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## Gleanings



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## It's Time for Merchant Bankers

It seems that the litany of sin and its negative impact on the economies of the world continues. One of the latest revelations involves the heretofore highly respected international wealth manager UBS.

Seemingly without warning, the media reported that UBS agreed to a \$780 million fine to avoid prosecution by the US government for colluding with customers to hide assets, thus enabling them to evade tax liability. UBS's proactive and intentional actions were inconsistent with their Code of Business Conduct, which reads in part:

"UBS is committed to adhering to the standards and restrictions imposed by applicable laws, rules and regulations. We respect and strive to comply with the laws, rules and regulations of the countries where we operate and our own internal policies, guidelines and procedures. We are committed to managing our relationships with UBS's regulators and standard setters in an open, transparent and co-operative manner."

([http://www.ubs.com/1/ShowMedia/about/corporate\\_responsibility?contentId=27505&name=codebuscond.pdf](http://www.ubs.com/1/ShowMedia/about/corporate_responsibility?contentId=27505&name=codebuscond.pdf), page 3)

Note that they commit to complying with the laws of the countries where they operate and being open and transparent with regulators. According to news reports, UBS engaged in a clandestine scheme to help customers hide assets from the IRS.

(<http://www.msnbc.msn.com/id/29305518/>) How can this be consistent with UBS's Code of Business Conduct? UBS's actions are neither compliant with the US laws nor are they transparent.

This situation is especially disturbing because UBS is a major international wealth manager.

Bernie Madoff was an individual who used lies and deception to further his personal wealth. Madoff may have thought that he could hide his Ponzi scheme until he died. At that point, he didn't care if he was discovered. But surely UBS realized that they could not continue this deception indefinitely. What were they thinking?

The reality is that they were probably not thinking. They were chasing money (i.e., worshipping money) with little thought about the consequences of their illicit activities and with certainly no adherence to their own Code of Business Conduct. When a major international company with a seemingly good reputation demonstrates no regard for living up to their own Code of Business Conduct, this taints investor confidence in every public company. Such action makes a mockery of Codes of Business Conduct, which are widely used by public companies to assure investors of their values and principles.

Operating legally and transparently are two key biblical values that facilitate success. But if investors cannot trust that publicly held companies will operate with integrity relative to their own self-declared standards, then what should investors do?

It's time for something new, real change—something that will facilitate better accountability to biblical principles of financial prosperity. If we really believe that adherence to biblical principles is critical to economic success, it's time to move away from investing in publicly held companies who can no longer be trusted to honor their word. So what is an investor to do? What investments should command his or her attention?

To facilitate better alignment with biblical principles of business requires training in these principles and then oversight to insure accountability to these principles. Most likely this will happen with privately held companies.

About a hundred years ago, there were investors known as merchant bankers who focused on investing in privately held ventures. Merchant bankers were seasoned successful businessmen who amassed capital and looked for good investment opportunities. They sought to invest in privately held companies run by young entrepreneurs who needed both capital and wisdom. Hence, when an entrepreneur received capital from a merchant banker, the entrepreneur also acquired a consultant who would help them make wise business decisions.

To help you understand merchant bankers as a source of investment capital, I will contrast them to today's commercial banks.

Unlike commercial banks of today, merchant bankers were not regulated by federal or state governments. Because the government provides insurance that protects depositors from



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bank failures, the regulators oversee and influence the lending practices of commercial banks. Therefore to satisfy the regulators, commercial banks generally are very conservative about lending and generally require a current return on capital.

Because merchant bankers were not regulated, they were much more flexible in their investment practices than commercial bankers of today. Merchant bankers could take equity positions and they did not require a current return on their capital.

Furthermore, when investments falter, commercial banks today tend to become adversarial with borrowers largely because of the compliance pressure from regulators. Therefore, commercial banks frequently respond to adversity with little consideration for the borrower and certainly almost no willingness to prudently consider injecting additional capital.

Merchant bankers tended to respond with more sensitivity and consideration to adverse circumstances. In some cases, they would even invest more with troubled entrepreneurs if they felt it was the best course of action. In other words, merchant bankers were not fair-weather friends as most commercial banks are today. Merchant bankers were true partners who recognized the risk of their investments and didn't abandon their partners just because of tough circumstances.

But perhaps the most important characteristic of merchant bankers was their ability to provide wisdom. Commercial banks generally do not employ loan officers with real business experience; hence, their ability to impart wisdom to their borrowers is very limited. On the other hand, merchant bankers were seasoned successful businessmen; therefore, they possessed wisdom based on experience and knowledge to help the young entrepreneurs.

The wisdom of merchant bankers served to disciple the entrepreneurs. Undoubtedly the ability to establish discipleship relationships was a critical investment consideration for merchant bankers. Because of these personal discipleship relationships, merchant bankers knew their entrepreneurs well. This enabled the merchant bankers to facilitate the requisite character development and business skills needed for success. And the merchant banker was an accountability partner. In this way, merchant bankers enabled the entrepreneurs to maximize their opportunity for success and greatly increased their own potential for profitable investments.

UBS deceived investors by claiming integrity to a Code of Business Conduct that in reality they did not follow. Their sin will cost investors a \$780 million fine plus untold legal fees and management distraction. In addition, they have undoubtedly lost customer confidence, which will negatively impact future profits.

UBS's actions are further testimony to the reality that sin has negative economic consequences. Long term, sin does not work. It does not produce good financial results. The only way to produce lasting success and prosperity is obedience to biblical values and principles.

May I suggest that we need to stop investing in untrustworthy publicly held companies and return to the merchant banker model. Since God blesses alignment with Himself, we need to invest in people who are committed to live according to a biblical worldview and to fulfill their divinely ordained calling. This means that we need to invest in entrepreneurs who are disciples of Jesus Christ as evidenced by their commitment to fulfill the call of God on their lives in accordance with biblical wisdom and values. And we need discipling relationships with these entrepreneurs to train them and hold them accountable to their commitment to live biblically.

May the Lord grant us the grace to learn to be good investors like the Merchant Bankers of old.

## Upcoming Training Venues

Need	Solution	Information (click on date)
Discover Your Life Purpose	<a href="#">Seminar</a> : Strategic Life Alignment	March 13, 2009 in Texas
	<a href="#">Seminar</a> : Strategic Life Alignment	March 20, 2009 in Canada
	<a href="#">Webinar</a> : Strategic Life Alignment	March - May 2009
<b>More Help to Discover Your Life Purpose</b>	<a href="#">Seminar</a> : Strategic Life Alignment Alumni Event	June 26, 2009 in Texas
	<a href="#">Webinar</a> : Strategic Life Alignment Alumni Event	3rd Quarter 2009
Fulfill Your Life Purpose	<a href="#">Seminar</a> : Beyond Babel Model Overview	April 24, 2009 in Texas
	<a href="#">Webinar</a> : Beyond Babel Model Overview	2nd Quarter 2009