I had no money. I didn't know anyone who had money. So what if I could tell the story to anyone who would listen? At best I would be met with nothing but shrugs and empty pockets turned inside out, forever.

I took and passed the securities exam in May l963. By that time, I could explain how a mutual fund worked. I could write letters and make phone calls seeking opportunities to tell the story. These were my qualifications. What I did not know (about business, people, investments, my company and myself) would have filled a library.

Much has changed, both in the financial services business and in my life, since those long-past days. I have, it turns out, learned a little something about business, people, investments, my company and myself. But looking back on fifty-five some-odd years, one particular decision stands out as definitively shaping what came after: our decision, as a business, on or about 1992 to pursue a path that made us fiduciaries rather than "just" sales people.

In 1963, there was nary a thought about what has become a hot-button issue in recent years: the matter of when and under what conditions an "advisor" must be a fiduciary. Oversimply, fiduciaries must consider a client's best interest in making any recommendation(s) while non-fiduciaries – typically brokers/agents/ representatives – need only satisfy themselves that any recommendations are suitable. There is a world of difference, in law and practice, between the two standards.

When I came into the business, and for many years thereafter, it was a salesperson's world, at least insofar as client recommendations/transactions were concerned. Whether employed by Wall Street firms, regional firms or independents large and small, client-facing tasks (including advisory services) were performed by salespeople/brokers. It was strictly a matter of the individual salesperson's competence and moral sensibility as to the suitability (much less the best interests) of client recommendations. Fiduciary standards, to the extent the phrase was ever used or even understood, was reserved for use as a description of the obligation of trustees.

In recent years, as many readers know, the issue of whether one purporting to provide investment advice (sometimes expanded to incorporate financial advice generally) should be held to a fiduciary standard has been a front burner item for financial service firms, regulators, consumer advocates and many clients. I should note that CWC does not, as they say, have a dog in this fight. We have been fiduciaries for almost thirty years. But we do have opinions.

The issue came to a head when regulators in the Obama administration concluded that, at a minimum, anyone providing advice to retirement plans needed to be a fiduciary. Those who opposed this pushed back and the current administration reversed the ruling. Those representing Registered Investment Advisors (fiduciaries by definition) and consumer groups supported the expansion of the fiduciary rule with the argument that consumers should expect to have their best interests considered when dealing with any supplier of investment or (why not?) financial services. Why would anyone object to this?

It's a fair question and, on its face, the benefits of expanding the fiduciary rule seem obvious. But there are numerous subtleties. Here is one. Suppose that the fiduciary rule is law. Suppose you, the client, are in discussion with a broker ("advisor") who is proposing that you invest in an oil drilling partnership. Arguably, the proposal could and should only be made if the advisor is satisfied that the investment is in your best interest. But, to get to a level of comfort that your best interest is being served, the broker would need to understand the place of this investment in the totality of your affairs. He/she would need to understand, in detail, the nature of your assets and liabilities, your sources and amounts of income, your tax situation, even perhaps your estate planning instruments. Is the typical broker (even if he or she advertises himself or herself as an advisor) capable of deriving a reasoned conclusion on what constitutes your best interest insofar as this (or any) investment is concerned? Should he or she even be asked to make this kind of determination? Would you (or the typical investor) be willing to fully disclose your financial "story" to someone who is, after all, just trying to sell you an investment?

Wall Street and many independent broker-dealers were and are certain that the adoption of a fiduciary rule will translate, for them, into a massive diminishment of sales force productivity, client "disclosure resistance" and lawsuits to the end of time – as and when unhappy clients claim that "my advisor failed to take into account my best interest when making his/her recommendations." Thus their opposition.

But as a client, the solution/resolution is simple. If you don't want or need an advisory relationship then treat your financial service suppliers as venders and rely on their reputations and your good sense to separate the sheep from the goats. If, on the other hand, your life and financial circumstances are such that an advisory relationship is desirable, then seek out an advisory firm that is a fiduciary; that is, a firm that expects to know everything about you and your family as matter of course, and expects to have a long term advisory role (not just a periodic transactional one) in your lives as well. But remember, you will still need to assess reputation and you will still need to exercise your good sense.

Chris