Searching Wall Street's Soul

Has Wall Street lost its soul? Some people say it never had one. Others disagree. Whatever your view, this can be important to the performance of your mutual fund.

A defensive investment strategy in this market involves more than a portfolio backed by conservative balance sheets. If the investment organization you have your funds with, and the individuals within it, don't recognize the importance of the things that money can't buy, it is unlikely that they will be able to weather the inevitable downturn profitably. After all, investment professionals are human beings. In a good market, we hardly even need them. We can manage our assets ourselves if all we have to do is buy. However, it is in the downturns that we need finance professionals who can exercise wisdom and judgement – not just panic.

One of the key areas in which professional investors have traditionally added value for their clients is in their ability to separate themselves from the powerful emotions of fear and greed inspired by a moving market and to make effective decisions. Unfortunately, the continued boom on Wall Street and the rush of wealth it has created is now challenging the professional detachment of many finance veterans.

I was recently reminiscing with a colleague about what working in finance felt like to us in the early 1990s. We were waxing nostalgic over the sense of family that seemed to permeate the firm we worked in then. Our team was client-focused. We both remembered the exhilaration we felt working among people who were driven as much by intellectual integrity as they were by the pursuit of personal financial gain.

Another friend who has achieved the "big bucks" that drive most of today's Wall Street talent admits that she's less than thrilled. She broke into a smile inspired by the black humor many traders turn to when they're frustrated and told me: "the inmates are running the asylum.

The senior partners are all mesmerized by calculating that they now have enough money for their great-grandchildren to retire. There's no team spirit anymore. People are too busy stabbing each other in the back to work together on anything. What's worse, everyone else is so ruthlessly fixated on doing whatever it takes to get a bigger piece of the pie for themselves that investors' interests are suffering. It's hell."

A senior Wall Street executive recently confessed to me, shyly, that he hoped the market would stop rallying. "I don't want to see a crash, mind you," he added quickly, in a palpable show of loyalty to his colleagues and his customers, " I just think things have gotten a little out of hand. Things have been so easy for so long that people aren't being challenged, and they're getting stale."

These personal anecdotes are also reinforced in the press. Top periodicals from New York Magazine to Newsweek have recently devoted their covers to the envy spawned among members of our workforce in response to the newly rich. These articles note how demoralizing it may be for otherwise contented professionals to feel they have missed their chance to "make it" if they don't get rich in this current boom. In the current economic climate, investors need to be more conscious than ever that their finance professionals are human beings who must be able to remain objective when dips in the market induce powerful emotional reactions. The emotional climate on Wall Street engendered by the unprecedented and unsettling speed with which wealth is currently being accumulated means that the truly precious commodities have become the things that money can't buy. Such non-materialistic treasures include the ability to think about problems from a creative perspective, an inner sense of calm and even a sense of humor when dire consequences are immanent. These are the qualities that, combined with market experience, help a professional outperform in both good and bad markets. Sadly, the way that individuals and organizations lose their access to such "assets of the soul" is first by denying their scarcity, then by minimizing their importance and finally by forgetting about them altogether.

I get strong reactions from finance professionals when their dwindling access to the things that money can't buy becomes the topic of conversation. Some nod sadly and say they regret the fact that young people coming into the industry can't know what a fun and fascinating workplace a trading floor used to be. Others' eyes flash and they vehemently respond that they don't know what the HELL I'm talking about. The latter response tends to come from people who are feeling threatened by anything that would divert them from the single-minded pursuit of getting "their piece."

It's important for investors to remember that behind the clever advertisements, the flashing screens and the professionally-polished presentations that the finance business is one of the most human capital intensive industries in the world. In this market more than ever, investors should look for finance professionals with a solid track record in performance and a style that fosters the skills necessary to face the unknown at any moment.

Invest in people who invest in their internal resources. In an economy preoccupied with material rewards, it's a good contrarian strategy.