FT.com
FINANCIAL TIMES

It’s not all about ‘marble palaces’

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Published: April 18 2010 17:21 | Last updated: April 18 2010 17:25

Two years ago I wrote a column in this space about the life and career of Sir John Templeton, the professional investor and philanthropist who had died a few weeks earlier.

In the course of the piece I mentioned in passing a memo that he had written to colleagues at his investment advisory firm in the early 1950s on the subject of How To Keep A Client Happy.

The memo came to light in the course of my research into Templeton’s investment methods for a new book that continues its slow path towards publication. Although he was internationally well known for his value investing principles, nothing had quite prepared me for the level of interest that the throwaway reference to the subject of his memo provoked.

In fact no other column I have written has prompted as many responses, almost all of which amounted to the simple request: “Can you tell me what the memo said?” That in itself seemed to speak volumes about both the priorities and the current preoccupations of those in the fund and wealth management business at the time. The column appeared a couple of months before the Lehman bankruptcy tipped the world into a full-blown global financial meltdown.

As we know now, the financial crisis proved to be the trigger for one of the greatest migrations of client money that the asset management industry has experienced.

There is no question that Templeton, who beneath his saintly aura was a shrewd and hard-nosed businessman, knew this as well as anyone. In his memo, written in December 1953, he acknowledges that client retention is a difficult subject. Why? Because
“the influences on the psychological attitudes, decisions and beliefs of human beings are 90 per cent subconscious and only 10 per cent logical”, an observation that has since been well documented in the literature of behavioural finance.

His 11-point checklist of things his colleagues should do to keep their clients happy is too long to reproduce in full here. Suffice it to say that it mixes plain speaking and common sense with what those who only know Templeton by reputation from his later philanthropic activities may consider a surprising degree of pragmatic worldliness.

Top of his list is the fairly routine suggestion that his colleagues should have “a long personal talk” with every client at least once every six months about their portfolio, in order to emphasise that every stock in it was “the subject of continuous re-study and follow up" and "the best which could possibly be selected". The deeper the apparent knowledge of the portfolio the adviser can display, the better.

The investor, Templeton goes on, wants to feel that his affairs are managed by "a group of wise and prudent men. No one of us would want to say this about ourselves. However each of us should seek opportunities to describe to the client the background and wisdom and success of each other man in the organisation. Some counsellors make a specially strong point of the fact that other sources of advice may be biased, whereas investment counsel works in the client's interest only".

Further down the checklist Templeton comments that "it is human to be subconsciously influenced by appearances. Those banks which inhabit marble palaces usually attract the most customers .??The feeling of optimism and prosperity is contagious. The counsellor whose manner and words reflect uncertainty or disappointment will quickly give the same feeling to the client; and the counsellor whose manner and words reflect confidence and prosperity will quickly give the feeling of confidence to the client".

The irony is that while himself a pillar of personal probity, with a loyal and satisfied fee-based clientele, in putting down these thoughts more than half a century ago Templeton was foreshadowing both good and bad aspects of the future growth of the private banking/wealth management industry. (He was to sell his advisory business ten years later in order to concentrate on the more rewarding and less time-intensive business of managing funds).

Many clients of advisory firms will, alas, be familiar with "the marble palaces" and the displays of optimism that Templeton identified. Increasingly, however, what they struggle to find is a level of personal service and conflict-free fiduciary commitment that was once the hallmark of the best in an era when investment advice was regarded as a profession, not a business. The feeder funds and intermediaries who channelled money to Bernie Madoff, one might say, learned many of the items on Templeton's checklist all too well. This only goes to underscore that without a moral compass and professional integrity, not to mention suitably aligned incentives, in the wrong hands even the exemplary intentions of a John Templeton can all too easily mutate into something worse.

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