

TRANSITIONS

INVESTING IN INTEGRITY

Is integrity really passé? Wealthy parents pay bribes to get their child into college. The owner of a major sports team is charged with soliciting prostitution. Politicians are acting anything other than statesmanlike.

With this backdrop, I have been reflecting on the following quote embedded in the walls of the MBA program at the University of Virginia Darden School of Business. “Without a firm attachment to unimpeachable integrity, in our business as well as our personal affairs, we build on shifting sands and there can be no future for any of us.”

Who fits that definition? The answer is many people fit this description, but they just manage to stay out of the news. What I have observed is that where integrity really matters is in the people charged with running public companies. Without integrity at the top, the company then is built on shifting sands and becomes a poor investment.

When investing in stocks, beyond the financial reviews and fundamental analysis, what is important is that the people running the company exhibit integrity. There are many growth companies whose stocks have performed well, yet their chief officers seem not to be completely trustworthy. Because of this critical flaw, I avoid investing in these companies. This may seem more like a social investing theme, but it is actually a sound business decision. When I invest my client’s money, I want the people running the business to be good stewards of our shareholders money and make good



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decisions. I never want to wake up to a scandal involving top management, as this is diverting from their job to make shareholders money.

Companies like Walt Disney, Apple, Microsoft, PepsiCo, McCormick & Co, and Costco all have managers that fit this trait. This does not mean these human beings will never make an error in judgment, or that the company will never face difficult business issues. What it does mean is that when these events happen, these leaders lead by example and with integrity. This filters down through the ranks, strengthening the overall company.

Investing in integrity has worked well for us over the decades, as it is a very important part of successful investing. When investing our hard-earned money, why not simply own well run companies run by persons of integrity?



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