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Building Your 'A' Team

Synopsis: ***Here are a few power tips to help advisory firms develop their staff from all over the place into a team of high achievers.***

Takeaways: ***Map current staff in 'suitability-eligibility' space, and the path forward becomes obvious. Hire for 'add' and vet new hires by asking them to tell stories.***

I'll get this out of the way up-front; the 2021 Insider's Forum conference in Nashville, TN was a huge success—which, of course, is not exactly what we expected when we took a deep breath, gulped a few times and went ahead with the scheduling in the teeth of Covid. The meeting attracted about 70% of our normal attendance, which made it easier for us to create social distancing at the meals and in the session rooms, and we deliberately cut back on the number of exhibitors for the same (social distancing) reason—and sold out the reduced exhibit hall to a curated group of companies.

There was a happy buzz throughout the meeting, good interaction in the exhibit hall, and we were gratified when the feedback forms came in with mostly "excellents' for quality of the program, quality of the networking, relevancy of sponsoring firms, quality of the food and drink and (most importantly) the overall conference experience. There were some "goods" sprinkled in there, but very few overall conference experience ratings were below excellent. (The complaint most often cited: not enough food provided during the exhibit hall breaks. The second

EARLY WARNING

Every year, advisors have to parse through their clients' mutual fund and (sometimes) ETF holdings to see which are poised to surprise their investors, not in a good way, with large taxable capital gains distributions. The best resource for finding all this information in one place is CapGains Valet (*https://www.capgainsvalet.com/*). There's a free search option for the largest fund firms, and a pro search option that shows you the estimated distributions for 280 fund/ETF families. Plus articles, including a "doghouse" listing of funds with estimated distributions higher than 30% of NAV (15 as of the end of the month); and higher than 20% (59).

Not all funds have posted this data yet; Mark Wilson, the "Chief Valet" of the site, says that historically about 35% of firms post their estimates before the end of October. (You can see how many firms have posted estimates at any given moment by going here: *https://www.capgainsvalet.com/capital-gain-stats-2021/*.)

The service also offers a "delivery" option for advisors who don't want to take the time to look up their individual funds/ETFs on the site. If you send Wilson a list of the tickers your clients are invested in (minimum of 50), he'll quote you a price.

Fran Skinner: *High-performance management to create high-performance teams.*

most often-expressed complaint: not everybody complied with our request that attendees wear masks at all times.)

I suspect that a big part of the success came from the fact that the advisors who came were the self-selected people who were most eager to get out of the office (finally!) and interact with their peers. But the quality of the sessions also had a lot to do with it, and we're grateful to the speakers who put an extra amount of time into providing insights for what we told them was an extraordinary audience.

The tone was set right out of the gate, with a keynote presentation by Fran Skinner of AUM Partners (*https://www.aumpartnersllc.com/skinner.html*). Skinner is an unusual kind of consultant; she helps advisory and asset management firms improve the quality of the work their teams do, by helping each team member find their "A-game." This became a theme of the meeting, as other sessions picked up on different aspects of high-performance people management at a time when firms are adjusting to having staff work remotely.

"Two years ago," Skinner told the audience, "you might not have been thinking about things that are all of a sudden part of your reality."

Hiring for 'add'

What things? Skinner went through an organized list of staff-related shifts that advisory firms are either making now, or will need to make as we move deeper into this rapidly evolving business environment.

She started with recruiting, and a shift from "hiring for fit," to "hiring for add and fit."

Most of us know what it means to hire for fit; you look for somebody who shares your cultural values ('fitting' the firm) and also somebody whose qualifications roughly match the job description that you want to fill ('fitting' the position). The new 'add' component means hiring for diversity—which, Skinner emphasized, is not simply looking for an African-American, Hispanic or Asian person (or, for neanderthal firms, their first woman), but identifying people who will reliably bring new perspectives to your team. That could mean cognitive differences, different backgrounds, different educational experiences—which can come from different ethnic or cultural backgrounds, or be found in different personality types.

"When we sit around the table vetting ideas or coming to decisions," Skinner told the group, "we want to make sure there aren't any missing voices or perspectives."

But how, exactly, would you identify someone who could be a 'missing voice?' One of the Skinner's trademarks is creating matrices that define personality types or proclivities, with one characteristic charted horizontally along the X axis, and another charted vertically along the Y axis. This produces a four-quadrant matrix that will be familiar to anyone who has graphed investment performance in risk/return space—except that in the first graph that Skinner presented, the horizontal X axis defined how well (or not) a person tends to analyze a decision—getting better as you moved from left to right. "When they look at something, they say, what could go wrong?" Skinner explained. "What could be Plan B?"

The vertical Y axis defined the person's comfort level with taking risk from a business perspective. "When you have a tendency for both," said Skinner, "you will end up in the upper right-hand quadrant, where you're comfortable taking risk, but you're also thoroughly vetting your decisions." In the upper left-hand quadrant, you have people who are very comfortable taking risk, but are not inclined to analyze their decisions. In the lower right, you find individuals who analyze things to death without ever making decisive decisions. (Skinner didn't mention the lower left quadrant, where people weren't inclined to analyze and didn't want to take any risks; do we know anybody like that?)

Skinner uses personality assessments to map a firm's existing staff members to precise points on this matrix, and in the example she showed us, many of the employees were represented by dots clustered toward the middle of the upper right-hand quadrant, while two other staff members mapped in the upper part of the lower right (not risk takers, basically). She pointed out what the overall graphic lacked: somebody at or near the top of the right-hand quadrant, somebody who was analytical, but who provided more of a risk-taking perspective than anybody currently on the team.

From there, she showed the results of her personality assessment of several potential hires. One of them was an obvious not-fit; she mapped to the upper left side of the upper left quadrant, all risk and no analysis. Others were mapped inside the cluster, which means they weren't bringing anything new to the table from a risk/analysis perspective. And finally, there was one candidate who mapped to the upper middle of the upper-right quadrant, inclined to the same level of analysis as most of the team (maybe a little less), but higher than anyone else on the risk-taking vertical axis.

"That person," Skinner said, "in addition to the other values, would be bringing a different perspective onto the team and raising everyone's awareness."

Using personality assessments, Skinner was able to map staff members on a four-quadrant graph based on how comfortable they are with risk, and how analytical they are in a business setting.

Key traits to look for

Beyond that, Skinner said that advisory firms in this complicated business environment should look for attributes that don't typically show up on the resume. Over the past two years, she has identified five traits that distinguish the staff members ('superstars,' she called them) who have really emerged as standout performers during the chaos of the epidemic.

The first is an ability to experiment, to find new ways to do things. "They are the people who really helped you get through the last year and a half," Skinner said. "Their attitude was: *We can figure this out. This is not going to stop us. It will not slow us down; in fact, it might make us even better.*"

The second? "Your best performers today need to be flexible, adaptable to change," Skinner said. "Flexible is about: *Things are coming at me, they are out of my control, and what do I do about that? Do I freeze? Do I sit there and say: I'll just wish for things to get back to normal? No: I am able to pivot and keep going.* Over the past year, as I saw who was emerging out of the various teams that I work with," Skinner added, "they had this attribute."

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Number three is the ability to handle autonomy, which is obviously increasingly important as people are working from home, without direct supervision from their team leaders. "When given freedom from authority," said Skinner, "these people take initiative, and become highly productive and effective. When given the opportunity, they rose up, and figured things out, and began training other people on how to do different things from a technology perspective."

She added that many of the founders she's worked with were surprised to find that some of the people they thought of as their key employees became strangely passive when they began working from home. "That was not observed when everyone was in the office together," said Skinner. "People they thought were high performers, when they were given autonomy, turned out to be simply competent."

Finally, you want to hire for empathy, which Skinner defined as being able to understand the feelings of others, and for persistence, which Skinner defined as being tenacious despite encountering obstacles. For the latter characteristic, she noted that Michael Matthews, a professor of psychology at the U.S. military academy at West Point, found that he was never able to predict who would make it through the rigorous basic training regimen based on their cognitive ability alone. "What it all came down to was grit," Skinner said. "It was their commitment to the goal of getting through, and their willingness to do whatever it took, no matter how difficult, because they were focused on that goal."

If you ask a prospective hire whether she has 'grit' or empathy, she'll say yes, because that's the 'right' answer. Instead ask her to tell a story about how she demonstrated this trait.

Skinner's assessment tools can help advisory firms hire for team diversity, but identifying these additional traits poses an additional challenge. She noted that if you simply ask a candidate if she has grit or empathy, the answer is likely to be an enthusiastic 'yes,' not necessarily because that's true, but because the candidate knows that giving the right answer will make her more likely to get the job.

A better approach, Skinner said, is to ask the candidate to tell stories. You can say: *Tell me a story in the last six months where you showed empathy for someone in a business setting*. "We always tell clients and prospects that past investment performance is no guarantee of future performance," Skinner told the group. "But when it comes to human performance, it is actually predictive to know what a job candidate has done in the past, especially if they can tell stories that show evidence of this."

Micro-feedback

In the core of her presentation, and the part that I found most valuable, Skinner talked about how advisory firms can more consciously move their existing staff from different aspects of low performance into 'A-game' productivity.

To help us visualize the different types of potential staff dysfunction, Skinner introduced another matrix, 'the AUM Job Fit Model.' Its horizontal axis was defined as 'eligibility' (the previous work experience, education, abilities and training, more commonly thought of as *can this person do the job?*). The vertical axis was defined as 'suitability' (the personality traits, preferences and interests, more commonly thought of as *does this person <u>want</u> to do the job?*).

This defines four quadrants, which did something remarkable: it made it clear and easy for the audience to mentally run through their staffs, and see what kind of attention each member would need to be their best self on the team.

Of course, the upper right quadrant is the sweet spot, where a person is 'in the zone,' doing high-impact work with ease and with the highest level of engagement and productivity. Skinner's goal, working with advisory firms, is to help them shift everybody from their current location in 'eligibility-suitability space' from one of the other quadrants to this upper right.

The lower left quadrant defines people who really don't have the aptitude or qualifications to do the job you've assigned, and aren't motivated to do it either. (Not ideal.) Looking at this matrix, I suspect some advisors in the room immediately realized that they had staff people who were stuck in this kind of role, and the obvious solution is to reassess their skillset (moving them across the horizontal axis) to see if their experience is better suited to other tasks. At the same time, you want to find out what roles they really want to play in the organization (moving them up the vertical axis).

If the motivation simply isn't there, the matrix helps cure the tendency to keep coddling lower-left quadrant employees in hopes that they'll eventually improve, and instead cut your losses and encourage them to look for a career with another firm.

The lower right quadrant defines people who are competent and well-trained for their jobs, but who really don't have a lot of enthusiasm for what they're doing, who don't derive significant satisfaction or pleasure from the work they do on a day-to-day basis. These people have little room for growth unless their role is redefined to something that they're going to be more passionate about.

Later in the presentation, Skinner offered a Venn diagram where one circle defined things that the staff member is naturally good at or well-trained for, and the other circle defined the things that the staff member was passionate about doing. Ideally, she said, you want at least a 75% overlap between the two—and the best way to achieve that is to routinely ask your staff members which of their current tasks energize them.

By now, the reader can define the upper left quadrant: people who are enthusiastic about the role they're assigned to, but who lack some of the experience or skills needed to perform at an 'A' level. These are the people you want to focus on to provide additional training, which would move them horizontally into the upper right quadrant.

In today's shifting business environment, Skinner suggested that you don't have a lot of time to gradually move people upward and to the right of her 'eligibility-suitability' matrix. The firms that she consults with, she said, are responding to the fast-changing business realities and need for more staff effectiveness by moving away from year-end reviews. Instead, they're now providing micro-feedback on a regular basis.

"Micro-feedback," she explained, is daily small bursts of feedback, constant reinforcement and course corrections."

Later, I'll outline the session by the Morton Capital leaders where staff is regularly asked what aspects of their current job they're energized by, and what they dread—which undoubtedly helps them prevent people from settling into the lower-right quadrant. And there is an intentional effort to provide regular internal training—the key to moving people rapidly from the upper left to the upper right quadrant. Here, we're talking about helping people make incremental progress in their routine effectiveness regardless of their specific journey toward the upper right quadrant A-game.

Skinner suggested that staff members will be more likely to achieve A-game results if there is a 75% overlap between what they're good at and what they're passionate about.

To illustrate the benefits of micro-feedback, Skinner offered two graphs which tracked the career development of a staff person who is receiving intermittent (quarterly or annual) performance reviews, vs. someone who has been receiving micro-feedback on a regular basis. The first graph shows career advances, and then long plateaus (between reviews) followed by advances, followed by plateaus—and the result is limited, intermittent progress. The second graph showed how micro-feedback created more of a 45-degree upward trajectory of the team member's effectiveness at work. "There is continual improvement throughout the career," Skinner told the group. "I call it 'developmental momentum.'"

Of course, you could see thought bubbles rising over the heads of the advisors in the audience, protesting that they really don't have time for such a labor-intensive activity. Skinner answered these unspoken objections by describing what micro-feedback would look like in a work setting. "I'm talking about, you're walking out of a meeting back to your office, and you say something like, *'I really liked the way you did that. Do more of that.'*" she said. "Or: *'You know, next time you might want to do something different to get more engagement.'*"

Skinner also suggested that the staff members could, themselves, be seeking out feedback: *Would it have gone better if I did something differently? Are there skills that you think you could help me develop, so I could be more effective?*

To further lessen the managerial load, Skinner suggested that feedback be distributed more evenly—specifically, that staff members affirmatively seek feedback from their peers as well as their supervisors. "So many times, in organizations, you will hear the workers say, *our managers are terrible at giving feedback*," Skinner told the audience. "And I'll say: *is that the only person in the organization who can give you feedback? The people sitting around you in the meeting can also give you feedback—peers and people who report to you*."

Of course, managers should balance negative with positive micro-feedback—that is, look for opportunities to praise and reinforce as well as correct. And Skinner said that the top performing firms have managers who, themselves, are in the habit of asking for feedback.

Motivation and stress

Finally, Skinner said that she has seen some shifts in the business environment related to staff retention—and then she alarmed the audience by quoting a recent survey which showed that, once the pandemic is over, 41% of employees told pollsters that they plan to leave their current job and look for opportunities elsewhere. If any of us were feeling complacent that these scary statistics didn't apply to us, Skinner added that the financial-related businesses in the survey had the highest projected turnover of any business cohort.

A survey shows that more than 40% of American employees plan to leave their current job when the pandemic is over. Financial-related companies have the highest projected turnover.

In passing, Skinner noted that these periods of high turnover present a terrific recruiting opportunity. If you have people who live in the lower left or right quadrant, who are stagnating and the micro-feedback isn't helping, you can upgrade by bringing in experienced staff people who are looking for greener pastures.

How can you keep your own A-team performers from becoming top recruits at other firms? If they're peering over the fence, how do you convince them that the grass is greenest in your pasture?

"Why are people leaving their jobs voluntarily?" Skinner asked rhetorically. "The first issue is stress."

To illustrate her point, Skinner offered yet another matrix, where the amount of stress in a person's job environment is increasingly well-managed as you move horizontally from left to right, from frantic and panicked to calm and relaxed. On the other axis, the staff person is increasingly self-motivated as you move vertically from bottom to top.

Once again, this defines four quadrants that looks a lot like risk-return space. The lower left quadrant of the 'stress/motivation matrix' includes all the people on your staff who are under-achievers and are functioning under a lot of stress. The lower right encompasses any staff members who are not very self-motivated, but all in all they're pretty chill about it.

The upper quadrants are the two that Skinner was interested in. At the upper right, you find people in a state that she described as 'poised achievement,' which is obviously an A-game trait. But Skinner is finding that a lot of today's staff members have been migrating to the left, toward the upper left quadrant.

"In normal environments," she said, "these people would find themselves in the poised achievement zone. But when stress hits in the form of the pandemic, and working from home, and elder care, and child care and home schooling, they find themselves in the 'stressed achievement' place. They're highly motivated and focused on achievement, but they also realize that something has to give, either the job or the demands on their personal life."

Later in the presentation, Skinner offered the obvious solution to moving these team members from left to right on the stress scale: job flexibility. She told the story of how, in her career as a manager, she had three managers reporting to her, and they all needed to reduce the stress in their lives. One of them had two school-age children, and wanted to shorten her workdays so that she could come into the office after the kids had gotten on the bus, and leave in time to get them off the bus at the end of their school day. The second had an elite athlete in the family, and she wanted to be free to attend his events—which meant her office schedule might change unpredictably depending on when the games were scheduled. "The work still got done; I was getting emails from her at 9:00 AM on weekends," said Skinner. "But she didn't want to miss seeing her elite athlete play."

The third manager had a long commute, and asked if she could work longer days, four days a week, so she didn't have to come into the office on that fifth day.

Skinner said that the solution was not to simply create a new policy. "I could have said: *our new policy is to have everybody be off on Fridays and all work longer days,*" she said. "But then two of the managers would have been unsatisfied. It is important to understand where people are at, what they need, and what I can do to make their lives less stressful."

In the next article, let's look at some real-world examples of how some of these principles have been applied in the real world. ■

Tending the Culture

Synopsis: ***Here are some insights from top firms on how to create more staff effectiveness and enhance their careers.***

Takeaways: ***Prioritize staff development and client service will improve. Consciously tend your office culture. Seek out opportunities and act like owners at the firm, rather than renters.***

Fran Skinner's keynote speech was just one of several presentations at the Insider's Form that received high marks from attendees for addressing the rapidly evolving staff issues in today's business environment. Another was an outstanding presentation by Jeffrey Sarti and Stacey McKinnon, chief executive officer and chief operating officer, respectively, at Morton Capital Management in Calabasas, CA.

> ***Instead of client-first, Morton Capital runs a staff-first organization--and client service is the better for it.***

Morton does something that most advisors would consider to be kind of radical; it is a 'staff-first' organization that prioritizes the growth and development of the staff over any other company goal, including what everybody else does: putting the clients first. This isn't to say the firm neglects its clients; in fact, the presenters said that client experience improves due to their focus on constantly, consciously evolving a better team.

"In a sports organization, when you want to get fans in the stands, you don't necessarily focus on the fan experience," McKinnon explained. "Instead, you build a winning team, and that team draws the fans into the stadium. We, as leaders, are obsessed with building a winning team," she added. "We believe that you build people, and they help you build your business."

Sarti and McKinnon told the audience that they began their corporate journey toward an employee-first focus by looking internally for 'cultural disrupters' that were causing friction in the operational gears of different workflows. One example is areas where trust was breaking down between different departments.

How does that happen? The example they gave was the not unusual situation where an advisor schedules a meeting with a client at the last minute, and then runs to the operations team, ask them to print out the reports in a hurry. Because the work has to be done in haste, a spelling error slips into the report, and all of a sudden the advisor doesn't trust the support staff to get things right, and the support staff no longer trusts the advisor because they weren't given enough time to do the job properly. (The cure, of course, is to shift attention from blaming to systematically eliminating the dysfunction which caused the problem in the first place.)

Other cultural disrupters: a habit of blaming others when things go wrong (instead of assessing the problem objectively as a learning opportunity); using time as an excuse (saying: *I don't have time to do that*, instead of evaluating your priorities and delegating nonessential tasks); and blind loyalty (where people have worked in the organization for a long time and are therefore tolerated even if they disrupt the culture).

Finding the 'why'

Turning to one of Skinner's matrices, Morton regularly assesses each team member's 'mindset'—which is their term for the level of engagement, the vertical axis that defines whether a person has a propensity to excel in a particular role. "To build mindset, we help our teammates identify their purpose, the 'why' behind their careers," said Sarti. This has the added benefit of helping each person to understand their contribution to the overall client service and experience, and why the tasks they perform are important to the firm as a whole.

How does this work? Morton is now straightforwardly asking its team members to come up with their individual 'why' statement, which defines the purpose of their career. This is the key information that management needs to align their job function more closely with their personal 'why.' McKinnon shared her 'why' with the audience: *'to create meaningful experiences so that we can achieve greater impact.'* In the strictly business context, the 'we' is the firm, but it is also her marriage and friends and family, and having greater impact in the lives of the staff members.

Morton Capital is asking everybody on staff to define their 'why,' so that their job functions can be more closely aligned with their career purpose.

Meanwhile, every year, team members are presented with a survey form that also helps them clarify whether they're currently slotted in a role which (to use Skinner's Venn diagram) is at least 75% consistent with their desired work and their skillsest. The survey is actually pretty simple: each member of the team is asked to select, and rank, a variety of activities from their favorite (1) to least favorite (15); the list includes administration of investments or custodian activities; business development; business operations; collaboration with teammates or other professionals; creativity/learning/innovation time; participating in departmental strategy sessions; developing new processes and procedures; financial planning; investment strategy and research; managing people; meeting with clients; portfolio management and trading; presentation development and public speaking; servicing clients; and strategizing for clients behind the scenes.

The survey also asks questions like:

When it comes to your career path, what are your long-term goals?

How would you like to add value to the organization?

What questions do you have in terms of reaching your short-term career goals?

Is there anything inhibiting you from moving your career forward? Are there any tools/resources you need?

It would be difficult for a Morton Capital team member to be overlooked in Skinner's lower-right (qualified but not engaged) quadrant for very long.

With these detailed responses in hand, the team leaders will develop a career path timeline for their team members, so that each person on the Morton payroll has a detailed playbook which outlines not only what they need to do in the short term to move to a more senior position, but where they can ultimately go in their careers over the long term. Sarti and McKinnon showed the audience a career path timeline—an example of the career map that each staff person co-creates—in this case, moving in roughly one-year increments up through two levels of associate advisor through three levels of lead advisor.

Going back to Skinner's recommendation that firms provide micro-feedback, Morton Capital has every staff member meet with their team leader every two weeks. Together they discuss how well the staff person has met his/her most recent two-week goals, and then they set new two-week goals—all in service of the broader six-month goals in the playbook and the timeline for promotion.

"This process has become way more important in today's remote work environment," McKinnon told the group, "because we, as leaders, no longer have presence-based management to help us see if people are achieving the outcomes that we want them to achieve. It's really important for people to set those short-term goals," she added. "The most failures we've seen in the career path timeline come from a lack of short-term accountability."

Sarti had some observations about the conventional wisdom around the ideal workplace role. "We all want to be passionate about our work," he said. "Every college commencement speech says, *find what you love to do, explore your passion and if you do what you love in your work, you will never work another day in your life*."

Except… Sarti said that he really loved playing basketball when he was growing up, but even standing on the podium, he did not aquite stretch to the height of some of the leading NBA players.

He told the audience that he has always loved cooking, and that is still a passion of his. But the joy of it, he said, would be diminished if he had to work long hours in a kitchen for late nights every day.

"I jumped around a lot in my early career," Sarti said, "struggling to find my passion, and eventually, when I found my current role, I realized that I had to redefine my definition of 'passion.' For me, it was about finding my purpose, my 'why.' And then letting that become my passion."

The point is that staff people may not be strictly passionate about their daily activities, or walking around in a constantly overjoyed state, and there's actually nothing wrong with that; the conventional goal you hear in those commencement speeches may not be realistic in the real world. McKinnon said that she breathed a sigh of relief when she heard about Sarti's scaled-back definition of ideal career aspirations.

Team leaders at Morton Capital check in with their members every two weeks, going over how well they met their last two-week goals and setting goals for the next two weeks.

In-house learning

Meanwhile, Morton sets aside hours a week out of everyone's work schedule to engage in training and learning. One of the firm's core values is a dedication to lifelong learning and education, which basically means a culture of moving people from Skinner's upper left quadrant to the upper right.

"Every week, we have hour-long educational sessions, and the whole organization participates," said Sarti. "The learning topic could be about investments or financial planning, or a junior member of the team may present a case study. It could be on soft skills, or presentation skills."

New aspiring planners don't train for hours a week; they do it full-time. When somebody is on the financial planning career track, they start by simply sitting and absorbing with the financial planning team for six to nine months. The firm also supports its planning and investment staff obtaining the CFP and CFA designations.

But there's actually more. During work hours, team members in similar positions in the company, at similar levels, will hold 'peer accountability' group meetings with each other, an hour a week, to share what they've learned, compare notes, identify and reset their goals and (this may be the most important part) hold each other accountable for achieving their goals and increasing their knowledge and skillset.

Emotions and values

Not all of the Sarti/McKinnon presentation could be directly related to Skinner's insights. One part that I found particularly insightful involved the difference between (largely negative) emotions that will manifest in the workplace and the corresponding values that the company encourages its team members to embrace. Sarti introduced nine common emotions that all of us encounter in the office, and said that it's important for the health of the team that the staff overcome these emotions by focusing on the positive values that are associated with them.

This is fundamentally an exercise in self-recognition, in bringing the feelings that are bubbling up from the primal, instinctive parts of the brain up to the higher cognitive part for a reassessment, and then realizing that the emotion could be trumped by the more thoughtful values that the person aspires to.

The list of emotions on the left, and values on the right, looks like this:

Wrath or anger - *open-mindedness and empathy*

Irrational fear - *knowledge/preparation*

Restlessness - *patience*

Greed - *contentment/self-confidence*

Jealousy and FOMO - *self-satisfaction*

Sloth/laziness - *discipline*

Selfishness - *empathy*

Overconfidence - *humility*

Overwhelmed/insecurity - *knowledge/confidence*

Morton's culture also preemptively addresses the 'burnout' syndrome in an interesting way: by calling out any low-energy moments that people may be experiencing as soon as they're noticed. McKinnon referenced a book entitled *"The 15 Commitments of Conscious Leadership,"* which poses a question: is someone operating 'above the line,' or 'below the line?' "When you're above the line, you're open-minded, curious and committed to learning," McKinnon explained. "When you're below the line, you're closed-minded, defensive and committed to being right."

Later, she added: "When you're below the line, you're a victim of circumstances. When you're above the line, you're more confident in the decisions that you're making, which leads you to feeling more empowered."

McKinnon said that in her experience, most of us are moving above and below the line and back again more or less constantly, and it can be difficult to move from below to above without self-awareness. So the staff now incorporates the 'above' and 'below' terminology in their culture. "Our whole organization knows the language," said McKinnon. "And we call each other out on it, and it is safe to do so, because we've built a culture of trust. If one of us is below the line, someone will point it out."

The normal response, amazingly, is: *oh, you know, you're right*. And then to do a quick mindshift to get back above the line.

And, finally, the Morton presenters offered a look at the things that each team member needs to have in the work environment in order to thrive. The list includes:

Cultural and social connectivity

Leadership, mentorship and the ability to learn from others

Being able to work in their "zone of genius"—the intersection in Skinner's Venn diagram

Peer accountability

Psychological safety, trust and support

A mission that inspires them to rally with their team

A career path that is fueled by individual and firm growth

Work to be "fun"

A mix of strategic planning and productivity

Other people to work at their highest and best skillset

McKinnon said that the result of all this internal staff development work is greater impact and ultimately better service to clients. But if more companies adopted a staff-first mindset, she thinks it also might make the world a better place.

Morton Capital's team members will monitor who is behaving "above" and "below" the line, and call out whenever someone is acting "below."

"The latest polls say that 40% of people are unhappy at work," she said, reinforcing Skinner's earlier warning that many staff members are poised to leave their current work environment. "But when you think about it," McKinnon added, we tend to spend as much time working as we do in our personal lives. Can you imagine how much happier the world would be if more people were happier and fulfilled at work? Wouldn't that lead to a kinder society? I believe," she concluded, "that if businesses put energy into the individual team experience, we could make an incredibly positive impact on the people we serve, and the people under our charge."

Tending culture

I'm going to briefly cover two other Insider's Forum sessions that offered some great insights into the same basic topic: developing effective teams and building a healthy corporate culture. The first was a presentation by Michael Goodman of Wealthstream Advisors in New York City and Cheryl Holland of Abacus Planning Group in Columbia, SC. They offered a couple of definitions of 'culture' that help pin down what to many seems like a nebulous concept:

An organization's culture defines the optimal way to behave within the organization and sets the context for everything your firm does.

Culture consists of clearly-defined norms, values, beliefs and assumptions that are widely-shared and intensely felt at all levels of the organization.

Goodman told the audience that all of them have a firm culture in the office back home, whether they know it consciously or not. Their culture is embedded in all the unwritten rules, stories, beliefs, structures, shared assumptions, norms, values and feelings that run through the staff. The only relevant question is whether they want to have an intentional or an unintentional culture.

Every advisory firm has a culture, whether the founders realize it or not. The only question is whether it arises accidentally or intentionally.

Let's suppose you choose the former. Where do you start? In Wealthstream's early years, Goodman created (and later refined) his firm's core purpose—*To help people live their best lives*—and then took input from his staff to define a set of shared core values: curiosity, continuous learning, integrity, accountability and teamwork.

Finally, Goodman asked everybody on staff to write an email message giving their definition of Wealthstream's internal culture. Bringing them all together (with a little wordsmithing), the result, titled "The Wealthstream Way," looked like this:

We are dedicated to offering a *boutique client experience, and an academic, analytical, fiduciary approach to financial planning and investing. Advisors and operations professionals work as a team to develop deep and caring relationships with the individuals and families we serve. We are intensely curious and participate in ongoing education, coaching and training to stay ahead of the curve in an evolving marketplace. It is our mission to deliver sound advice and execution to help clients find fulfillment, personally, professionally and financially. We are compassionate and open and will go the extra mile for our clients with a mindset to simplify the complexity that wealth brings.*

Goodman echoed Skinner's advice when he said that, when hiring, he will ask prospective employees to tell a recent story about how they demonstrated at least three of his firm's values in their previous work lives. This is not only a 'weeding-in' or 'weeding-out' tool, but it also communicates to people who might join the firm, right up-front, how important these values are to the working environment they are seeking to enter.

Goodman will also have the prospective hire meet with his entire team, and after this, he and the staff will sit down to discuss whether this person is a cultural fit. This, of course, requires a conscious understanding of the culture and values.

Holland offered a detailed methodology for anyone who wants to systematically build an intentional culture at their firm--although the model, pictured in the

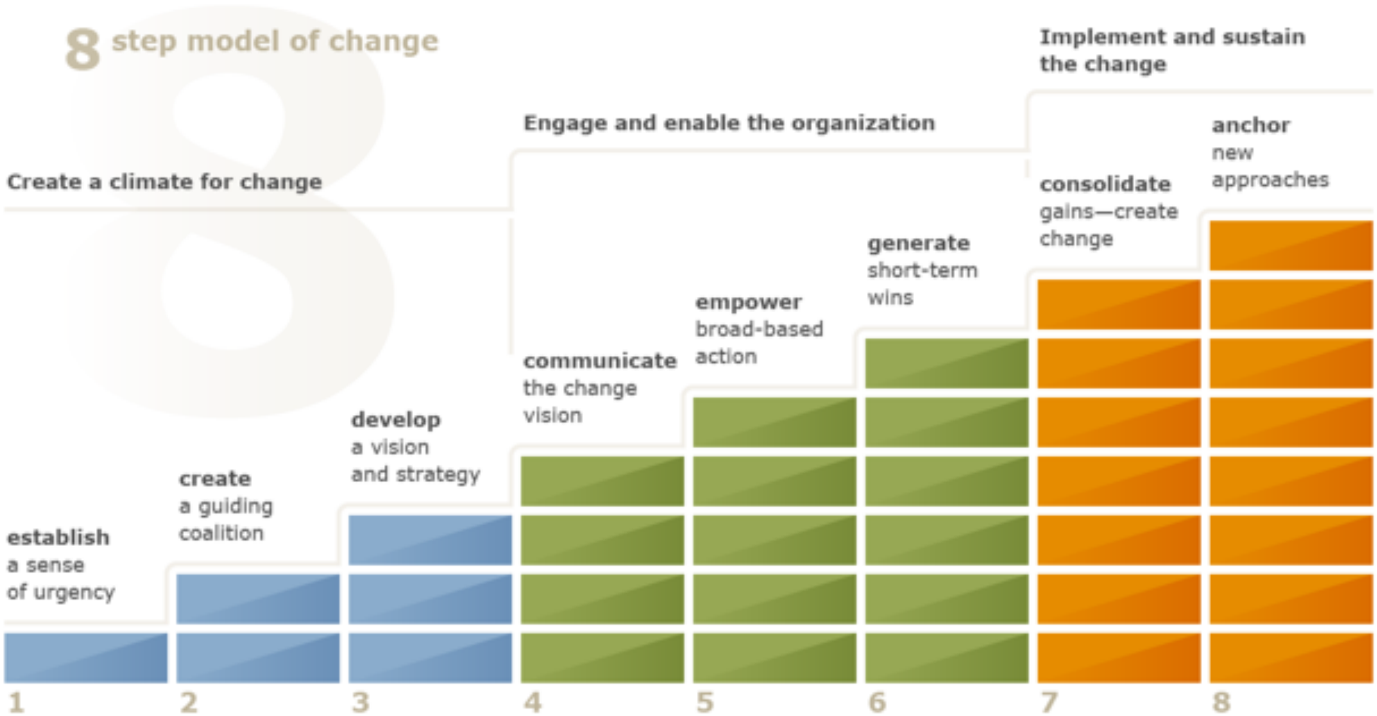

image on this page, would actually work for any systemic improvement you might want to make in your firm.

The first three steps are about creating a climate for change: 1) Develop a sense of urgency, which Holland said pretty much totally falls on the leader's shoulders. 2) Create a guiding coalition, the people you want to buy into the changes initially. 3) Develop a vision and strategy for getting there.

The next three steps involve creating a workplace climate for change, which engages and enables the organization to make these changes. 4) Communicate the change vision. "Research shows that you have to communicate something seven times before people hear it," said Holland. "So you can't be afraid to repeat yourself. 5) Empower broad-based action. (The leader is not the only person making these broad-based shifts.) 6) Generate short-term wins. This means stopping periodically and celebrating the progress you've made, which gives everybody a greater sense of buy-in.

The last two steps are involved in sustaining the changes you've made so they become long-term norms. You have to 7) consolidate the gains you've made and 8) anchor new approaches that fit with the norms.

Holland noted that in my opening remarks to the Insider's Forum attendees, I challenged everyone to walk away from the conference with three action items that they intend to incorporate into their business or professional lives. "I would say, select three goals to establish or elevate as you work on your company culture," she told the group. "When you're on the plane going home, think: *who do I want to be on my guiding coalition for that? Who are the three to five people I want to lead with me?*"

Employee engagement

Holland's firm has three primary core values: Embracing Change, Practicing Gratitude, and Listening. (She has famously said that she aspires for her firm to be the best in the world at listening.) To see how her firm was conforming to these values, she created a Skinner-like Venn diagram, where each value was a circle, and they all intersected. Then she asked her planners to self-assess how important those values were to them.

The result? One person is exclusively "embrace change." Another is exclusively "gratitude." Two others are in the intersection of gratitude and listening, another advisor is in the overlap of embrace change and listen. Four are at the intersection of all three.

Holland said that she's talked with advisors who are skeptical about spending time on internal cultural issues, but she said that in her experience, a shared culture leads to increased productivity. "If we're all enjoying ourselves and we all agree on how we're going to behave together, there is so much less friction in the system around getting things done," she said. "And you get much higher employee engagement," she added. "If you talk with anybody from my firm, they would love to talk with you about the culture. They will tell you that some of it is aspirational, and we're not there yet, and how hard we're working on it."

Both Goodman and Holland addressed the retention issue that Skinner raised in her opening keynote, saying that a healthy company culture can be a huge attractant when you're recruiting competitively, and will also build that all-important staff loyalty. "I think the three most important things for team members these days," said Holland, "are mastery, autonomy and purpose. In the talent shortage we're all experiencing, having a culture that provides those components is going to be critical."

Like Morton Capital, Abacus conducts regular surveys of its staff, but the topics are a bit different. "Once a year, we survey every team member on how we're doing with our cultural norms," said Holland. "If there's an area where we received a composite '7' rating, where we used to get an '8,' we know that's something we have to fix."

Abacus also puts every single staff member through a 360-degree evaluation every 18 months, through anonymous reviews, and part of the evaluation is on individual coherence with the cultural norms.

Like Morton Capital, Wealthstream and Abacus provide in-house education, and Goodman has recently elevated one of his team members to be a formal director of education. "We're now meeting with each team member," he said, "and asking: what is their focus of education currently, and how can the firm support that—whether it's a book, a webinar, a course or a credential. If we weren't measuring that core value," he added, "we would not be doing as good of a job supporting it."

Abacus surveys every team member once a year, asking how the company is doing on its cultural norms.

The pandemic made it more challenging to maintaining a healthy company culture. "I am very much a 'walk the floor' leader," Holland confessed. "I would get to the office and go around smiling at everybody, checking in to see how they were doing—and suddenly I had to learn how to do that remotely." Holland said that celebration and recognition of staff successes has become increasingly important as the firm has gone virtual. "Every week," she said, "I think about: who am I going to recognize, praise and celebrate?"

Abacus recently hosted virtual book club meetings around the topic of conversational intelligence. Goodman, meanwhile, responded to the work-at-home mandate by scheduling very quick team team meetings, with the entire staff, on Zoom at 8:30 in the morning. "We run through anything that's going on in the firm, and it could be a simple two-minute call," he said. "Then, at the end of the day, one day a week, we do a Zoom meeting that has absolutely nothing to do with work. We rotate around the team and pick personal topics, that could be as mundane as: what are you streaming these days? Or it could be: what was the best trip you ever took, and why?"

Personal growth and leadership

Which brings us to another presentation that received high marks from the Insider's Forum attendees: Karen Denise of Captrust and Jessica Ness of CJM Wealth Advisers, in a session titled: *Organic Growth: Invest in talent to produce a lasting shared business and client experience*. Their focus was kind of the obverse of the sessions I reported on above; Ness and Denise are both former junior staffers who became leaders at their firms, and they offered suggestions on how people who are not in the upper management can take on leadership responsibilities and ultimately drive the growth of their companies.

Neither of them work for small RIAs. Captrust has 1,000 employees, while CMJ recently crossed the $1 billion AUM mark with a staff of 20.

Among the takeaways, the presenters recommended that younger staff members, whether on the advisor or operations side of the business, invest in the firm, which meant look for ways to add value beyond their specific job description. "If you see an issue, find a way to solve it," Ness recommended. "Who else on the team do you need to rope in? This is thinking like an owner," she added. "People on staff are either owners or renters; when you own it, you take better care of it, and fix the little things that are wrong. If you're a renter, not so much."

People on staff at an advisory firm can act as owners or renters. Thinking like an owner means taking care of the firm--and advancing your career.

Denise said that one of the things that can inhibit career growth is where someone gets in the habit of simply focusing on daily tasks and not on the bigger picture.

"Being a high performer who is focused is great," she said. "But if you get so narrowly focused in your role and what you're doing that you don't ever step back and see how everything lines up together, you won't be able to get that strategic perspective that will help you in your career."

Ness told the group that operations people who are new to the staff have a great opportunity to provide an outside perspective. "When I first joined CJM," she told the audience, "I was always asking: *why do you do it that way? Help me understand, how did we get to where we are?*"

She quickly discovered that the foundational service the firm was providing was the annual review meeting. The deliverable was a series of reports that described portfolio performance, calculated retirement projections and mapped progress to individual goals—but the format and process for creating this sheaf of documents had not been updated in 15 years. Ness sat down with the team and helped brainstorm a way to make the reports easier to run, with less manual data entry—and the result was a prettier report, two-thirds the former size, which took half the time to create.

"I wasn't thinking like an owner as far as: *what is the company's future direction?*" said Ness. "I was thinking like an owner in: *how does this process work? Is there a way to adjust it so it is easier for clients and also easier for our team?*"

Denise said that leadership growth actually begins before the leadership team has learned your name, developed through how you interact with your peers. Her quote, from a presentation at a conference she attended, was: *"Great leadership begins with being a great peer."*

Meaning? "When you're starting out, your peers are going to identify leadership in you before the leadership team will identify it in you," she said. "The people around you start looking to you to take the lead on projects or to help them organize solutions."

A culture of feedback

Later in the presentation, Ness told the founders and company principals in the room that they can encourage staff leadership by being open to suggestions from team members. She said that often the instinctive reaction of advisory firm leadership is to "lead with 'no'," which basically means rejecting these overtures as a matter of habit.

To illustrate this dysfunctional dynamic, Ness told the story of how her service team was getting overburdened with trying to schedule appointments with clients, coordinating schedules and engaging with multiple back-and-forth phone and email messages before the client and advisor had found a mutually-convenient time.

One member of the service team saw the problem and found a solution," said Ness. "But when she presented the option of switching to Calendly to the management team, they told her: *we don't have this problem. We don't see the need for that*." Ness encouraged the staff member to pitch it again, and the result has been a huge time savings, where clients can now schedule their own appointments, and Calendly automatically sends

Identify Succession Roles			
	Role 1	Role 2	Role 3
Title of Role	*Chief Compliance Officer*	*Senior Financial Advisor*	*Chief Investment Officer*
Current Team Member	*Joe Regulation*	*Nancy Sales*	*Sally Markowitz*
Expected Retirement Year	*2025*	*2030*	*2028*
Risk to Business for Early Retirement	*Lost knowledge base*	Messy client transitions, potential loss of clients	*Loss of talent due to negative cultural impact*
Potential Contender	*Janet Yellen*	*New hire*	*J. Cramer*
Potential Readiness Year	*2024*	*2028*	*2029*
Skill Development Needs	*Knowledge of regulations relating to social media and testimonials*	*Delivering on value proposition, Referral generation*	*Communicating across various levels of expertise*

followup reminder emails.

"Two and a half years later, we cannot even imagine going back to the old system," Ness added. "The firm could have missed that wonderful idea because the management team led with 'no.'"

As an addendum, Ness said that the founders and principals in the room can determine whether or not they have a culture that is open to suggestions simply by noticing if your team is constantly coming to you with ideas and solutions. "That's how you know it's working," she said. "If you're not hearing about new ideas and solutions on a regular basis, then you've probably put up barriers to innovation that are too hard for people to break through."

Related to that is the concept of delegation. The leadership team at any advisory firm always has more projects and obligations on their respective plates than they will ever find time for. But many times, they're reluctant to impose any of these projects or tasks on the operations staff.

This, said Denise, is a mistake from two directions, from the direction of the leader spending unnecessary time on a delegatable task that could be devoted to something more important, and a missed opportunity for staff development.

"I can tell you that your junior staff is probably secretly wanting you to ask them to do more, to let them assume more responsibility and have a bigger impact," said Denise.

Leadership opportunities in succession planning

Toward the end, Ness and Denise offered a really valuable graphic, shown here (see above), which allows any firm to go about succession planning in an organized way—and also maps out how you can develop the next generation of leaders in the skills that will be most needed in the future. At the top, you list your key staff members, what Denise called the 'varsity team,' who are typically roughly the same age and who grew up in their professional lives together with the firm.

Under each name, you list their key skills that are necessary for the firm's operational success. And you list their estimated retirement date. When is the firm projected to lose those key skills?

Then you look around to determine who else might have those same skills. When this or that senior leader leaves the firm, who would be able to step in and handle that same role? What are the most difficult positions to have a succession plan for?

Often, there isn't a plug-and-play solution to any of those roles. That lets you define the skillsets that need to be developed, and encourages you to look for the younger staff person or persons who can be trained in those roles. The projected retirement dates give you a rough timeline—and a sense of urgency.

"You cannot assume that you're going to be able to go out in the market and quickly find a replacement for one of your senior leaders," Ness warned the audience. "So you say, *are there any potential contenders for these roles? What are their skill gaps?* When you start to develop your employees for leadership, you often find that that's exactly what they want," she added. "You'll be amazed at how your junior leaders are willing to step up and be challenged, if given the opportunity. They want to take the torch when we pass it on to them."

At the end, the advice to operations staff people who are early in their careers is to enhance their firm's culture, its efficiency and its service to clients—from the bottom up.

"If you're waiting for someone to provide a blueprint for your career, understand that it may never happen," Denise told the group. "You have to invest in yourself and in your firm, and provide leadership. Keep that big picture in mind, and maintain a true sense of curiosity about how everything works together. Education and knowledge," she said, "is power."■

Income At Your Fingertips

Synopsis: ***If you're looking for an alternative to your clients' bond allocations, you might want to take a brave venture into a small collection of true fiduciary annuity contracts.***

Takeaways: ***Money allocated to an annuity could provide a higher guaranteed income than the same assets allocated to a bond portfolio. DPL's search tool lets you identify the current best offer.***

Unlike most of my younger readers, I remember when Morningstar first offered a searchable mutual fund analysis tool (the data was on a readable CD-ROM, so you had to buy one of those newfangled CD-ROM readers), and what a revelation it was! Suddenly you could search for the funds you wanted for your clients, screening out high expense ratios, screening in consistent performance, screening out up-front and trail commissions, screening in long manager tenure—and then you could compare the funds that met your criteria.

> ***DPL now lets you search its growing product line for the best solutions to your clients' income needs.***

The real marvel about it was the transparency. You could see performance for any time period down to two decimal places, and look at expense ratios with the same precision. You saw asset flows, and the performance in up and down markets. You knew what you were buying on behalf of your clients.

Around the same time that the fund industry opted to provide this precise data to consumers (through Morningstar and a few competitors) the insurance industry took the opposite road, and continued to sell cash value insurance and annuities whose expenses, past performance and mortality assumptions were known only to God and the company's actuaries. As a result, the dollars managed by the mutual fund industry took off like a rocket, while the insurance industry—which nobody trusted due to its opacity—lagged further and further behind.

That may be changing. I've spent all morning on the DPL website (*http://www.dplfp.com*) playing with something called the DPL Comparison Tool. I've written about DPL before; company founder David Lau and his team have made it their mission to help insurance companies create insurance and annuity products that would pass the due diligence tests of fee-only fiduciary advisors—meaning no commission, low-expense, fully-transparent product structures.

It's been an iterative process, where the company would come back with something that was leaner but still a bit sly on disclosure, and Lau would commend their progress and also say that even if he listed the product on his platform, none of the (fiduciary) DPL member firms would touch it.

The next iteration might have cut back some of the internal fees, but not low enough that fiduciary advisors would recommend the product to their clients. Lau's value-add in the process is to help the insurance companies get out of their comfort zone and show them how far they have to go in terms of transparency and leanness before an Inside Information reader would recommend their products to her clients. The idea is to produce a suite of annuities or life insurance contracts that are able to compete purely on merit.

So far, Lau has helped companies like Allianz, Ameritas, Equitable, Jackson, Integrity Life, Great American Life, Pacific Life, Principal, Security Benefit, TIAA and Transamerica create custom solutions—some reluctantly, but there's motivation to at least test these fiduciary waters with a fiduciary sherpa guiding their efforts. Lau told me once that everybody in the insurance industry's C suites can see that the age of the insurance agent is dying out, which means that these test case fiduciary life and annuity contracts could become a company's entire product line when the last sales agent sheds his mortal coil.

Advisors can gain access to this ever-expanding product suite by becoming DPL members (cost: $1,000/yr. for firms under $100 million in AUM, up to $5,000 a year if your firm is managing $1 billion AUM), which allows them to lean on DPL to have the licenses that facilitate purchases for clients, get free advice on how to address client situations, and most importantly to use the tools I'm about to demonstrate. The tool has a similar feel to Morningstar's screens except that it's easier to use and lets you get right straight to the bottom line of what you're looking for on behalf of clients.

DPL's income comparison tool will automatically subtract all product expenses and fees from the output. You can input your own AUM fees up to 1.5%.

Comparing annuities to bonds

Let's start with the fixed income comparison tool—which the DPL team says is the most popular and most-utilized of the three tools in the Comparison suite.

For the wary advisor who may be new to the annuity world, there are several ways to approach this. But for a start, let's say your client is a 58-year-old pre-retiree who currently has $1 million allocated to fixed income investments, and let's say (hypothetically, of course) that neither you nor they are thrilled with the return you've been getting on those assets. But neither of you want to go out on the risk spectrum to chase more yield. This is, after all, the ballast of the retirement portfolio, and it's not hard to envision choppy seas ahead.

Would any of these newfangled fiduciary annuities give your client a better long-term income than what you can find in the bond market?

To find out, you do what I'm doing now: you log onto the DPL website as a member, and you call up the fixed income comparison tool. You tell the tool that your client is age 58 and wants to retire at age 65, and you project a nice, long lifespan out to age 95. You stretch a bit and assume the fixed income allocation is going to grow by 2% a year, and so, too, is the money that would be placed inside an annuity.

You specify that what you're looking for is 100% of the portfolio, which simply means you're leaving the equity portion out of the comparison, because you aren't looking for an annuity that will replace any risk assets. To keep things simple, let's suppose this money is in an IRA, so you set the yearly income tax drag at zero. (The tool lets you set the yearly income tax rate all the way down into negative numbers; I honestly have no idea why.)

DPL's income comparison tool will automatically subtract all product expenses and fees from the annuity side of the output, but you have to input your own fees yourself. Here, I specify that there

CARRIER	ANNUITY	REQUIRED INVESTMENT	ANNUAL INCOME	
Great American Insurance Group	Index Protector 7 Income Defender (Fixed Index Annuity)	$769,231	$60,000	View Comparison
Allianz	Retirement Foundation ADV Level Income (Fixed Index Annuity)	$847,817	$59,996	View Comparison
Allianz	Retirement Foundation ADV Rising Income (Fixed Index Annuity)	$915,053	$60,000	View Comparison
Midland National	Capital Income Level payout option (Fixed Index Annuity)	$1,018,849	$60,000	View Comparison

is a 1% fee, paid to the advisor, an that the same 1% would come out of both from the bond allocation and the annuity assets. The annuities in the DPL system are set up to pay (non-taxable distribution) AUM fees to advisors, with an upper limit of (gulp!) 1.5% a year. (You can dial that down to zero if you want to.)

In this part of the comparison tool, you have a choice; you can solve for whatever income you want the client to receive in retirement, or you can click the second button, and the tool will find the product that will generate the most guaranteed income from a specific investment amount. Let's say, to start with, you select the former option, and input $5,000 a month; that is, which annuities will most efficiently generate $5,000 of income between the client's age 65 to 95? (That covers the client's basic living expenses that you've projected out in your planning software.)

You press 'search,' and the tool looks at (currently) 15 annuity products that DPL has negotiated with various carriers, and it comes back with several options. It also projects what you would have needed in your fixed income investments, growing at 2% a year, to generate the same income—which is a fairly simple mathematical exercise.

The result? A fixed-indexed annuity (returns based on an underlying benchmark index, with caps on the upside) called the Great American Index Protector 7 pops up to the top of the list. To generate your client's required income would require an allocation of $769,231 in this product, based on current projections and costs. The calculator offers an orange "view comparison" tab that lets you see how much you would have had to allocate to bonds, with the same projected 2% annual return, to get that the same income over the same 30-year period.

The answer: $1,458,895.

Mathematically astute readers might wonder how the annuity can beat the bond returns so handily, and the answer is that the annuity is not all bonds at today's rates; it provides exposure to equity market returns—but the company attaches to that a guarantee that it will provide your client's desired income no matter what the markets do. The income is also goosed up a bit by the deferral credits—basically, the fact that the investment grows inside the annuity for seven years before the income stream is turned on. (I later found that if the client had purchased the annuity at age 65 instead of 58, the annuity would have cost $1.1 million to generate the same income, and the bond allocation would have had to be roughly $1.3 million.)

I talked with Jonathan Barth, one of DPL's consultants, about this disparity, and he noted that some of the assumptions that I entered were a bit unrealistic—in the bond portfolio's favor. For instance, if the money had been in a taxable account instead of an IRA, there would have been a tax drag on the bond investments—but the annuity assets would have been growing tax-free for those first seven years. (Re-running the calculations at a 35% tax rate raised the required bond portfolio allocation incrementally, to $1,520,880, but it didn't change the Great American annuity cost.)

Barth thought my 2% return assumption for the bond assets might have been a tad aggressive given today's Treasury rates, while, he says, my return assumption

To meet the monthly income need, the annuity requires an investment of **$769,231**, while the fixed income portfolio requires **$1,520,880**.
Note: The product requiring the lowest investment to meet the income need may not be the optimal solution. Also consider cumulative income.

Monthly Income Need	Income Starts	Income Through
$5,000	Age 65	Age 95

	Great American Index Protector 7 Fixed Index Annuity	Fixed Income Portfolio
Annual Income	$60,000	$60,000
Payout Rate	5.00%	N/A
Rate of Return	2.35%	2.00%
Income Funded Through	Age 95 Lifetime	Age 95 Income ends after 30 years
Required Investment	$769,231	$1,520,880
Additional Investment Required	$0	$751,649

for the annuity—basically the insurance company's management of those assets—was more than a tad conservative. Apparently it is not uncommon for insurance companies—who can model long-term returns and therefore safely include stock allocations, and who have access to institutional fixed income opportunities—to generate 3-5 percent on their portfolios. But overall, Barth was fine with the way I handled the inputs because there's no reason to overhype the annuity.

The real bottom line, he says, is that if the client were to move $769,000 into this particular annuity (or one like it), that would provide the portfolio ballast the client is looking for, and free up a years of retirement, the client's heirs will inherit whatever remains in the annuity's cash value.

You can play around with other numbers, such as having the client retire earlier or later, or require more or less income, but I think the idea is pretty clear. Should you find this comparison persuasive, the next step might be to download a prospectus, and talk with somebody in the DPL offices about the mechanics of making the annuity purchase.

Income guarantee

As mentioned earlier, you can come at the comparison process from a different angle if you want. This time, let's imagine that you have a client with $250,000 to invest in a lump sum to generate income either in a bond ladder or an annuity. The retirement date is the same. This time you press the second button on the DPL fixed income comparison tool screen, which lets you solve for, what is the maximum income you can get for the money your client has to spend?

I input basically the same assumptions, except now I'm specifying a dollar amount allocation. The client is 58, wants to retire at age 65, the return assumption is 2% a year for both bonds and the underlying annuity assets, and the planner will be reimbursed 1% a year out of the portfolio. The tool searches through the DPL product lineup and comes back with the Allianz Retirement Foundation ADV—a fixed index annuity with equity participation, and here again the heirs will receive the remaining principal (if any) at death. For a $250,000 allocation, Allianz is offering my client $16,392 in annual income, guaranteed for life.

For comparison purposes, the tool assumes that the client will pull the same annual income from a hypothetical bond ladder, as a way to compare apples to apples. There's a little graph which shows that, based on our assumptions, the fixed income investment alternative will run out of money at the client's age 80. The tool projects that the cash value in the Allianz Retirement Foundation ADV annuity will also be depleted at age 80 (meaning that, at that point, there's nothing left for the heirs when the client dies), but the guarantee goes on—that is, the annuity will continue making income payments even after the account value is depleted—whether the client lives to age 95, 105 or 115.

The difference between the SPIA and one of the variable or index-linked annuity products is that in the latter, when the client dies, the heirs will receive whatever is left of the cash value.

Premium to income

There are other sections in the DPL Comparison Tool. Let's turn to the guaranteed income analysis tool. Once again, you have a choice: you can solve for the amount of income the client needs, or the most income that could be generated from a specific amount.

Once again, I specify that the client is looking for $5,000 a month and the income is going to be turned on at the client's age 65. The client plans to live to age 95. This time I set the portfolio at a 60/40 stock/bond allocation. Now the calculator will rummage around a broader array of DPL fiduciary annuity products—SPIAs, fixed index annuities and variable annuities—and come back with a list of the products that would cost the least to generate the income my client wants or needs.

This time the tool gives me ten annuities, led by the Allianz Index Advantage Income variable annuity product with a 'Level Income' rider. Its single up-front premium to generate $5,000 a month in income: $625,195. Below that, in second place, is a variable annuity (Jackson Perspective Advisory II, with the 'LifeGuard Freedom Net Max' rider) that would cost $702,247 to generate the same income.

This is where the comparison gets a little tricky. To find the most efficient product, DPL system projected the performance of the variable annuity based on a random sampling of S&P 500 returns going back to 1988, and 10-year Treasury returns from the same time period, assuming a constantly rebalanced 60/40 portfolio. For my initial comparison, it used 'Anticipated market returns,' but you can shift that to "Aggressive market returns," or "Conservative market returns." When I selected "Conservative market returns," the top alternative was the Jackson Perspective Advisory II product, and the required premium did exactly the opposite of what I was expecting: it declined, to $490,677.

If you have the client investing in an annuity before retirement, the system will not show you any single premium income annuities (SPIAs), because with SPIAs you have to turn the income spigot on in the same year they're purchased. So if I want SPIAs included in the comparison tool, I go back and assume my client is age 65 and wants to retire at age 65. This time the system came back with the Pacific Life Pacific Odyssey variable annuity with the Enhanced Income Select rider. Premium: $909,091. Close behind was the Integrity IncomeSource SPIA, with a $990,099 premium.

So why wouldn't you select the SPIA, and know that the income is stone cold guaranteed, rather than the variable annuity, where the income guarantee depends on market assumptions? One big difference is that the money allocated to the SPIA goes away if the client were to die ten minutes after making the purchase, while the variable annuity will pay out, as a death benefit, whatever is left in the cash value. Even if the cash value is depleted, the Pacific Life product will continue making the income payments to a client who lives past age 95 to 105 or 120—just like the SPIA.

The interested reader can also look at how the variable annuity will perform in bear and bull market environments, and stress test the decision—but of course, those would only impact the cash value in the account, not the income that is guaranteed. It's possible that a raging bull market might raise the income a bit, but it won't reduce it. I'm not sure the additional analysis is worth the time, personally, but I know some advisors who would spend days on this part of the tool.

Just like with the fixed income comparison tool, the guaranteed income analysis algorithm also lets you look at the most income that would be generated from a specific investment amount. So, once again, I assume that the client is willing to put $250,000 into an annuity. The client is back to being age 58, retiring at age 65, and once again we're going to simulate using a 60/40 allocation.

Result? The system provides the now-familiar Allianz Index Advantage Income ADV, which will provide a projected annual income of $31,201 for life—boosted by the market gains in the years the annuity is owned before the income is turned on. The list of other products offers a range from $14,231 to just under $30,000. If I switch to 'Conservative market returns,' the Allianz Index Advantage's annual income projection drops to $19,714. Those years before the income is turned on were not nearly so kind.

Annuity replacement analysis

The third component of the DPL Comparison Tool, and the one I would have thought all advisory firms would be using, is the annuity comparison calculator. This does exactly what the name implies: you have a new client who was sold an atrociously expensive annuity product by his college buddy some years back, and you're looking for a 1035 exchange opportunity into something that isn't pillaging that part of the client's assets.

So you get a statement from the client's existing annuity, and the tool (I think this is really cool) searches through 25,000 different variable annuities, with 400,000 different permutations of riders—basically the entire commission universe. Since I don't actually own an annuity, and therefore don't have any statement information to input, I had to depend on a demonstration. But let's say the Annuity Comparison tool pulls up the client's Pillager 2 Definitely Non-Fiduciary Generous Commission Annuity, and the example I looked at actually uses real-world information from an actual product. It shows the surrender charges and surrender periods, and you see that you can replace Pillager 2 with a a TIAA commission-free annuity that achieved the clients' goal of growth based on the Monte Carlo calculations built into the technology.

The tool projects that, between now and age 95, the client is going to save almost $500,000 in fees, and at the 50% level of the simulations, the client will come out with an additional $1 million in ending account value. This 1035 exchange is going to make the client's heirs very happy.

Overall, I found the Comparison Tool dead simple to use, and I can see how it might transform the insurance marketplace the way Morningstar had a salutary effect on imposing transparency on the fund industry. The calculator exposes the enormous differences between lean, fiduciary annuities and the agent-sold products that caused us all to harbor a deep distrust of the insurance industry.

The product also shows something that I think most advisors don't fully appreciate: that the insurance industry's scale, access to private placement products and ability to model different future probabilities allow it to produce better income rates than the average consumer (or advisor) can get from the retail marketplace, with the income guarantee (longevity insurance) can be seen as icing on the cake. These advantages were, previously, well-hidden behind non-transparent fee structures and commissions that would make a used car salesman blush. When the expenses are controlled, those better outcomes can be delivered to consumers, rather than siphoned off by the sales agents.

Still on the DPL drawing board is the ability to click on the contracts that the tool brings up, and see the annuity or life insurance prospectus. I'd also like to see, in separate columns, all the relevant costs (M&E, particularly) and one-click access to the underlying investment options and their expense ratios. Are they mostly in-house, Vanguard/DFA fund or a menu of ETFs? (If you contact the DFA staff with the name of your chosen contract, they will provide all that, but I like to have it available at my fingertips and be able to make comparisons within the tool.)

When you use the DPL tool to compare a broker-sold annuity with a fiduciary product, you're likely to be amazed at the scale of the differences.

I have to say, I still don't trust the insurance industry. But I trust DPL, and I have high hopes that bringing transparency to risk pooling products (the company has negotiated traditional cash value and term life and even disability products) will result in a marketplace where these potentially useful client instruments will be competitively priced—and, contrary to more than a century of conventional wisdom, bought, not sold. ■

Parting Thoughts

Fiduciary Advocate

By now, I'm sure most of you are familiar with the Committee for the Fiduciary Standard—but if not, well, it's a group of prominent advisors who advocate that anybody who holds out as a financial planner or advisor be held to a strict fiduciary standard. I participate in their discussions, though I'm not formally a member.

Every year, the Committee selects a worthy candidate to be given its "Fiduciary of the Year" award. Past winners include Ron Rhoades, David Tittsworth, Skip Schweiss, Phyllis Borzi, Harold Evensky, Barbara Roper and, in 2016, the entire U.S. Department of Labor. For the past few years, this award was given out at the Insider's Forum conference—and this year, I was pleased to hand the award to Knut Rostad, who founded the Committee before moving over to found the Institute for the Fiduciary Standard (https://thefiduciaryinstitute.org/), a Virginia-based nonprofit membership organization that provides education, research policy analysis and advocacy to further the real fiduciary standard.

Every year, the Institute organizes a virtual 'conference' of sorts, called Fiduciary September, whose speakers this year included Ron Rhoades of Western Kentucky University, Skip Schweiss of Sierra Investments, Harvard professor Robert Sitkoff, language expert Deborah Bosley, current SEC Commissioner Allison Herren Lee, former SEC Commissioner Kara Stein, and law professors Tamar Frankel Christine Lazaro and John C. Coffee.

Institute members are planners and planning firms who pledge to adhere to ten practices listed on the organization's website, who, after attesting, are put on a registry of true fiduciary advisors. Membership fees start at $250 a year for firms under $100 million in AUM and scale up from there; for firms whose revenue model doesn't involve AUM (retainers, hourly or subscription) the cost is $175 a year per advisor.

The Committee's leadership asked me to read this announcement as I handed off the award:

The Committee for the Fiduciary Standard is pleased to announce Knut A. Rostad as the recipient of the 2021 Fiduciary of the Year.

Knut has tirelessly pursued the betterment of investment advisory services provided to individual investors by emphasizing the importance of maintaining true fiduciary standards. Even before his involvement in creating the Committee for the Fiduciary Standard more than a decade ago (and then later The Institute for the Fiduciary Standard), he was intently focused on educating the industry and regulators about the true fiduciary standard and the essential need to follow the fundamental principles of the '40 Act standards of behavior. His extraordinary commitment and knowledge of the legal and equitable requirements of the true fiduciary standard has moved the needle perceptibly in favor of the investing public. Knut's influence on regulatory rulemaking and guidance over the past two decades has been vitally important to advancing the investment fiduciary cause.

There is no better example of a fiduciary "freedom fighter" than Knut Rostad. There is no doubt that Knut's energy, passion and commitment have made an incredible difference Anyone who has shirts printed that say "I survived the DOL Fiduciary Rule" and hats that say "The F Word Rocks" has taken zeal to a whole new - and certainly different - level!

It is with great admiration and respect that The Committee for the Fiduciary Standard is thrilled to honor a man that certainly continues to Rock the Fiduciary world!

Fiduciary opportunities

I was able to catch up with Rostad after the award ceremony to find out where, in his view, we stand on fiduciary issues with the regulators and other stakeholders. In the past, he has struck me as rather pessimistic about the scene in Washington, perhaps because he has faced decades of outright hostility to his message from regulators who largely came from a wirehouse background. But this time, he seemed much more optimistic.

"Because of the new SEC—where we now have three out of the five commissioners who understand what fiduciary advocates have to say," he says, "we have the best opportunity to make progress on fiduciary advice and investor protection than we have since Arthur

Levitt was chair 21 years ago."

Notice that Rostad easily conflates the fiduciary standard and investor protection; to him, the two are sides of a coin. The argument with the regulators is that the more they require all advisors (including, of course, wirehouse brokers who call themselves 'advisors') to behave as fiduciaries, the more likely investors will be to receive advice in their interests, quality investment counsel, low portfolio expenses and fewer conflicts getting in the way.

Rostad is currently focused on what he sees as our best chance for meaningful reform: getting the Commission to revise the Form CRS disclosure so that it provides a clearer explanation of the different business models of broker-dealers/wirehouses, on the one hand, and fiduciary RIAs registered with the SEC on the other.

"Going back and looking at history," he says, "what is the problem when it comes to protecting retail investors? Ever since our colleagues at Rand came out with their report," he continues, answering his own question, "the problem has been defined as '*investor confusion*.' For decades," he says, "regulators have been wringing their hands over how we have all this investor confusion about who is held to what standard."

The implication in this regulatory handwringing is that the investing public is simply not smart enough to understand what a broker does and the services provided by an advisor; that one is regulated by a sales entity (FINRA) and the other by a government regulator (the SEC); that one is defined by federal law to be in the business of facilitating transactions and marketing products (broker-dealers), while the other is held to a standard that is the opposite of sales: the fiduciary standard.

Rostad doesn't believe investors are too stupid to understand the difference. He thinks that the distinction has been deliberately (and very effectively) blurred by the brokerage industry, which advertises itself as helping facilitate peoples' dreams with financial planning and investment advice, whose brokers call themselves, on their business cards, advisors, vice presidents of investments or wealth managers.

"If you drill down on what is confusing the public," says Rostad, "I believe that an objective view would conclude that it is the language being used by the brokerage industry. It is not that investors are stupid; it is that investors are being intentionally misled."

But what does the have to do with the SEC's new disclosure Form CRS? In Rostad's view, this is the very disclosure document that could be eliminating investor confusion about the different business models and agendas.

"If we could actually focus on plain language," he says, "and say: *this is what the business and the practices of broker-dealers are, and this is what the business and practices of investment advisors are*, then I believe investors would understand it perfectly well. There doesn't seem to be any confusion if it is described clearly and accurately."

Rostad refuses to believe the public is too stupid to comprehend the differences between brokers and advisors. The public has been misled by decades of wirehouse disinformation.

Indeed, a December 2018 report by the SEC itself concluded, based on research with actual consumers, that if Form CRS used clearer language and focused on business models rather than the services that may or may not be provided, comprehension improved on the first read. "These really are two different businesses," says Rostad, "and the differences are not small and nuanced around the edges. They're at the central core." He notes in passing that, on its ADV, it takes Ameriprise 16 pages to answer the question: how do we get paid? For advisors, the same disclosure rarely requires more than a sentence.

Instead of offering any information relating to business models, or how the different cohorts (wirehouse vs. fiduciary advisor) are regulated, the SEC's mandated language is a bunch of recommended questions to ask: conversation starters, basically. "It's like children at the 8th grade dance," says Rostad. "Go up and ask Julie what she did this afternoon." These are questions that the brokerage industry allowed the SEC to put into its mandated 'disclosure,' because they knew that their brokers would be able to give prepared answers that would continue to make the investor believe they're about to receive objective advice. "Disclosure should not be recommending questions," Rostad adds. "It should focus on educating consumers as to role and purpose."

Rostad's Institute did its own research, looking at the CRS Forms at 29 large broker-dealers, including the wirehouses. "One of the clearest disclosures came from, of all firms, Goldman Sachs," he says. "They said that their primary business is trade execution."

The Institute also looked at the CRS forms for 12 independent RIAs and 29 dual registrants, and Rostad found, to his dismay, that roughly half of them made no mention that they were required to act as fiduciaries. "I'm working with a compliance attorney," he says, "to come up with a very brief guidance for investment advisors to clarify that A) the SEC allows you to use the word 'fiduciary' in your CRS form, and B) here are some examples of some language that you can use to, once you state that you are a fiduciary, explain what it means in two or three sentences."

Could one of those sentences state that a brokerage firm, broker-dealer or other sales organization will NOT, ever, use the word 'fiduciary' in its disclosure, and so consumers should look for that word? "It's a great idea," says Rostad.

But how likely is it that the SEC staff and commissioners will amend Form CRS to include these clear disclosures, and make it easier for consumers to understand things that the wirehouses and broker-dealers very much want to keep them confused about?

Instead of prompting consumers to ask broad, general questions, the Form CRS disclosures should actually DISCLOSE the differences between brokerage and advisor business models.

Don't the brokerage firms have tacit veto power over all SEC initiatives? And wouldn't they be most likely to exercise that power over this issue, which seems to strike at the very heart of the brokerage business model?

"I think there is a reasonable basis for some optimism today that we did not have a year ago," says Rostad. "We have three Commissioners who look at these things differently, and we have a Chairman who, despite his Goldman Sachs pedigree, proved during his stint at the Commodity Futures Trading Commission [he led the reform of the $400 trillion swaps market] has proven that he's willing to tell the brokerage industry, using pretty blunt language, I don't care what you think. I may be too optimistic," Rostad adds, "but I really think we're in a place where we could do things that we otherwise wouldn't have dreamed of under previous administrations."

Name change?

What about reforming Reg BI--or, as Rostad has referred to it, '*Reg BS*?' Rostad says that revising the language and intent of Reg BI is potentially a 20-30 year lobbying project. But he does plan to lobby the SEC to change the name of the regulation. "There is absolutely no doubt whatsoever that the term 'best interest,' when applied to the brokerage model, is misleading," he says. "And everybody knows it's misleading."

The question in Rostad's mind, at this juncture, is how the SEC is going to interpret 'best interest' when it looks at the behavior of brokers and reps (who call themselves advisors) in their interaction with consumers. Will they still be able to recommend separate accounts that pay shelf space fees? Will the SEC question why they're recommending that their customers invest in something other than thrifty ETFs? Or will brokers go back to winning sales contests?

"The SEC has acknowledged, proudly, that it hasn't defined what 'best interest' actually means in the context of Reg BI," Rostad points out. "It has said that the firms themselves should define what it means, and develop policies and procedures congruent with what they believe it means."

Other than changing the name of the regulation, Rostad would like to see this current SEC define 'best interest' clearly, and the closer this definition gets to fiduciary, the better. "If this is what they have in mind," he says, "why not just come out and say what we all understand to be best interest: that it is not watching out for the best interests of the company or the broker; it is putting first and foremost the best interests of the consumer."

Is that actually going to happen? "Let's just say I'm concerned that this is a hill that is not going to be climbed," Rostad admits, "because it really would disrupt the brokerage businesses the way we began to see them disrupted by the DOL Rule before it was undone by the courts."

Putting Reg BI aside, what other initiatives is the Institute involved in? Rostad mentions disclosure.

He very quickly offers a disclaimer about the effectiveness of disclosure in the past; whenever a regulator proposes actual rules governing reps and brokers, the industry quickly rushes to propose disclosure instead.

To the point where, today, we have brokerage firms disclosing their fees, conflicts, underlying motives etc. in the long form. And, of course, whenever the SEC has found that consumers are still confused or unaware, the response has been unrestrained enthusiasm. *Disclosure? You want disclosure? We love disclosure! We'll go the extra seven miles on disclosure! Eight! We'll create page after page after page after page of disclosure on even the simplest concepts, and explain, and discuss, and reference*—and, well, I think most readers know what happens when a very simple disclosure becomes a 50-page document, and whatever the SEC wanted the brokerage firm to communicate can be found referenced in passing on pages 18, 37 and 41.

After his admission that disclosure has been cruelly misused in the past, Rostad explains why the Institute's new proposal is different. "We've come up with a form that would break cost disclosure down to no more than two pages, with very simple tables," he says. "It says: *here are the products we're recommending, the amount of investment, the expense ratio and any commissions that will be earned*." The forced brevity would nullify the brokerage industry's tendency to hide what it doesn't want to reveal through a strategy of over-communication. Rostad adds that there is anecdotal evidence that disclosure of fees and costs may be different from (more effective than) disclosures of conflicts of interest or who regulates whom.

> ***Brokerage firms have eagerly embraced 'disclosure' as an alternative to regulation, and then buried any meaningful information in hundred-page 'disclosure' documents.***

Acknowledging reality

Finally, Rostad has some thoughts about the CFP Board, which has inserted the fiduciary concept into its standards of practice. "I fear," he says, "that it is being run more like a political party as opposed to a professional organization."

Meaning? "A political party is interested in gathering as many members as it can get," says Rostad. "A professional organization is interested in ensuring that everybody under the umbrella meets a clear set of standards."

One doesn't have to look far to see how the CFP Board has accommodated the brokerage firms and their reps, first by not sanctioning the thousands who claimed to be 'fee-only' on its website, and then not sanctioning the brokers who carelessly 'forgot' to disclose material regulatory actions in their CFP profiles. (BD executives might also have been 'high-fiving' each other when the CFP Board announced its decision to eliminate the pesky compensation distinctions on its website altogether.)

And... The fact that brokerage and insurance firms have periodically threatened to tell their reps to give up the CFP designation suggests that they believe that the threat to the CFP Board's bottom line will get its attention.

Bigger picture, Rostad is troubled by the CFP Board's ongoing marketing campaign, which either implies or outright tells the public that they can totally trust any CFP they run across to act in their best interests at all times. That

CFP advisors, all of them, represent a higher standard of behavior in the marketplace. These, remember, are the same CFP brokers who somehow 'forgot' to disclose that they had customer complaints or regulatory sanctions on their records.

So what should the CFP Board do about this?

"I would feel a lot better about them if, in these marketing efforts, they would at least acknowledge that these higher standards are more an aspiration than an accomplished fact," says Rostad. "If they would just seriously use the word 'aspiration' to describe their journey toward professionalism, that would make a huge difference. Acknowledge the reality that we're working very hard for it, and we're going to get there. Just," he says, "tell people the truth."

Second, Rostad would like to see the CFP Board provide fiduciary training, and case studies, and perhaps periodically administer a test that drills down on knowledge and understanding of what it means to be a fiduciary in the context of financial planning. This initiative might help counteract the culture and training that brokers receive—to maximize their own revenues and 'play ball' for the firm.

Making a difference

So where does the reader fit into all this? What would Rostad recommend that those of us far from the beltway do to drive this fiduciary and consumer protection agenda forward?

"We need RIAs to be actively involved and vocal about pushing for a fiduciary standard," he says. "The battleground for decades has been language," he adds. "Who is and is not acting in the best interests of the client, what they call themselves, the effort to minimize the distinction between brokerages and advisors—I am afraid," Rostad continues, "that this has bled into the advisory firms themselves, that they are starting to think that the fiduciary standard is really not all that important in terms of what they do for their clients, and brokers really are kind of the same as they are."

Is this a way of saying that the real professionals in the advisory world have grown complacent?

"Yes," says Rostad. "As I look across the investment advisory world, I don't see much evidence of individuals remembering that fiduciary is a core differentiator in financial advice. If you don't want to engage in this fight for yourselves," Rostad adds, "then do it for your clients and consumers. You have people on your staff that are someday going to take over your firm. Do it for them, for the world you want them to live in."

At the end of our talk, Rostad says that the most important thing the profession needs, in its push for fiduciary, is individual leadership, and for individuals to realize that they, collectively, have more power and influence than they realize.

"When I accepted that wonderful award from the Committee," he says, "I said that what we always need is ordinary people doing extraordinary things—which is how America defines heroes. We need more heroes in the fight for a true fiduciary standard and a real profession. I really believe," he adds, "that we all can make a difference."■