Chapter 1

Core Principles

The Ground Beneath Our Feet

Serving our clients is our basic purpose. Service is the chief contributor to our growth and profitability.

—The late Harry C. "Bobby" Piper Jr.,
chairman of the regional brokerage firm
Piper Jaffray & Hopwood

Never has the ground under my feet felt as shaky as it did on September 16, 2008, when I received a call on my office phone telling me the Reserve Primary Fund—a money market fund—had broken the buck and, more significantly, had indefinitely suspended redemptions of its shares. This meant that investors in this money market fund could not withdraw their money. Since RBC Wealth Management's clients had invested in the Reserve Primary Fund, this situation had an enormous impact on the investors we represented, our advisors, and our firm.

Reserve's announcement was triggered by the fact that the Reserve's portfolio managers had purchased and still held in the portfolios of

Reserve's largest money market fund—the Reserve Primary Fund—commercial paper issued by Lehman Brothers Holdings on the weekend Lehman Brothers declared bankruptcy. Commercial paper is short-term debt used by companies to finance themselves day to day instead of borrowing money from a bank. It is normally a highly liquid market. But not in the case of a sudden bankruptcy. Overnight, the value of the Lehman Brothers commercial paper fell to $0, or close to $0.

The amount the Reserve Primary Fund held of these securities, namely the Lehman commercial paper, was so large—$785 million—that it could no longer afford to offer its investors $1 for each $1 they had invested in the Fund. This is why it is called *breaking the buck*. As rumors of the decline in the Reserve Primary Fund's value hit the markets, the Fund received requests from investors with billions of dollars in the Fund to get their money back—the mutual fund equivalent of a run on the bank. Rather than sell off portfolio securities in the worst market in recent history, the Fund's trustees elected to indefinitely suspend redemptions—the mutual fund equivalent of closing the teller windows and locking the doors to the bank.

RBC Wealth Management-U.S., the firm I run, had recently acquired a well-regarded regional brokerage firm, Ferris, Baker Watts, based in Baltimore and Washington, D.C. Ferris, Baker Watts used the Reserve Primary Fund as the investment vehicle for its clients, as the place it swept clients' cash into, and as a vehicle for their investing activities. Our clients assumed their money market fund investment could be converted into cash by the next day. Now that the Reserve Primary Fund had suspended redemptions of Fund shares for cash, our clients had no access to their cash. This meant, in many cases, that they had no way to settle pending securities purchases and therefore no way to trade their portfolios at a time of historic market volatility. No way to make minimum required distributions from retirement plans. No way to pay property taxes. No way to pay college tuition. It meant bounced checks and, for retirees, interruption of the cash flow distributions they were counting on to pay their day-to-day living expenses.

Global Crisis of Confidence

That day, and the days that followed, were marked by chaos and confusion. Hundreds of thousands of panicked clients called their advisors, who called their branch managers, who called our home office in Minneapolis asking what we were going to do to help them. Reserve Fund's management was missing in action, refusing to answer phone calls. Information about the extent of their crisis was incomplete and confusing.

Incredibly, given the relatively small size of the fund, $62 billion, the Reserve Primary Fund's failure triggered a global crisis of confidence in the short-term credit markets, which is mother's milk to many corporations. For several weeks, this created the very real possibility that even the largest, most creditworthy corporations might be unable to roll over their commercial paper borrowings and, therefore, would find themselves insolvent. Our clients and our employees watched in horror as their net worth evaporated in front of their eyes.

To make matters worse, our operations professionals told us our processing systems didn't know how to handle money market fund shares priced at anything other than $1.00 a share. Unpriced Reserve Primary Fund shares were like sugar in the gas tank, threatening to bring our back office to a grinding halt.

I remember thinking, "It's true . . . you never see the bullet that kills you."

I couldn't sleep. I felt like I was falling down an elevator shaft, trying to find some kind of emotional bottom, some kind of solid ground upon which I could operate.

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It was in writing my white paper *Creating a Clear Path Forward* for clients and employees that I found solid ground. I found it in the realization and conviction that my purpose, at that time of crisis, wasn't to worry about myself. It was to help others.

"The best things in life don't cost money," I wrote at the time. "True wealth lies in relationships. I've learned that the best way to make it through a crisis is to stop focusing on your own problems and start helping others with theirs."*

One day after the Reserve Primary Fund failed, with the support and backing of RBC, I announced to RBC Wealth Management clients who had cash in the Reserve Primary Fund that we would make them whole

*See Appendix C.

The best way to make it through a crisis is to stop focusing on your own problems and start helping others with theirs.

for any losses they incurred . . . up to three cents a share. This was more than enough, we believed, to cover the loss in value of the Lehman commercial paper. I also announced we would lend money to any client who faced a hardship cash shortage due to their cash being locked up in their Reserve Primary Fund holdings.

RBC's willingness to do the right thing for the clients of Ferris Baker Watts kept our wealth management franchise together and allowed us to build enormous long-term loyalty among our advisors and our clients.

Responding to the Reserve Primary Fund crisis reaffirmed for me that the principles of Stewardship are core principles. They are my personal true north.

Since then, my own personal definition of Stewardship has evolved from a narrow and somewhat technical definition—*the responsible management of that which has been entrusted to one's care*. My new, more expansive version has to do with leaving a legacy, which I call the Golden Rule of Stewardship—*leave the world better off than you found it*—and the more existential formulation—*your purpose on earth is, ultimately, about service to others*.

I have spent most of my career, more than three decades, in the financial services industry. I have been an investment banker, the CEO of a mutual fund company and an institutional asset management firm, the head of one of the largest wealth management firms in America and, most recently, chairman of the Securities Industry and Financial Markets Association (SIFMA), the trade association for U.S. brokerage and securities firms and asset managers. I believe very strongly that the financial services industry, is at its very core, all about the concept of Stewardship, and all about Stewardship values and responsibilities.

After all, the foundation of financial markets is public trust and confidence. The word *credit* is derived from the Latin word *credere*, which means "to trust." So trust should be the foundation of the financial services industry, whose mission it is to serve the needs of others—its clients. The industry does this by matching people who have capital—investors—with people who need or have opportunities to deploy capital—corporations, governments, public agencies, and nonprofit organizations. The financial services industry's challenge is doing so in a way that makes everyone a winner; so that everyone is better off than they would have been without the products, services, intellectual content, and capital of financial institutions.

A Foundation of Trust

I consider myself fortunate to have been exposed very early in my career to Stewardship values and to a Stewardship culture.

The first firm I worked for after graduating with a master's degree from the Yale School of Organization and Management was Piper Jaffray & Hopwood, a Minneapolis-based regional brokerage and investment banking boutique headed at the time by a patriarch named Harry C. ("Bobby") Piper Jr.

I remember being invited to Bobby Piper's office within a week of joining his firm as a completely inexperienced and junior investment banking associate, where, for more than an hour, he asked me questions about my family, my personal interests, and what I'd studied in college. He did this not because it was a pro forma exercise with all new employees, but because he truly cared about each and every new member of his corporate family.

Near the end of his life, Bobby became deeply spiritual. He spent his final years creating a mission statement for Piper Jaffray that focused on service. In doing so, he defined service to others as the very purpose of his family's firm:

"We, the people who are Piper Jaffray & Hopwood, believe that serving our clients is our basic purpose. We believe service is the chief contributor to our growth and profitability."

Simple. Elegant. And, as I hope you will agree after reading this book, profoundly transformational.

Agents of Main Street

We continuously read about the growing concentration of the financial services industry around a handful of global and systemically important institutions. The 800-pound gorillas include the likes of J.P. Morgan, Bank of America, Goldman Sachs, Citigroup, Wells Fargo, and Morgan

Stanley. Yet the financial services industry is in fact made up of thousands of firms like Piper Jaffray, many of them small businesses. The vast majority of them are located outside of New York City, and have a lot more in common with Main Street than they do with Wall Street. These smaller firms were every bit as damaged by the financial crisis of 2008 and 2009 as other participants in the financial markets. These Piper Jaffrays operate close to their clients, are part of the communities in which their clients live and work, and conduct their businesses day in and day out consistent with the core principles of Stewardship.

"My dad always thought of this as a noble profession," Bobby Piper's son Tad told me. "A profession in which we were privileged to serve the world, for which we were admired. He felt we had a higher calling—to help individuals manage their wealth; corporations raise capital; governments build roads and schools."

Indeed, the financial services industry operates as a laboratory, a test environment, for the core principle of Stewardship. When financial services firms remain true to their mission and their purpose as agents and intermediaries, they help allocate capital efficiently and promote economic growth. When they stray from that mission, when they stop thinking of themselves as agents and start behaving like principals, when they stop serving clients and instead focus excessively on returns to shareholders, then no amount of legislation or regulation can prevent the kinds of excesses that brought us to the brink of worldwide financial collapse.

We have learned from financial services firms, what happens when Stewardship values prevail, and what happens when they don't.

This book shares the conclusions I have drawn from managing financial services firms and from serving in leadership positions in the financial services industry over the past 30 years. It makes some suggestions as to how we can rejuvenate a commitment to Stewardship, not only to make our financial system safer, sounder, and more secure; not only to rebuild public trust and confidence in the financial markets; but also to address other equally important challenges we face as individuals, as organizations, as communities, and as societies.

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Interlude
Learning from Failure: Acquainted with Grief

One feature common to the many leadership books, ethics texts, management articles, and social commentary I read in writing this book is the tendency for their authors to underplay the fundamentally flawed nature of human character, to preach leadership lessons from the podium-of-never-having-made-a-(serious)-mistake.

In fact, precisely the opposite is true. Failure—the experience of having made mistakes—can be a deep source of Stewardship wisdom.

Consider an article in the *New York Times Magazine* on political judgment and the war in Iraq, by Michael Ignatieff, who went on to become the leader of the Liberal Party of Canada before being handed a crushing defeat in Canada's 2011 elections. Ignatieff writes about what people look for in a leader: "They must be men of sorrow acquainted with grief, as the prophet Isaiah says, men and women who have not led charmed lives, who understand us as we really are, [yet] who have never given up hope . . . ."[1]

"Learning from failure matters as much as exploiting success," Ignatieff writes.[2]

Like most people, I have experienced Stewardship failure in my life. In my case, it happened more in my personal life than in my professional life, when my lack of emotional courage led, not in a straight line, but ultimately contributed, to the breaking up of my family and to my estrangement for several years from my three children, from which we are slowly, to varying degrees, working our way back.

I remember drawing a line on a sheet of paper, writing the words "live life forward." I remember committing to learn from the mistakes I had made and committing to be the kind of person I would be proud of, and that my children would admire.

(*Continued*)

Before he was a presidential candidate, the former Massachusetts governor Mitt Romney was a lay leader in the Mormon Church near Boston. Here's what he was reported to have told a 19-year-old college student who came to his home: "As human beings, our work isn't measured by taking the sum of our good deeds and the sum of our bad deeds and seeing how things even out. The only thing you need to think about is: Are you trying to improve, are you trying to do better?"[3]

Along with my commitment to "doing better," the Stewardship lessons I was reminded of were: (1) that the truth, no matter how painful and difficult, is always, 100 percent of the time, less painful and less potentially destructive than a secret . . . or a lie; and (2) that worrying about how others will react or what others will think is the surest way to make a bad decision.

Abraham Lincoln, responding to criticism from Congress, is reported to have said in 1862, "I do the very best I know how—the very best I can; and I mean to keep doing so until the end. If the end brings me out all right, what is said against me won't amount to anything. If the end brings me out wrong, 10 angels swearing I was right will make no difference."[4]

That quote, incidentally, was reportedly given by an employee in the basement of the Federal Reserve Bank's headquarters at the height of the financial crisis to none other than Federal Reserve chairman Ben Bernanke.

Stewardship lessons, it seems, come in all shapes and sizes.