Jim's Journal:

April 3, 2014: In this entry, I review five books that have lessons for the investment profession. Also at the end I include odds 'n' ends on various investment topics.

1. **Made to Stick** by Dan and Chip Heath
2. **Switch** also by Dan and Chip
3. **The Blame Game** by Ben Dattner
4. **The Art of Possibility** by the Zanders
5. **The Challenger Sale** by Matthew Dixon

I love ideas. Especially integrating new ideas and models into the everyday world of investors. Investment pros are busy reading technical material each week. So, I see my value add as reading lots of good material—which goes unread by our clients—and then summarizing the ideas for them. Until now that occurred in books, white papers, speeches, and consulting sessions. But my growing frustration is that there is too much leakage. Great stuff that never makes it to our clients. I have the pleasure of reading great material and learning directly from successful clients each week. And of course working with colleagues who are also reading and thinking about value-add ideas. Hence, my blog. This one will be longer than future blogs because I am covering several weeks of reading and engagements.

In this piece, each week, I will share insights, lessons, practical tips from the most recent books and meetings. For example, in front of me on my desk I am looking at five books I just finished reading (in the last month). Each of them has some gems of wisdom. I'll endeavor to capture the highlights of each book, and provide specific ways that each is helpful to professional investors: in any of the three aspects of leadership—the self, the team, or the firm. So, let's begin. (And if you want more on any book/idea, just let us know: we have book summaries and links that are helpful. Ask Liz: lseveryns@focusCgroup.com)

I just finished, "Made to Stick" by the Heath brothers. Great book. I picked it up because we are reading a lot about "excellence" and "deliberate practice." The Heath brothers (Chip and Dan) teach at Stanford and Duke respectively. The subtitle of their book is: why some ideas survive and others die. Investment professionals are often is the position of selling their ideas, or selling their *stories.* In this book, they describe compellingly how to present ideas in a "sticky" fashion. Their formula is:

- **Simple**: what is the essential "core" idea? Not necessarily a sound bite, but the headline idea that is both simple and profound. The Golden Rule is an example of simple and profound. All of us in meetings have wondered, "What is the point? Where is this guy going?" Present the core idea simply.
- **Unexpected:** Use surprise to grab attention. A great convention for this is, "Most people know (conventional truth inserted here), but what they don't know is (unexpected, unconventional truth inserted and discussed here)." Separately, Nancy Duarte (author of Slidology, and an expert on slides and presenting) states the same thing in her research: the great speakers from

Churchill to Martin Luther King use this same technique: here's what you know, and here's what you probably don't know.

- **Concreteness:** sticky ideas are full of concrete examples. People remember sayings like, "A bird in the hand is worth two in the bush" because it is concrete and vivid. Anchor your abstract concepts like "risk on, risk off" with something real and concrete.
- **Credibility:** the investment world is full of skeptics. So, you need to be thoughtful about presenting ideas. What evidence do you need to provide to move people from skeptical to bought in? For example, FCG has been hired by many firms because we have decades of experience IN the money management industry. When speaking publicly to investors, I always make sure that they know I managed a portfolio for over a decade.
- **Emotions:** we are wired to react and do something when we feel things for people, not abstractions. Too often investment people—as intellectuals—believe that a sound argument will win the day. Sometimes that is true. But a much stickier approach is to make a powerful emotional argument. Example: it's one thing to talk in theory about a toxic culture, it is quite another to have the CEO picture his best portfolio team being lifted out (because of a toxic culture). Culture is an abstraction, but the top portfolio team is very real and their departure strikes fear into the calmest of leaders!
- **Stories:** simply reciting facts and figures, or giving examples is not as powerful as telling a compelling story about the same data. Good cultures are built by telling stories not by reciting slogans or brandishing paper weights with values listed on them.

True to form, the Heath brothers have a web site with lots of good sticky material on it. This link will take you to their one pager for the formula above: http://heathbrothers.com/download/mts-made-to-stick-model.pdf

Having learned so much from their first book, I immediately bought and read, "Switch" which is subtitled: how to change things when change is hard. As you would imagine, the book is very "sticky" reading. The authors use their SUCCES formula throughout the book. FCG is in the business of helping investment firms change individuals (through coaching) and organizations (through culture initiatives). Our previous reference book for change was "Influencers" (Kerry Patterson), which remains in our minds a great piece of work. Fortunately, "Switch" embraces the same concepts as "Influencers" (so no cognitive dissonance) but uses different language and stories to reinforce their teachings. Here's the key. All change hinges on effectively working these levers:

	Skill (know how)	Will (Motivation)
Personal	Do I know how to do the new behavior/skill?	Do I want to do the new behavior/skill
Social	Can my co-workers provide know-how and tips?	Is there healthy peer pressure to do the new behavior/skill?
Structural	Has my firm made it easy to learn the new behavior/skill via workshops, internet sites, etc.?	Are the proper rewards in place so that the structure supports the new behaviors/skills?

The metaphor that the Heaths use for the journey of change is a man riding an elephant. Using the model above:

1. **Rider** = the mind, the rational part of us. So, Direct the Rider. (Clear instructions on the skills)
2. **Elephant** = the emotions, the irrational part of us. So, Motivate the Elephant. (Find the way to influence feelings, sometimes by breaking down a huge change into tiny pieces.)
3. **Structural** = the path to change. Make the changes as easy as possible, using "Nudge" principles.

The Heaths provide a one pager on Switch as well: http://heathbrothers.com/download/switch-framework.pdf The two summaries from the Heath books are both excellent to print and laminate, which I have done!

My reflection on investment firms after finishing "Switch" is how primitive many leaders are when it comes to change. Instead of approaching change as a scientist, asking, "How do I test my hypothesis?" or as an investor, asking, "How do I find the best investments?" many investment leaders simply resort to: "we pay him/her a salary, s/he should do what I say." And while this statement may be true, it ignores the human reality: yes, but s/he is NOT doing what you say! The response is then: "well, fire him/her!" We often find very little curiosity on the part of investment leaders when it comes to motivating and influencing their teams. Odd because the very same leaders could show huge curiosity about markets, but very little about people. "Employees should just do what you tell them" is the primitive and ineffective approach of many leaders.

Which brings us to the third book that I read recently, "The Blame Game." How should firms define and practice accountability? Ben Dattner does a nice job of covering the topic of credit and blame within firms. The evidence is pretty damning: study after study shows that blaming people (finger pointing) is not useful to creating a culture of accountability. In fact, it is quite toxic. Blaming results in fear, distrust and resentment. And firms that have a blame culture underperform the "blame-free" firms. The research that FCG has done on this topic is being finalized in a white paper co-written with Research Affiliates (Rob Arnott/Jason Hsu) entitled, "Does Blame Predict Performance?" Indeed combining our research (from culture surveys) with their high-powered statistical analysis (Jason is a Phd), we show conclusively that less blame leads to more success. In short, it pays to create a learning culture, one in which people acknowledge their mistakes and learn from them. For readers who have followed our books and white papers at FCG, there is no need to read Dattner's book as he is reinforcing our same principles: curiosity, taking responsibility, speaking candidly, staying above the line, and generally reducing fear in the firm. I do recommend reading our new white paper in a few weeks when it is released. (It will be on our website: www.focusCgroup.com)

The fourth book, "The Art of Possibility" by the Zanders was a special treat. I enjoy watching for synchronicities, those random events that seem a little too "perfect" to be accidents. I chalk them up to the Universe stepping in and guiding our progress. Divine intervention, if you will. This book was lying on our washing machine in the mud room, and I have no idea how it came into our house. I looked at the cover and the endorsements, then read a few pages and decided to take it on Spring break with me. A wonderful choice. Benjamin Zander is the conductor of the Boston Philharmonic and his wife, Rosamund, is a practicing psychotherapist. Together they have written a book which explores beautifully several topics that we teach and practice at FCG: curiosity, accountability, appreciation, and genius (finding one's true talents). The book is divided into "principles" (chapters), each of which delivers a teaching about life and leadership. Several of my favorites:

- **<u>Give each student an "A"</u>** at the beginning of the semester, and have them write a paper as to why they received their A grade. I recommend that FCG use this tactic in coaching assignments. Imagine the power of saying to a coachee at the outset: "I am giving you an A on our coaching experience, now you write me a letter as to why you achieved an A." First, this sets a very positive expectation: we will succeed and you will achieve the changes you have outlined. Second, it helps them think through exactly what the changes look like. What specifically did they do to earn the A grade? Everything is written in past tense, so it gives the coachee a chance to "feel" that s/he has already succeeded: "I was successful because…" In the quote below, Zander is talking about his music students, but imagine this statement in the context of investment learning:
  "It is only when we make mistakes in performance that we can really begin to notice what needs attention. In fact, I actively train my students that when they make a mistake, they are to lift their arms in the air, smile and say, "How fascinating!" I recommend that everyone try this."
- Another wonderful principle is "**<u>Rule Number 6</u>**." This story is worthy of repeating in its original form from the book:
  "*Two prime ministers are sitting in a room discussing affairs of state. Suddenly a man bursts in, apoplectic with fury, shouting and stamping and banging his fist on the desk. The resident prime minister [hmmm, abbreviates to PM interestingly…] admonishes him: "Peter," he says, "kindly remember Rule Number 6," whereupon Peter is instantly restored to complete calm, apologizes, and withdraws. The politicians return to their conversation, only to have the same scene with a different person repeat itself a few minutes later. Again the intruder is met with "Please remember Rule number 6." Complete calm ensues and the person leaves quietly.*
  Curiosity clearly piqued, the visiting prime minister says, "That is remarkable. Can you tell me, what is Rule Number 6?"
  "Very simple," he replies, "don't take yourself so goddamn seriously."
  "Ah, that is a fine rule." Then after a moment of pondering, he asks, "What are the other rules?"
  "There aren't any."

  I love this story. And if clients embraced it, FCG would immediately lose half (or more) of its current assignments. (To be clear: we would LOVE that outcome. We're happy to find other ways to add value!)
  Let's talk about taking ourselves seriously. In our parlance: that's ego territory. Put simply, the ego is what drives the conflict/drama in our engagements. Whenever we take ourselves seriously, we are deep into the "ego mind." (Our clients will recognize this as "below the line" behavior/mindset.) The basic nature of our ego mind is fear; it lives in a permanent "me vs. them" mentality. Always in danger. One company president heard Zander tell this story and liked it so much that he ordered double sided plaques for all employees which read simply,

"Remember Rule #6". The president said, "the climate of cooperation and collegiality that resulted from this one simple act has transformed our corporate culture."
As I said, if investment firms embraced this attitude, cultures would improve overnight. The remainder of this chapter is a wonderful discussion of "scarcity" mentality vs. "abundance" mentality. Scarcity = "there is never enough, so I have to fight for my share." Abundance: "there's plenty to go around. In fact, I'm happy to share." It's amazing how many super rich investment professionals are still living with a scarcity mentality.
Scarcity and Leadership. Good leaders know how to "source" their abundance from within. In other words, they don't rely on people, places or things to provide their inner security. Insecurity and neediness are dangerous attributes of leaders…or followers! (FCG coaches are trained at helping people develop inner security, regardless of what is happening with economies, markets or portfolios.) Our Focus Elite (see our website for more on the eight firms that are considered Elite) leaders all display an abundance mentality.

- **<u>The Way Things Are</u>** is another chapter in Zander's fine book. This one deals with the big idea of accepting things as they are vs. how they SHOULD be. This is another core FCG teaching: appreciating reality vs. entitlement mentality. Increasingly I see different thinkers pointing to this same truth: what you focus on grows. The Heath brothers (above) call it "Finding the Bright Spots." For example: many of your sales people may be turning in unimpressive numbers. So, do you focus on that, or do you shine a light on the few that are way above expectations? By focusing on the latter, you can learn great lessons and teach the underperformers (see next bit about "Challenger Sale" for more on this). Find what is working and leverage it. Another aspect of this chapter is captured in the Stockdale paradox, told by Collins in "Good to Great." Admiral Stockdale survived the Vietcong prison camp experience, and studied the attributes of those who also survived. It was not the pessimists: they died off rather quickly. It was not the optimists: they died off when their dreams were shattered. It was the prisoners who accepted things "the way they were" and still maintained a positive outlook. A kind of "detached optimism." How does this relate to investing? We coach many PM's who are devastated by several quarters of bad returns. If they are too pessimistic ("Crap, I've lost my edge; I'll never get it back."), they are doomed. If they are naively optimistic ("It'll turn around any day now"), they can crash and burn. As in the Stockdale paradox, the successful mindset is: performance is bad, but I believe in my process and myself and my team, and eventually it will turn around.
- **<u>Being the Board</u>** was another great chapter, which addresses the issue of accountability. FCG teaches that blame is bad; it hurts teams and cultures. So, what is the alternative to blame? How do you create a culture that is accountable, but not riddled with blamers? The Zanders agree that blame is bad and offer an analogy that is interesting. They call it "being the board." They are referring to chess. Zanders suggests that we identify with the whole chess board rather than one piece: the knight, the rook, the Queen, etc. This shift depersonalizes the game. It's as if you are watching all the activity from above, rather than as a player within. From this perspective, we can ask better questions like, "how did it come to pass that our best equity team got lifted out?" The key is to eliminate blaming and victimhood, and to encourage taking responsibility. The FCG version of the "chessboard" is to assume that you are the writer/director/central casting of the play that is unfolding around you. Both frames assume

that you are in charge of ALL the moves taking place, so there is no “them” to blame for mistakes. The frames are not meant to be accurate but rather to empower each team member to consider the outcomes AS IF s/he were fully in charge of the whole situation.

These bullet points from “Art of Possibility” don’t do justice to the wisdom and heart with which the book is written. It is not simply a recipe for better leadership but a compassionate look at life and possibilities when we are curious. I read it eagerly while on vacation with my family in Naples, FL.

Finally, I also read “The Challenger Sale” which was a recommendation from Michael Torres, CEO of Adelante in Oakland. I resisted reading it at first because my favorite sales book of all time is “Let’s Get Real or Let’s Not Play” and I did not see—frankly—how any book could come close to the wisdom of it. I braced myself for a “sell, sell, sell” onslaught. But I was wrong. Challenger is quite good. Challenger is a VERY thoughtful look at the “new” form of solution selling since the crash of 2008. Backed up by a lot of data. The big idea, which is the real takeaway, is that “challenger” sellers have replaced “relationship” sellers in the new economy. Challengers do the following:

1. Teach (unique perspectives)
2. Tailor (knows customer drivers)
3. Takes control (comfortable talking money and pushing)

While Relationship builders are characterized as follows:

1. Get along with others (customer advocate)
2. Likeable (trustworthy and genuine)
3. Generous with time (accessible)

Author Matthew Dixon defines a key difference as “the Challenger is focused on customer value, while the relationship builder is more concerned with customer convenience.” The challenger is ok with tension, while the relationship builder values harmony. Importantly, challengers can be developed, even if they have been more “relationship” oriented in their career. They can be trained to “teach, tailor, and take control.” In the increasingly competitive investment world, this book on sales resonated with me. Successful sales people must know their customers and offer them insights, not merely listen attentively to their needs. (We recently circulated internally a great quote from Henry Ford: “If I had listened to my customers I would have offered faster horses.”) Similarly, the Challenger approach requires a firm’s marketing department to offer their sales people thought leadership ideas, so that the sales people can provide unique insights. (Dixon is careful to point out: many of your sales force will NOT be the ones capable of coming up with these insights. So Marketing has to develop them. All the more need for teamwork.)

For all of the points above, the book offers solid evidence to support them. One interesting finding, based on conversations with our clients, is about empowerment. Many firms have asked FCG to help them define and encourage empowerment in their firms. As it relates to Challenger selling, the book makes this point: in the current business environment, almost no managers agree with the statement “leadership empowers managers to set their own course of action.” Yet in the same survey, “managers also told us that they believe that empowerment—or freedom to make decisions—is in fact the most important factor in their current success." The conclusion from this statement: "data suggest that most organizations have a long way to go to build a culture where sales innovation can thrive."

I recommend Challenger to Chief Marketing and Sales officers in all asset management firms. There is a genuine shift in thinking presented in this book. One worthy of consideration.

Additional odds n ends from past few weeks.

1. Wonderful TED video by one of our advisory board members. **Andrew Canter**, CEO of Futuregrowth in Cape Town, shares our passion for investors that "do well and do good." In this video, he gives a great presentation on the topic: https://www.youtube.com/watch?v=WemxQJArxHU
2. New piece from our friend **Michael Mauboussin** (now at Credit Suisse) called Methods to Improve Decisions: Five Common Mistakes and How to Address Them.
   The five mistakes are:
   1) relying too much on the "inside view" (one's own experience)
   2) Too few alternatives
   3) No devil's advocacy
   4) No rigorous self-accountability
   5) Poor culture for good decisions
   We are putting it on our website, so look for it there if you wish to read it.
   www.focusCgroup.com
3. **Byron Wien** at Blackstone put out a nice piece: Life's Lessons (20 of them). My favorite of course: Read all the time. Another important one: Take the time to give those who work for you a pat on the back when they do good work. (JW: We are an entire industry of "under-appreciators." With the two major reasons being: 1) if we appreciate people, they'll want more money. (wrong) and 2) if we appreciate people, they'll stop working so hard. (wrong again) If you want this piece, let Liz know: lseveryns@focusCgroup.com
4. April issue of Harvard Business Review has great article on Bridgewater called, "Making Business Personal." The article totally supports the FCG view that "instead of hiding their weaknesses, employees should use them as opportunities for both personal and business growth." Interestingly, Ray Dalio and HBR article author Bob Kegan were present at a case study on Bridgewater at Harvard. After thoroughly discussing Bridgewater's "deliberately developmental" culture, the professor asked, "So how many of you would to work at Bridgewater?" Just three hands went up in a class of 80. "Why not?" asked the professor. One bright woman who had been very active in the case discussion said, "I want people at work to thinks I'm better than I am; I don't want them to see how I really am!" And there you have it: the triumph of the ego! The ego does NOT want to risk and be vulnerable, it wants to look good.

As I stated above, most of these blogs will be shorter, as they will cover a week's worth of reading and consulting. If you made it this far, thanks for sticking with me! More good stuff next week. Wishing you success in "doing well, and doing good."