STOCKBOY

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Barking Up the Wrong Trees (as the leaves fall)

Wells Failure, Inc.

Recently it was revealed that Wells Fargo Bank had fired 5300 employees for opening up over a million new accounts for customers that didn't request them. This is particularly surprising for a bank that is widely considered (and considers itself) *the* best big bank in the country.

John Stumpf, CEO and Chairman of Wells Fargo, though not well-known beforehand, was assumed to be a very good leader. However, his reaction to the news of impropriety at Wells revealed Stumpf to be an arrogant, out of touch executive.

His first reaction was not to personally accept blame but instead point the finger to the 5300 fired employees, all the while doubling down on promoting the great Wells Fargo culture. As more Wells stories emerged and Congress invited (demanded) Stumpf to Washington to explain himself (twice) he finally began to backtrack.

When a few bad apples make poor choices (or worse), it's easy and likely fair to blame those particular individuals. When there are 5300 bad apples and they revealed that the company pressured them to create new business or be fired for not 'making their numbers', then you can see the cause-and-effect quite clearly. When so many employees break the same 'rules', then it's not their problem as much as it's the company's culture, which starts at the top.

With Congressional pressure, Stumpf forfeited $41 million in compensation (meaning he was paid even more than that of course) and the executive in charge of sales gave up roughly $20 million. These numbers boggle the mind, particularly for the tone-deaf executives at Wells!

In basic terms, until it was uncovered, Wells Fargo, long considered the premier American bank, paid their executives massive sums while pressuring associates to sell, sell, sell. This created an environment where many smart people (remember, Wells thought these employees were good or they wouldn't have hired them for their premier bank) decided the path to take to keep their jobs and standing was to open lots of bogus accounts for their loyal customers and charge them for the right. Finally, Wells pushed Stumpf to resign, or as he termed it: 'retire'….a very rich man.

If the golden rules of business are still 'treat others as you'd like be treated' and 'the customer knows best', then Wells Fargo and its corporate logo is very, very tarnished.

As for executive pay, America should certainly offer the opportunity to 'get ahead' and people who make a lot of money by providing something of value to others deserve their rewards. However, that concept changes complexion when people (often leaders of big companies or other organizations) get paid huge amounts of money while taking advantage of others through policy, practice or price. This imbalance is unfair, unhealthy, and unsustainable.

Enjoy the Moment!

As I read a recent *Barron's* magazine, I saw an ad for TD Ameritrade. It depicted a middle-aged woman on a beautiful lake in a canoe by herself. Instead of enjoying her surroundings, she was looking at her phone with a rather satisfied look. The large text on the ad stated: "When the Market Calls, Answer It." The inference is she has an app on her phone (from TD Ameritrade) that gives her the latest market news and she doesn't have to be on shore to know what's going on. What kind of investment news is so important that it can't wait until you get out of your canoe?! Warren Buffett says you should buy stocks you'd be happy to own for at least 10 years. Though I believe that timeframe may be too long for recent times, it's impossible to think that the appropriate timeframe doesn't allow for an uninterrupted canoe ride. She should put the phone away and enjoy the reasons why someone goes canoeing – like enjoy the surroundings and get away from the day-to-day grind. Talk about missing the point! Whatever or whoever is on the other end of that phone discussing investments can and should wait….and maybe go for a canoe ride themselves.

Private Equity Wants Privacy

It was recently reported that various pension boards have been lobbying regulators to get greater transparency from private equity funds (specifically the ones they invest in or are looking to invest in) – not only regarding fees but also how private equity firms report their performance. The theory is that these firms may be overstating results as many of their investments don't have regular market prices and thus estimates are made by the PE firm itself. Similar to grading oneself in school, there's a big concern that these firms, self-servingly, err on the high side in their estimates.

Amazingly, so far the private equity firms haven't been forced to comply with these seemingly very reasonable requests. It makes you wonder why the private equity firms are so keen on keeping this information private. I'm assuming the answer is NOT because it's better for the investors to not have that information. The question then becomes, why are lawmakers not supporting this request by, ultimately, the consumer for more and better information?

Hubris Part II

In the Winter edition of *Stockboy* I commented on the college football playoffs (CFP) and what a bad decision it was to hold the semifinals on New Year's Eve. As mentioned then, though the ratings fell 40% from the year before, the chair of the CFP committee defiantly said they had no plans to change from the New Year's Eve time slots.

Well, it now appears he's quietly changed his tune as they're going to move the semi-final games away from New Year's Eve after this year.

Though the CFP committee's idea of playing the semi's on New Year's Eve was very flawed, the really bothersome issue was the hubris displayed by the chair in the face of criticism. Even though he was widely second-guessed and the numbers supported the criticism, he wouldn't listen to the naysayers and only later changed his mind (similar to Wells' Stumpf).

Leaders need to be confident yet also humble and open-minded to make good, informed decisions (Abraham Lincoln exemplifies this balance). Sadly, whether heading committees or companies, this balanced leadership style is uncommon. Flawed leaders still get paid a king's ransom, often regardless of their effectiveness. Outrageous compensation, particularly for mediocre (or worse) performance, must be addressed. It creates a two-class system and is nonsensical. It's not healthy for businesses, investors nor our society.

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