A Lesson in Damage Control
(Ron Rhoades, This One's for You)

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Mistakes. Bigger or smaller, sooner or later, we all make them. With meteoric speed, one goof-up can leave a gaping crater in a firm's otherwise stellar reputation.

A missed deadline, a misfiled certification, or worse – in our business, there are countless ways an advisor can run afoul of the regulatory rules. Advisor, educator, attorney and "one-man think tank" spokesperson Ron Rhoades, CFP®, JD, provided a case in point when he recently withdrew from becoming the next NAPFA chairperson after becoming entangled in a minor regulatory problem.

The best way to manage the fallout for your firm's good name is to prevent even the puniest such pebble from ever dinging its shine. Fortunately, since so many advisors are vigilant about their corporate compliance and ethics, most of you will never have to say you're sorry to an inquiring press.

But what if your judgment lapsed and the damage is done. Now what?

Nietzsche marketing: What doesn't kill you

If reports of serious fiduciary misdeeds are indeed accurate, it doesn't matter to me what your response is. For everyone's sake, I hope your ship is sunk long before the media shows up.

But let's say you find your firm under fire more because of misfortune than deliberate misbehavior. Now is *not* the time to panic. Think of it this way: A company's true mettle is never fully tested until it has made an honest mistake and the public is awaiting its response.

What you choose to say and do at this time reveals your corporate culture, amplified tenfold, for better or worse.

To quote financial author Nassim Nicholas Taleb, “Most of us know pretty much how we should behave. It is the execution that is the problem, not the absence of knowledge.” If you rely on that innate professionalism and sense of fiduciary duty that you’ve been nurturing all along as your firm-wide culture, it should steer you and your response team toward the best response.

Disappointing damage control

You may not be able to list the hallmarks of bad damage control, but you intuitively know them when you see them in the press. They’ll resemble one or all of the following:

- **Stonewalling** — “No comment. And, by the way, my lawyer isn’t saying anything either.”
- **Spin, spin spin** — “We’ve consulted with our professional PR agency; they’ll take it from here.”
- **Pointing fingers** — “It was a rogue employee … a disgruntled client … a market turned sour. *Not me*.”
- **Diversions** — “This is nothing more than a witch hunt … It’s a dumb rule to begin with … I’m the fall guy.”
- **Squatting in place — “**Heck no, I’m not resigning as CEO; my people need me.”
- **Blustering** — “We are outraged by these baseless accusations … saddened by the disregard for our privacy … enjoyed a stellar reputation for years … care deeply … blah blah blah.”
- **Back-peddling** — “Upon reflection, we’ve decided compensation may not be warranted after all.”
- **Lying** — “I'm shocked, shocked to find that gambling is going on in here!”

In word and deed (You’ve got to mean it)

If the media has its hooks in you, whether or not you are fully, partially or not guilty, those standard spins won’t do much for you. Unfortunately, they remain the most popular, if not the most effective response.

That’s why, when **Ron Rhoades** generated – rather than reacted to – breaking headline news of his regulatory woes … Woah!

I have great continuing respect for Rhoades that his recent actions only reinforced. If I could hop back in time in the nearest flux-capacitor-equipped DeLorean and un-do the mistake that brought Rhoades down (but not out), I would gladly climb aboard.

But, alas, this is real life.

The best we can do is learn from his mistakes – and, as importantly, from his excellently executed follow-up.

An analysis of effective damage control

By now, most of our close-knit community has probably heard about Rhoades' troubles. His New York-based advisor firm ScholarFi was called to task by the State of Florida for failing to register in a timely manner there. Here's an excerpt from Rhoades' own August press release (as it appeared in **RIABiz**):

> "Over the past several weeks I discerned that I and my firm had committed a compliance violation by failing to timely file registration papers with the State of Florida Division of Securities. While my mistake was unintentional, the violation of compliance regulations is nevertheless material in nature. The mistake made was mine, and mine alone. I accept full responsibility for my personal mistake, and all consequences that may flow therefrom, including the decision by NAPFA to move on without me serving as chair in the coming year."

Let's examine the ways that Rhoades' damage control was done:

He owned the problem — His own words: "*mine, and mine alone*." As the news unfolded, not once did I see him try to shift responsibility, downplay the significance of the error, or bemoan his lot. (This is fully conjecture on my part, but I'll bet what really happened is that a trusted team member dropped the ball. If I'm right, Rhoades wisely recognized it as a moot point. His firm, his fault.)

He was proactive — Instead of hiding behind a sulky vow of silence, Rhoades took swift, transparent, positive action to inform his community about what had happened, with no defensive spin. He notified his Florida clients promptly, refunding their fees for the period during which his Florida advisory services were temporarily suspended. This would be expected from any firm facing similar circumstances, but he went the extra mile by notifying the media as well. He took the problem seriously, letting all of us know what he was doing to correct it and how he planned to mitigate damage done.

He walked his talk — Having built his career on an outspoken commitment to fiduciary care, he did the only thing that would reflect that ongoing commitment when his own actions were found lacking: He fell fully on the sword. This included declining the role of

NAPFA chairperson, which he'd been poised to accept beginning August 31. As much as many of us sorely regret that he could not proceed as planned, he avoided the hubris of thinking any one person is irreplaceable on a team. More important, he embodied the fiduciary spirit in actions louder than any words: he placed the beneficiary's best interests (in this case, the well-being of NAPFA and all fee-only fiduciary advisors) ahead of his own.

He kept his focus on the long-term —Rhoades stayed the course he'd built for himself all along … even when that course turned dark and dangerous. **The results so far?** The State of Florida has issued a letter of non-compliance to Rhoades that was considered "the lowest sanction available," with no accompanying fine; his firm is back in action in Florida. He's returned to his teaching at SUNY. Lauren Locker of Locker Financial Services, LLC was elected as NAPFA chairperson on August 31 and Rhoades remains a contributing member of the organization.

A daunting road, yes, indeed. But it was – and is – the right road. I'll bet we've not seen the last of Ron Rhoades yet. For all of our sakes, I certainly hope not.

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