Editor’s note: The following article is excerpted from Mitch Anthony’s forthcoming book, Financial Soulutions.

Anthropologists studying peoples deep within the Amazon came across a tribe with an unusually high mortality rate and short life expectancy. They studied the eating, drinking, medicinal, and health habits of the tribe but found nothing to explain the phenomenon. Eventually they found the problem in the very walls of the houses these people lived in.

The tribe built homes from river mud that contained a species of bug that carried a virus. They literally were building houses in a vacuum. Eventually they found the problem with the lasting materials of service—tude and self-transcendence are flourishing. The problem, as with the Amazonian tribe, lives within the very walls of the infected investment firm. Those who work within these walls breathe toxic air and high mortality rates result.

The troubled investment firm chief, I suspect, caught this virus through direct or secondary exposure to Ayn Rand’s philosophy of objectivism, which seduces people into thinking that the greater good is met by pursuing one’s self-interest. As the past few years of headlines demonstrate, this philosophy has been practiced in corporate corner offices to the point of its undoing. If Atlas is shrugging off anything these days, it is this blind and foolish philosophy that purports to help others while only helping oneself.

News of this virus lately has come pounding on my door, like Jack Nicholson in The Shining. To wit:

• A friend who is a mutual fund company executive called to say that his father, whose retirement assets have shrunk considerably, no longer can sleep by night nor relax by day. They went to see his father’s adviser, who was unaware that his client had been retired for the past year and a half! Within 10 minutes, the adviser was trying to sell a new product to my friend’s father. My friend said it was all he could do to keep from throttling the cad. “I’m in this business and I understand the need to sell products, but this guy had no interest in my father’s life or dilemma whatsoever,” he told me. “Why doesn’t he know more or care more about his clients?”

• My accountant E-mailed that an 81-year-old client had stopped receiving her annuity checks and was confused by her adviser’s subsequent advice to sell the annuity and buy bonds that would mature in 15 years. The accountant looked into the matter and found the annuity contained a nearly identical bond option. Why would an adviser proffer such exploitive self-interest as advice?

• An adviser recommended that I purchase sizable stakes in two telecom stocks just before they began precipitous falls. I didn’t blame the adviser (I agreed with his idea at the time), but I was bothered that I didn’t hear from him for almost a year as these investments plummeted to 10 percent of their original values. I decided to call him. “Oh, I’m so glad you called,” he said. “My company doesn’t allow us to call accounts anymore that have fallen below $xxx in value.” I remarked on the irony that his company’s recommendation had pushed my account into ignominy. I transferred my account the next day.

• After a speech I gave recently, an adviser who works for a regional bank came up to me, his eyes filling with tears, and said, “I had decided before this meeting that I just couldn’t do this anymore. If you can show me a way to center what I do around the life and
A New Campaign
Advisory firms lately have been spending a lot of advertising dollars projecting themes of client-centeredness. Do these firms really believe that the problem is with the sign on the house? Does it escape their notice that the problem really is with the air within? How long will it take before the perceptions flaunted in the ads become client reality? Where is the process to bridge the promise of the ad with the practice of the adviser? What line or strategy connects the two? The advertisements may be different, but until the Monday-morning sales meeting changes, the client’s cynicism will continue.

Indeed, until company culture is addressed, the same mistakes that have made headlines will continue. Why? Because the callous conscience soon becomes a careless conscience. If the mistakes of past years have not yet brought self-centeredness to the surface, what will it take? Exploitation will continue as long as the virus is allowed to flourish.

Selling Value or Selling Out
Selling should and can be a noble trade. Good advisers can and do play hero roles in the lives of their clients. Let’s assume for the moment that every product solves a problem or meets a need. The product is good if the intention of the product is good and the price is competitive. Only one variable really opens the door to danger and keeps selling from being respectful and dignified. Every selling professional knows what that variable is. It is appropriateness—and it can be determined only through thorough and sincere discovery.

As good as a product design may be, it is not suited for every client. But corporate pressure to move that product greases the slide to inappropriate conversations. As long as the directive to move products supersedes the directive to know clients, advisers will keep trying to cram size-11 feet into size-9 shoes.

Not too long ago I witnessed an industry sales training session. The trainer started his paradigm with this: “First create a need.” I was dumbfounded. “Create a need” presupposes that clients have no legitimate needs, so you must manipulate their perceptions. I began to realize the breadth of vacuity that self-centered living leaves in the soul and the imagination. I challenge any adviser to find any client conversation where, with enough effort to understand the client’s situation and goals, a real need would not appear that could be addressed with a product you now sell. It is self-absorption and intellectual laziness that leads people down the “first create the need” path.

The Soul of the Matter
 Appropriateness ultimately is a question of conscience and soul. Am I trying to create the perception that this is needed to meet my own agenda, or am I trying to find the client’s real needs so I can offer the most appropriate solution? The first sign of recovery from this virus is that the adviser begins to take a keener interest in the lives of clients and becomes more intrigued by discovery than pushing products. A paradox begins playing out in recovering practices. The less time advisers spend pushing products and the more time they spend discovering the lives and hopes of their clients, the more products they sell. But now all product sales are appropriate.

Portions of this paradox, such as the fact that clients like advisers who care about their lives, haven’t escaped some tribal chiefs. They’ve rushed to media outlets with the message that they offer this caring relationship to clients. However, we must remember that some of these ad campaigns were dreamed up within infected walls, leaving the public with the irony that the virus of self-interest now advertises itself as self-transcending.

We don’t need a media campaign; we need a conversion of the very soul of the business. Self-interest must give way to what philosopher Victor Frankl called “self-transcendence,” more commonly known as “seeing past your own nose.” The industry no longer can afford short-sightedness, opportunism, or superficial relationships.

When advisers are greeted with a Monday-morning pep talk about building better relationships, about focusing on the long run and the big picture, about discovering what’s going on in clients’ lives, and about providing services that match the needs arising in those conversations, then and only then will behavior begin to change.

Working within Infected Walls
A few months ago, an adviser came to a training on conducting better dialogues with clients. He was full of enthusiasm as we practiced meaningful and productive conversations lacking manipulative undertones. I told him, “I don’t think you realize that this day is going to make things worse for you, not better. You are charged up about having a real, life-centered financial dialogue, and when you go back to your office another sort of conversation is going to be forced upon you so that you can force it upon your clients. When that happens you will be more miserable than ever because now you know how to take the client dialogue to a different level.”

Within a week he phoned to say that he was having the most meaningful and trust-building conversations he had ever had with clients. But now his boss was deriding him for not moving more product. This adviser informed me that, as predicted, he was more miserable than before. He couldn’t force himself to have that other sort of conversation any longer.
upon your lifestyle through the dividends the practice earns for you.

The next concept requires that you throw out the traditional definition of break-even. This definition states that break-even is when

\[
\text{Expenses + Taxes + Depreciation} = \text{Revenue}
\]

I would like you to adopt the following new definition of break-even:

\[
\text{Fixed Expenses + Variable Expenses + Taxes + Depreciation + Targeted Profit} = \text{Revenue}
\]

Why is this an important change? Let's start with why I separate fixed from variable expenses. In most financial services practices I have worked with, fixed expenses fall between 45 percent to 75 percent of break-even. What does this mean?

Let's assume your practice's fixed expenses are 50 percent of break-even. Variable expenses move up and down consistently with the rise and fall of revenue. Fixed expenses do not change with changes in revenue. In simple terms, this means that a $10,000 increase in revenue above break-even will result in 50 percent of $10,000 going to net pre-tax profits.

Understanding this simple principle allows you to plan and project how increases in variable expenses (e.g., a new marketing/prospecting campaign) can be underwritten to produce increases in revenue that can create dramatic increases in profitability.

What are targeted profits, and why are they an expense? The following are the only five ways that a company can use a profit:

1. Cash reserves
2. Investment in growth
3. Investment in risk
4. Employee incentives
5. Dividends

Unless your practice never has an off month, you should maintain some cash reserve to ensure stable cash flow.

Investment in growth is a critical element of any business. If you do not invest in growth, your business eventually may die.

Investment in risk is similar to investment in growth. The difference is that growth is expanding what you already do, while risk is expanding into something new. An example: An advisory firm decides to open a branch office on the opposite side of the metroplex to provide greater convenience for existing clients and expand opportunity for new clients. That is growth.

Another example: An advisory firm decides to partner with a law firm to offer trust and estate work to clients. That is risk—something they have not done before.

I label the monies set-aside for cash reserves, growth, and risk as targeted profit. It is the portion of this year's profit reserved for next year's business practice, and as such should be included as an expense for evaluating the fiscal management and strategies of your practice.

Now that you understand your true break-even and can reflect it in simple-to-read, easy-to-understand financial reports, buyers can see how you have been profitable and what they would adopt or change to sustain their own profitability. Good disciplines in financial management and reporting can increase the multiples of valuation.

Follow these seven steps in your practice and watch the value of your practice climb.

Peter Vessenes is a principal with Vestment Advisors in Shorewood, MN, which provides education and consulting services to financial professionals about practice management topics including compliance issues, organizational management, and sales strategies. Contact him at peterm@vestment.net.