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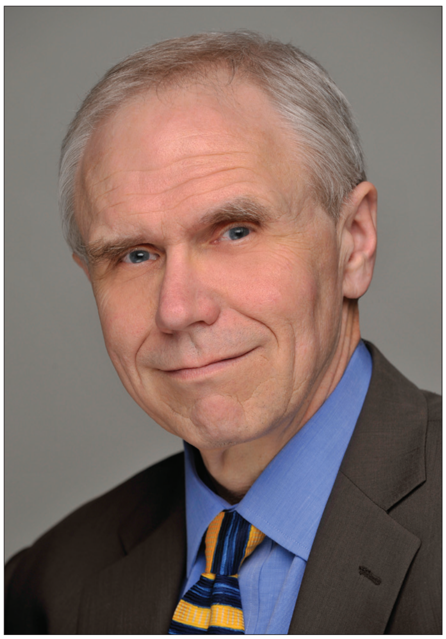
Investment Risk Management: Who Should You Trust?

By Ward M. Harris
Managing Director
McHenry Partners



IT'S OFFICIAL!

Bernard Madoff is now our guest at a Federal institution for the next 150 years. The litany of abuse and tales of woe will be told for years to come. And it didn't have to happen. Many knowledgeable professionals knew Bernie's results were unreasonably high and unsustainable. Harry Markopolos, an investment professional in Boston, began his effort to uncover the Madoff scam in 1999.

It took almost ten years for the Madoff pyramid to be brought down. Not by the Securities Exchange Commission (which ignored Harry's repeated efforts) but by a market melt-down and redemption demands from offshore investors. The house of cards collapsed upon itself – not through the efforts of our regulators and criminal justice system, but through simple greed and gravity.

My former employer (an old-line, blue-blood New England investment consulting firm) maintained a "hands off" policy on Bernie and for good reason. Our analysts' internal documents made very clear our own opinion of his firm as some kind of hustle. It was too good to be true and the parts didn't fit together.

We were in Fairfield County Connecticut – the homeland of hedge funds and investment consultants. It was hard to tell people that we wouldn't support them as clients if they insisted upon using Madoff.

It's also hard to lose business or be rejected for trying to do the right thing. Ask Harry Markopolos. Better yet, read his memo to the SEC in 2005 begging the Commission to investigate Madoff; or his 2009 testimony before Congress. (I have copies and would be happy to share if you will send me an email.)

How to Avoid the Next Bernie?

Usually, the malfeasance of retirement plan consulting and asset management sales is not about outright theft or conversion. It's a more genteel and gradual leeching of plan and participant assets. So how do you avoid the gentle theft of plan assets through ineffective, overpriced or inappropriate plan consulting or investment advisory services?

1. **Competence** – Find a person and a firm that has a clearly proven history of getting the job done: on time, on budget, on specification for the project or retainer relationship. Make them prove their worth, check references, ask questions. Personal referrals and endorsements are always best, but don't stop there (remember how adored Bernie was among his social and business network). Over the last twenty years, our team has managed or participated in over 200 request for proposal (RFP) projects. It's never easy, but the process is critically important to good decision-making for retirement plan management.

2. **Trust** – Find a person and a firm that you can trust, people who are honest. Not just cash-box honest but also honest with themselves about their abilities and capacities. You might be the biggest and most complicated new client the advisor will see in a while. Suggestion: "Trust But Verify." Confirm that staff resources and

time exist to actually deliver as promised. Remember, it's your reputation and credibility at risk.

3. **Communication** – Does the candidate advisor or vendor speak in ways you can easily understand? Does he understand your business objectives, preferences and priorities? If not, or if your cultural or personal values (or style) don't "work" for him, then your potential new relationship may already be at risk. Institutional consulting and advisory work is heavily dependent upon good communication and respect.

The Bottom Line?

Plan sponsors can protect their organizations and participants through objective due diligence in selecting advisors, vendors and asset managers. Ethics, common sense and the courage of your convictions are also quite valuable.

Next month: "DB Retirement Plan Management: Part 3 – "How Do You Measure Success?"

Ward Harris is Managing Director with McHenry Partners, a national investment consulting firm. He can be reached at 1-800-638-8121 or ward.harris@mchenrypartners.com.