



Question Everything

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Do you want to grow your business? Do you want to differentiate your firm from competitors? Do you want to just have some fun? Then pick a date in the near future when you will turn off your computer, put down your smartphone, shun all client-facing and administrative tasks and simply walk around your office questioning everything.

The financial services industry is not known as a hotbed of innovation. But there is no reason we must live up to our image as herd-following plodders. Every one of us is capable of breaking the mold if only we make it our intention to do so. The fact that we have always done things a certain way does not mean we must continue down the same path forever.

The world, as usual, is rapidly changing and we must change with it or be left behind. But we do not have to change in lockstep with everyone else. We can take a different path. Sure, being different requires courage, but more important, it requires adoption of a particular mind set. You must question everything and not be bullied by conventional thinking.

We have been conditioned to give great weight to academic research, the pronouncements of large asset management firms and the advice of an ever-growing cadre of gurus who are all too willing to point us toward the road to success or tell us what the future holds. It's not that we should ignore this cacophony of "expert" advice, but we should see it for what it is.

First of all, depending on what time periods they are looking at and how good they are at math, the academics can, and often do, come to dramatically different conclusions about how the world works. Furthermore, when they step outside their ivory towers their track records of success are spotty, at best. Does anyone remember Long-Term Capital Management?

The large asset management firms produce a veritable river of "value-added" material to inform and delight us. But let's not forget that they are all selling us something. And many of them have track records that aren't any better than the aforementioned academics. We must learn to be discerning and filter what they tell us with a fine mesh screen.

We are wired to love experts, whether they are academics or frontline practitioners. They bring clarity and blow away the fog that cloaks our uncertain future. But research shows that the brain functions we typically use when we make financial decisions show "significant flattening" when we make the same decisions after receiving expert advice. We off-load the burden of critical thinking in favor of reliance on the expert. This is not a good thing.

Those who have studied the forecasts of futurists and the predictions of the punditry tell us that they are very often just plain wrong. Future Babble by Dan Gardner, The Signal and the Noise by Nate Silver, Wrong by David A. Freedman and Expert Political Judgment by Philip E. Tetlock all document the shocking unreliability of expert predictions. Indeed, Tetlock found that experts are less accurate than a room full of “dart-throwing monkeys.”

So turn down the noise and put your thinking cap back on. Look at everything with new eyes. Give yourself credit for being the thoughtful, creative creature that you are. Ask yourself, “What makes sense?” Scrutinize every aspect of your business. Take nothing for granted.

“OK,” you say. “I’m ready to boldly question everything, but where do I start?” Here’s a road map that might help. It reflects the process that we went through at our firm.

Start with your back office. We all get used to doing things a certain way, and making change is hard. But new technologies are coming out every day that offer opportunities to gain efficiencies. It may be painful at first, but freeing yourself up to devote more time to client-facing activities will pay big dividends.

If updating your back office is not appealing, you can do what we did. We decided to outsource as much of our back office as possible. We wanted to focus on investment management, which is our core strength, and leave the back office work to specialists in that area.

We now use cloud-based systems provided by Orion Advisor Services. We are still involved in some back office work, but the level of our involvement has been greatly reduced. So have our costs. Other firms, like Envestnet, would be glad to assume your back office burdens.

Retooling your back office doesn’t necessarily mean adopting new technologies. Some years ago, Deborah Fox of San Diego-based Fox Financial Planning Network set about systematizing her practice. She developed detailed work flows that created great efficiencies for her firm. They were so valuable that she developed a business sharing them with other advisory firms.

Take a serious look at robo-technology. We loved the efficiencies of programs like Jemstep that can create a modern online experience for clients while allowing you to open new accounts in a day without hard copy paperwork or wet signatures.

Don’t forget to visit your own website. In our industry, so many websites look like an afterthought stamped out on an assembly line. Make sure yours isn’t one of them. Every client and every prospect will visit your site. Make sure it’s memorable and sets you apart.

Dare to be different. Have some fun. Create the website that you would want to visit if you were a client. Avoid clichéd images of skyscrapers, granite columns and politically correct groupings of worker bees huddled around a giant conference table awash in the glow of their computer screens. Try to connect with your clients, not impress them.

Take a hard look at your fee schedule. Most of the world still uses a percentage of assets under management approach, but that is changing. More and more firms are migrating to hourly fees, retainers or a flat-fee model. The key is to rationalize your fees so your clients are paying a fair price for the services they receive. Can you justify your fees to clients and

regulators?

Take a fresh look at your portfolio management practices. Are you truly adding value for your clients? Do you have the time and resources to really do a good job in this area? If not, consider the myriad outsourcing possibilities that exist.

Here's what happened when we set out to build the best portfolios for our clients. First, we decided to ignore the religious debate between the active and passive communities. We use both strategies. Benefiting our clients is more important than adhering to dogma.

We also became highly focused on reducing internal expenses and trading costs. Many firms today use low-cost vehicles, but then buy so many positions and trade so frequently that they lose the benefit of those low cost vehicles. We rebalance less frequently now—our default is one year—and figured out how to hold fewer positions, while remaining highly diversified.

Be unique. In a world where investment management is increasingly viewed as a commodity, ask yourself how else you will add value. Certainly traditional avenues like financial planning can help, but are there other areas where you have a unique ability or special knowledge that could help you stand out? Don't worry if no one else is doing it. In fact, that's better.

We looked around and didn't see anyone addressing the behavioral issues that can undermine client success. So we created a series of short videos that help clients become better and more successful investors. We're not teaching them how to invest. We're teaching them how to behave. The videos are available to anyone who visits our site. We'll add more over time.

Maybe these ideas will spark other ideas about changes you might want to make at your firm. Maybe not. But hopefully by considering these issues you will have a better idea of where you might start in your quest to question everything. Be bold. Have fun. Get started.

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