Will the next gen of Wall Street be more ethical?

By: David Kudla, CEO of Mainstay Capital Management and Executive Director of RISE Forum
24 March 2014

Several years have passed since the 2008 financial crisis and the Bernie Madoff scandal. In the eyes of the public, these events served as a microcosm of the unethical standards of the era. Market averages have recovered since that time, but the damage was done, and the public's lingering negative perception of Wall Street and the financial industry continues to be felt.

The reality is that in the eyes of many, the financial services industry is more unethical than other areas of business. This is partly due to the fact that the industry itself is expansive, with far-reaching effects that touch practically every consumer and where efforts to regulate fraud have had hit-and-miss success in the real world.

Even with stepped-up regulatory standards, to many observers the real issue centers on the profit motive among industry participants. While the core pursuits of teachers, engineers and doctors are widely praised for their social contributions, the feeling is that financial professionals are only trying to make money.

Although making money is all part of good old-fashioned American capitalism, when coupled with the effects of the Great Recession, it presents a recipe for resentment from the general public. Industry participants, or those considering a career in the industry, need to confront these negative perceptions and help build the idea of a greater purpose: as counselor and builder of financial freedom for people on the road to retirement.

It is time to meet this challenge head-on. According to the president and CEO of the CFA Institute: "When investors lose confidence in financial institutions, it impacts the overall efficiency of the market. Trust and confidence need to be secured for society to be served."

Everyone would agree. That's why attention has turned toward mentoring the next generation of industry leaders to ensure their integrity. Research on the ethics of today's youth reveals surprising statistics. In 2012 the Josephson Institute of Ethics surveyed 23,000 American high school students on their attitudes toward ethics and morality and released its biennial "Report Card on the Ethics of American Youth."

The survey reported:
—51 percent of high school students have cheated on a test in school one or more times.
—76 percent have lied to a parent about something significant.
—20 percent have stolen something from a store.
—55 percent have lied to a teacher.

Astonishingly, more than 93 percent said they were satisfied with their personal ethics and character.

Pay it forward

Witnessing this disconnect between self-perception and real-world behavior among the younger generation has influenced my educational efforts as executive director of the RISE Forum. Now in its 14th year, RISE (Redefining Investment Strategy Education)—hosted annually by the University of Dayton in association with the UN Global Compact, an organization that is committed to corporate social responsibility—is the largest student investment conference in the world, boasting more than 150 universities and other academic institutions among its 2,300 participants.

The conference's popularity is due to the fact that it allows students to network with top industry associations, such as the CFA Institute, as well as CEOs and policymakers, to gain insight into current challenges and opportunities in the financial marketplace. Topics range from socially responsible investing to corporate governance and proprietary trading.

Since RISE itself is run by undergraduate and graduate students who take charge in everything from manning the Twitter feed with CNBC to ensuring the arena is sound-tested for the live broadcast, it gives the student organizers a forum for the challenges that lie ahead in their professional careers. These include mastering the art of multitasking and the importance of time management.

Improving the financial industry also involves the development of hands-on experience to augment what students are learning in the classroom. That's why I launched the Kudla Dynamic Allocation Fund last year. As an adjunct professor of finance at the University of Dayton, I oversee this student-run portfolio of more than $1 million that has very wide investment parameters to allow students to hedge, short and even use leverage through individual securities, ETFs and other investments. The fund and the investment process is overseen by an outside group of advisors that have years of experience in academia, industry or both.

Students gain hands-on experience in everything—from developing investment guidelines, to analyzing investment alternatives, to making recommendations to other students in a committee format with a defined hierarchy, to constructing a portfolio and measuring risk and return. Just as important, it provides a solid foundation for responsibility and trustworthiness. Interestingly, the fund has been beating its benchmark since inception, reinforcing the notion that diligence, sound practice and integrity pay off.

These activities represent my efforts to give back and help the next generation of students get set on a course to help the industry improve and promote competence, integrity and honesty as collective goals. The further success and expansion of RISE represents a growing movement among financial leaders to mentor the next generation of professionals.

RISE 14 represents a bold attempt by financial leaders to help the industry earn back the ethical reputation that industry leaders believe it should have. To really have an impact on the future of the industry, I believe you need to put yourself there with the students, get involved, and show them how it's done the right way.

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