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JULY 2019

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Corporate Governance

- Article by Mark Lazar

Sunlight is justly commended as the best disinfectant. **Justice Louis Brandeis**

On September, 17, 2011, on the heels of the financial crisis, a left-wing protest movement, known as Occupy Wall Street, began in New York's financial district. The mission statement of the Occupy movement was reportedly to combat economic inequality, corruption, greed, and the political influence of Wall Street. Although the purpose may originally have been well-intended, protestors oftentimes resorted to violence, chaos, and destruction of both public and private property, as opposed to peaceful civil disobedience, to draw attention to their cause. In the end, their efforts failed to effect the desired reforms.

The Occupy movement captured the nation's attention and many Americans empathized with them. Understandably, there was a lot of anger, confusion, and resentment in the aftermath of the financial crisis. Virtually everyone felt the pain of falling home prices, eviscerated 401K plans, rising

unemployment and flagging wages. But who was to blame? The commercial banks? Investment banks? Regulators? Federal Reserve? Mortgage brokers? Appraisers? Real estate agents? Rating agencies? The government? Or something else? It's fair to say that all of the aforementioned shared culpability, although not equally, and contributed to the perfect storm that was the financial crisis of 2007-2008.

In the same fashion Nazi Germany villainized the Jewish people for their woes, OWS did the same; except they instead wagged an accusing finger at the Monopoly man. The Wall Street banker became the symbol of corruption and unbridled greed. While Wall Street had its share of bad actors and was complicit in contributing to the crisis, to portray everyone who works in the nation's financial center as immoral is absurd. Financial capital is a necessary component for any functional economy, free market or otherwise, and Wall Street serves to connect those in search of capital with investors. Apple, Amazon, Walt Disney, and Starbucks, to name a few, required capital to develop and grow. Public infrastructure projects, such as highways, mass transit, water projects and schools, all rely on public financing. Wall Street is instrumental in providing capital for public as well as private enterprise.

On September 15, 2008, Lehman Brothers, one of the largest U.S. investments banks, which had been in business for 158 years, filed for bankruptcy protection. The CEO, Richard Fuld, earned over $375 million in the five years preceding the company's collapse. Within months of Lehman's demise, several other bellwether financial companies also failed. The list includes Indy Mac, Bear Stearns, Fannie Mae, Freddie Mac, Washington Mutual, and AIG. The failure of these firms didn't just adversely affect the stakeholders of the company; it put the entire financial system in jeopardy.

The Occupy movement could have done the country, if not the entire world, an enormous service if they had instead addressed what was, and still is, a major problem; failed governance; not just of Wall Street, but of corporate America. Corporate governance is the framework of rules, practices, and processes by which a board of directors manages the affairs of the stakeholders, including shareholders, customers, employees, vendors, and the community. Good governance focuses on sustainable profitability, ethical behavior, transparency, and citizenship. Bad governance does the very opposite.

While Wall Street cannot deny its role in the financial crisis, it was just one of many players. However, it makes for a far better tale to depict Wall Street bankers as the bogeyman rather than implicate the millions of Americans who rushed out to buy a home, and knowingly misrepresented their income and financial statement when they applied for a no-doc loan. Just as we should hold corporate America to a higher standard, we must hold ourselves to one as well.

Change will occur only if we demand it of our corporations and our government. Had the Occupy movement been about improved governance, I would have (peacefully) marched alongside of them: The following are ways in which corporate governance could be vastly improved:

- Board members of public entities should be limited to one company at a time. Most members sit on several boards concurrently, are oftentimes full-time corporate executives, and are engaged in numerous personal ventures. How can a part-time board member possibly provide the time, attention, and diligence needed to fulfill their duties?
- Board selection should be based on qualifications, objectivity, and character, as opposed to the good-old-boys' club.
- Board members have a fiduciary duty, or a higher standard of due care. If they are found to have failed in their duty, they should be held accountable and subject to commensurate civil

and, or, criminal penalties. Had corporate executives and board members guilty of malfeasance been marched out in handcuffs post-financial crisis, it's unlikely the Occupy movement would have gotten off the ground.

- Restrict or eliminate corporate funding of lobbyists. In 2019 nearly one billion dollars will be spent attempting to win the favor of politicians in Washington. Below is a list of the largest corporate contributors to the lobbyists' coffers.

Company	Amount
Northrop Grumman	$5,640,000
United Technologies	$5,060,000
Koch Industries	$4,620,000
Pfizer Inc	$4,200,000
Amazon.com	$3,980,000
Lockheed Martin	$3,858,622
General Motors	$3,840,000
DowDuPont	$3,780,000
Alphabet Inc	$3,530,000
Comcast Corp	$3,500,000
Facebook Inc	$3,400,000

- Compensation should focus on long-run profitability and value, for both executives and board members. Corporate management should receive, as a significant portion of their compensation, long-term stock options that require certain hurdles, such as sustained revenue and earnings growth, before they vest and can be exercised.

When companies behave badly, Main Street becomes distrustful of Wall Street, and fears the game is rigged. Which is why it is imperative that corporate America be held to a higher standard and conduct itself in a fashion worthy of the public trust. This isn't to say companies shouldn't strive to maximize profits. They should! But the best run companies are also the most ethical and transparent ones. Profits and exemplary governance are not mutually exclusive. Rather, they go hand-in-hand

Did you know most Americans don't have a written financial plan?

We thought you might find the following article interesting. Please click on the link and call me if you have any questions. http://financialadvisoriq.com/pc/1972884/231834

Wasatch Team Updates

Mark

Mark and Savina enjoying warm weather, summer is finally here! If you haven't planned your visit to see us in Idaho yet, I highly recommend it!

Morgan

Taking a break for a quick bike ride with friends while at the Raymond James Headquarters in St. Petersburg.

John

At the BottleRock concert in Napa, California.

Melissa

Melissa and her sister taking some much needed R&R on a family vacation to Puerto Rico.

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