LOL Journal, June 8, 2014

Some colleagues and clients were horrified at the last LOL entry: way too boring. (I did provide a warning at the outset…) So this week's LOL won't require heavy boots for slogging…

Nevertheless, last week's topic—Integrity—is an important one for the investment industry. And interestingly a related topic appeared in the most recent Financial Analysts Journal: ***Fiduciary Capitalism***. (FC) (http://www.cfapubs.org/doi/pdf/10.2469/faj.v70.n3.1) In this article by CFA boss John Rogers, he defines FC in this way:

What I define as fiduciary capitalism is gathering strength and needs to become the future of finance. An era of fiduciary capitalism would be one in which long-term-oriented institutional investors shape behavior in the financial markets and the broader economy. In fiduciary capitalism, the dominant players in capital formation are institutional asset owners; these investors are legally bound to a duty of care and loyalty and must place the needs of their beneficiaries above all other considerations.

Rogers contrasts FC with Financial Capitalism which has led to the "public mistrust of financial institutions." Rogers lists some of the problems with Financial Capitalism:

1. Short-termism: "the average holding period for equities continues to drop to the level of a teenager's attention span."
2. Lack of transparency: "too many institutional investors are secretive and do not disclose enough about their activities." (Note: recently the CFA org sent out an email about Roger's own conduct: The Board conducted an independent review of the matter, and based on that review, John and the Board mutually agreed to initiate a transition to an interim CEO. It's laudable that Rogers brought his conflict to the attention of the Board. It would have been even more laudable had the Board described the issue! They didn't. Revealing the nature of the conflict would have been demonstrating true transparency! ☺)
3. Pension governance itself needs to be improved: "pension trustees are often ill equipped to govern platforms that are effectively complex asset management organizations."
4. Compensation for trustees: "in 27 of the 50 US states, the highest-paid public employee is the head coach of a college football team."
5. Animal spirits: how do they operate and thrive in this FC arrangement?

In his conclusion, Rogers bangs on the same drum that Bogle and Ellis and others have been thumping: FC would mean continued downward pressure on fees. "In the past six years, fee compression for traditional equity products has exceeded 15%." Horrors! How cruel and unjust for the laws of economics to be working against us! Wait. They're not working against us, they're just working. Hmmm. And who is benefitting? The clients! (FCG facilitates many strategy offsites for investment firms and precious little is said about serving the clients, much more is said about creating or buying products that raise the margins back to the level enjoyed in the golden years.)

Rogers' final sentence hits home for me and my colleagues: "In a time when leadership in finance is desperately lacking, fiduciaries have the potential to reconnect financial services with the society they serve." What a novel thought: investment managers serving their clients.

This topic of service connects with the book I am finishing, "Evolutionary Coaching" by Richard Barrett. Richard is one of my mentors, having introduced me to culture models 15 years ago. (See his book, "Building a Values-Driven Organization") Barrett uses an evolutionary approach to leadership coaching. Following the work of Maslow, Barrett points out different needs at various life stages. The summary is given below:

Stages of psychological development	Age range of each state	Need requirement
Serving	Late 50s to early 70s	Satisfy your need to lead a life of significance by being of service.
Integrating	Late 40s to early 60s	Satisfy your need to make a difference by actualizing your mission/purpose.
Self-actualizing	Late 30s to early 50s	Satisfy your need to find meaning through activities or work you are passionate about.
Individuating	Late 20s to early 40s	Satisfy your need for freedom and autonomy by becoming accountable for your life.
Differentiating	8 to early 30s	Satisfy your need for recognition and acknowledgement for your skills and talents.
Conforming	2 to 8 years	Satisfy your need for love, respect and belonging at home and work.
Surviving	Birth to 2 years	Satisfy your physiological and nutritional needs for safety.

Given that I will turn 60 this month, I suppose it is "age-appropriate" for me to be thinking about how our industry—and FCG—can be of service to the world. What I find embarrassing is how many investment executives—over the age of 30--are still satisfying the first three needs: surviving, conforming, and differentiating! Honestly, some of the behavior we see in executive meetings would suggest that blankies, cookies, and afternoon naps are still appropriate for the leaders. At the very least, could we stop idolizing the investment billionaires as if they have successfully reached the top of the mountain? ("Investment success" would put them squarely at level 3, still below the half-way point.)

Having poked fun at leaders in our industry, I'll quickly add that many are solidly in pursuit of the highest levels of development. Last week, my colleague Jeff Fischer and I were privileged to facilitate a tough conversation between two firm leaders and the PMs of a portfolio strategy that the firm was shutting down. Prepared for the worst, Jeff and I were all set to intervene when necessary: keep the conversation constructive, on track, and above the line. Instead, what unfolded was a remarkable dialogue between four mature adults about their learnings, insights and new directions. In the course of two hours, each participant took responsibility for any past mis-communications or integrity shortfalls and apologized sincerely to the others. After the air had been cleared, they calmly turned their attention to unwinding the fund and creating win-win scenarios for each party in the future. Jeff and I were in shock afterwards. Had we just really witnessed that? Is it possible for grown-ups to be so, um, grown up? Apparently so. These experiences are very important at FCG because they set the bar for "best practices." With sufficient levels of trust and respect, difficult conversations can be productive.

Returning to the evolutionary table above, I can suggest a practical exercise for all of us who wish to meet the needs at the lower stages and, therefore, be able to ascend to the higher ones. All of the needs of the first three stages correspond to the fears that take us "below the line." Specifically, when we are afraid of losing security, approval or control we dip below the line. (And take on the personas of victim, villain, or hero.) So, a useful technique for managing these fears is to ask yourself—when you are below the line—which of these three concerns has been triggered: security, approval or control. Most investment professionals can readily identify which one of the three is bugging them. For example, a PM who just got passed over for partnership at a firm could easily identify "approval" as the trigger. In her words, "I'm afraid that this means I'm not a member of the club. I'm an outsider." Note that a different PM could just as easily associate this event with security ("I may lose my job.") or control ("I won't have a say in firm matters."). The same event will affect people differently. As you learn to identify which "need" has been triggered (the need to feel secure, or approved of, or in control), you can practice letting go of the desire for it. The "wanting" of it. As simple as this practice sounds, it actually works. To review:

1. Feel the fear: "I may lose my job."
2. Name the want: "I want security."
3. Ask yourself, "Could I let go of wanting security, just for right now?" (Note: it is fine to HAVE security in one's life, but what is painful is WANTING it. As IF you don't have it.)

The need for security (or approval or control) will, of course, return in the future. But just use the same technique each time it does. Eventually, the need returns less and less frequently. And when it does you know what to do. The biggest problem with this technique for investment pros is that we are too damn smart for our own good sometimes. We look at these incredibly simple instructions and think, "THAT can't possibly help!" My advice: experiment with it. See for yourself.

And finally, a request. On June 19 I am moderating a panel on "Product Innovation." Given the discussion above on Fiduciary Capital—doing right by the clients—my request is to send me any thoughts about innovations in the investment world. Which ones have benefitted the clients? Which ones might benefit clients in the future? The audience is 60 CEOs so it is a great forum to reinforce the idea of Fiduciary Capital on the product front. Please share any thoughts. lseveryns@focusCgroup.com

Thanks until next time,

JW