

Hit it or Quit it – Red X's

Jim: Welcome, listeners today to the *Hit it and Quit it* 20 minutes segment, where today we are going to visit with Russell Campbell. In a minute I'll introduce Russell, I just want to remind everyone that because of the quick format this is just 20 minutes. We won't entertain questions from the audience although you are more than welcome to contact us at Focus Consulting Group, or Russell directly afterwards.

So let me turn to today's topic which I think is really a fascinating one. I will give you the genesis of this. We have written and spoken a lot about what we call the *Red X's*, and in a minute we will define that more carefully.

Russell, who is also a consultant in the industry and let me give a little introduction to Russell right here, Russell Campbell has led five separate investment firms in his career. So one thing I like about Russell is he has actually been the CEO of major investment organizations, so he has worn those shoes and been in that role. Now he has his own company called *Your Second Opinion* which I think is a great name by the way, Russell, I wish I had thought of that one. And you can find out more about his firm by going to their website. Currently they work with nearly a dozen firms on issues involving people, marketing, investment process and products.

So the reason why we are having this discussion today is one of our clients sent me a note that Russell had sent out, and I'd like the first part of it. It says, "In recent years, Jim Ware at Focus Consulting has written and spoken about what people who he calls *Red X's*, and describes them as people who are brilliant investment professionals, clearly add value, but they live outside of some or most of core values of a firm. In simple terms the *Red X* is disruptive and can be toxic to the firm's culture." Now this is the part I like, "I have a lot of respect for Jim's contributions to the industry", and then all of this stops and he just trash talks me for the rest of the time, I'm kidding of course. [Laughs] He then goes into what I think are some really interesting differing opinions and as Russell and I have talked about this in phone calls since this came out we actually aren't that different on most of them but some of them we genuinely differ on so this should be really interesting in exploring this topic of the *Red X*, so we thought these would be interesting questions for today.

What is the *Red X*? So we will define that a little bit more. When does it become a problem or is it even a problem? If it is a problem how you address it as a leader? How do you address it as a peer or a subordinate of the *Red X*? And then what are the key take - aways?

So defining the territory as it were, we would say that these four values are very common in the investment world, starting with clients. Put the client first - it is a fiduciary business. Second you have to have ethics and integrity - you have to behave in that way or sooner or later it catches up to you and you will be in trouble, and you will have the Madoff syndrome and that is not good. Three, team work. Most firms say we are really more about collaboration and teamwork rather than any one star, and that begins to get at today's topic, and then fourth is excellence.

So the way we see it, you could have a person who maybe has fallen out of excellence and you have to coach them back to how to get on the top of their game or how to do their work better, that sort of thing and that is understandable.

The *Red X* is the person who is really good at what they do but they can be awfully hard to work with. And it just seems like this is very common in the investment world. So Russell would you agree that this is a common phenomenon?

Russell: Absolutely.

Jim: Yes, we see this all the time. Alright so we have a little cartoon that we like with the dog in the cat company, "Let's face it, our organization have never been a good fit". Often times we see that that is the case - that it is just wrong person in the wrong firm.

We also have collected data from many, many investment firms which show that the most common ways of dealing with the *Red X* are to indeed fire them. So that is like the medical analogy of you see the cancer, and you remove it or you try to fix them. Those are not commonly done, the ones that are more commonly done the highest one is fret about them, so we get a lot of calls at Focus Consulting about oh we've got this *Red X* and it's really a problem and we're worrying about it. The other side of that would be you've got it, but you forget about it. So those are the people who are good at denial, they can have problems and just not even thing about it. It doesn't come up in the radar screen and then finally we've see it is fairly popular to try to firewall these people where you kind of put them off by themselves and don't let them cause much trouble. So this would probably be a great place to bring you in Russell and start to talk to us about your view of the *Red X* and as you call it the *Gold A player* and your thoughts.

Russell: Sure well, first of all thank you very much for inviting me. I have known Jim Ware for close to 10 years and followed his work very closely, read all of his books, tried to keep up with his current thinking and I've seen you speak a number of times Jim, so I really appreciate the opportunity to be able to be in a position to offer some views. I guess my first issue with the nomenclature of *Red X* is the name itself, the idea that we name it, and it is almost like bullying is my concern.

Jim: Yes.

Russell: And I guess the fact that we call someone a *Red X* already sets things up for a problem. So, for example if there was a group of portfolio managers that got together and started saying, you know all those leaders of investment firms that don't know a lot about investments, we're going to call them morons, they know nothing. [Laughs] You know I think we are just headed in the wrong direction calling somebody a *Red X*. I prefer, I call them *Gold A players*. The compromise might be *The Talent*.

Jim: Which is true, they are very talented individuals.

Russell: So that is the first issue, the second thing is I think companies should revolve *Red X*'s. I think that the whole basis of our industry is on generating investment performance, generating alpha and I think that should be the solitary focus of the business. You know, I don't think anybody remembers how Picasso was as a person, or Rembrandt was as a person, or Einstein as a person, what we remember is what they achieved, and what they accomplished, and what they left behind, and so my intense focus is really on retaining alpha generating talent in the industry.

Jim: So when, I mean do you have thoughts in mind Russell about when it becomes a problem? Or like the story that I tell during speeches about the fellow who stood up when I talked about what do you do with the *Red X*, and he said, "You ride that horse for as long and as hard as you can."

Russell: Yes.

Jim: I that pretty much your view, or do you think there are times when you have to cut this sort of cancer out?

Russell: No, let's differentiate, either they are generating out-performance and they

are great performers that you want to keep, or they are just jerks. If they are just jerks, I don't care if they are portfolio managers, or sales people, or operations people or who they are, you figure out ways to deal with them. My focus is really on the talented individuals. I think there are strategies that we can use, and we can come to those a little bit later, but sort of from an overall perspective, I think the culture should mould itself around that person. And the reality is I think that is what happens in this industry. There are many companies that both you and I can think of, that are led by a very strong personality, where there is constant turnover underneath, you know turmoil underneath.

Jim: Right.

Russell: I have a friend of mine who worked for a very large hedge fund. This friend of mine was extremely successful, in fact he was alone, managing a quarter of this firm's assets for a number of years. But the firm had great performance before he joined, and great performance after he joined. The leader of the organization is an outstanding investment professional who continues to attract solid talent. In fact I have three friends who have worked in this firm, who have gone in for two to five years each, and then gone out. So I would hesitate to call it a team, but it is certainly a collection of alpha generating talent. And this guy is, the guy that runs the organization is difficult to deal with but he is an icon in the industry and has continued to generate strong performance for many, many years.

Jim: Yes, so what about the idea of if a *Red X* is driving out talent, I mean you said a moment ago you see turn over.

Russell: Yes.

Jim: At some point does that become an issue or could a *Red X* destroy the culture to the point where it wouldn't be that effective anymore

Russell: Yes, let me deal with the second part first.

Jim: Yes.

Russell: If the culture arrays itself around and supports the talent then I wouldn't call it destroying the culture or destroying the overall culture of the firm, it's really reinforcing it. You know it's arraying itself around a very talented, or a very small group of very talented individuals. Coming back to the first part of your question you talked about how can you deal with this. It's a leadership issue, and certainly it's not easy, but there are ways to do it. You now I have been in situations where you know there is a myriad of different investment mandates, that we can offer even within one asset class. So what you can do is you can take talented individuals and give them several different strategies, maybe one is large cap, one is mid cap, one is small cap.

Jim: Sure.

Russell: Now there are ways to deal with this and that is just one example, but there are other ways to deal with this that leaders need to think about.

Jim: Yes, because what we experience you know, we have talked separately Russell, about the really bad *Red X*. In my opinion it is the one who is mean spirited.

Russell: Right.

Jim: And I have a lot of affection for this various characters in the industry who, first of all are people who can see around corners. You know the true geniuses like you mentioned in the

piece you put up earlier, about Picasso versus the outdoor sign painter. And you are not so interested in the outdoor sign painter because that's a dime a dozen, you are interested in the real genius the Picasso. And many of these real geniuses when you get to know them and we interview them all the time as part of our assignments, they are fascinating characters and I find myself like you nodding as I speak to them saying, we'll get rid of the outdoor sign painters, keep this guy, this guy is really fascinating.

And that I think is very different from the question that the CEO faces when they have a really talented PM but he is mean spirited, which shows up as being really disrespectful and rude and just seemingly uninterested, sort of narcissistic, the would be the clinical term, just doesn't acknowledge anybody else existence.

Russell: I'm okay with that. We haven't addressed this yet but from a leadership perspective, I find that leaders tend to have pretty strong egos, you know they have been successful in their career they have been promoted or someone has appointed them to a position and I think one of the difficulties for a leader is to step back and say I have a true genius in my midst and while I may be a great leader of this investment organization you know with a broad perspective and great at hiring people and finding the right sales people and investment talent, I need to step back in this particular area of expertise because of these outstanding investment professional needs to be supported, I need to step back with my ego, I need to do everything I possibly can to like the person, that is the first step. The portfolio manager may not like the leader but the leader has to like that person, has to find a way to like them and has to build and mould the organization around to support them.

Jim: Yes. So that really does become a profound question for CEO's and leaders because it gets at how you define success, right? And what is the culture of the firm.

Russell: Right.

Jim: So if indeed you get a person who is very talented but by most peoples' opinion is rude, disrespectful, then you are basically saying that is okay, that is part of our culture.

Russell: Yep.

Jim: Yes, interesting. So...

Russell: And we all know organizations like this. You know I have worked in some of those organizations where you have a very strong very talented individual running the firm, and it's interesting, if you just let it go, over time people self - select. So people get hired into the organization and if they don't get along with the talented individual, it's like a bacteria invading a body, it get's rejected, it get's thrust out. And the people that can deal with that talented person with the lack of social graces, they actually stick around because they are able to deal with those kinds of people or their personalities are similar somehow and they find a connection with that person.

Jim: Yes. Now you have written in this note that we have been discussing, you have written about attempts to improve the situation so you are not trying to do a deep psychological dive into the *Red X* and transform them but there are ways to work with them, I think those we need to talk about.

Russell: The first one is like I said for a leader, because we are focusing on leaders, but we can come back and talk about if you have to work with people. But from a leader perspective, the first as I mentioned already is set aside your own ego. You know, recognize that you are dealing with extraordinary talent in a very technical area. They are not your match from a managerial perspective but they are very talented people.

Second thing is listen to them, listen to their needs, listen to their wants, work with them and like I said, like them a lot. And then the third point that I make, is do everything in your power to make sure that the culture supports them. So if that may mean replacing people, finding people that the talented person can work with, whatever needs to be done in order to maintain that alpha. I guess the bottom line is I think alpha generating talent is so rare that we can't afford to let it go. It can be a loss not only to the firm but my bigger concern is that I could be a loss to the industry. I know many groups of people, small groups of people who are managing hundreds of millions and billions of dollars on their own, with not a single outside dollar from pension plans, and they are generating enormous wealth for themselves and that I think that is a loss to the larger community.

I think pension funds and mutual fund clients are losing out on that alpha generating talent because these people are being pushed out in an effort to make them nice people, and we are losing alpha generating talent to these private pools of money - that is my biggest concern.

Jim: And I would say the nuance there is because we get that a lot Russell, we get people saying us, so, particularly the *Red X's* are saying, so why are you trying to make this organization a nice organization and we're not. I just want all listeners to make sure they understand that, we do think there is a place for a core set of values, and one of those values typically is respect, and so that is what we would say, we would say, you know most of the work we do the CEO has decided that they want that to be part of the culture of the organization, so we would say people have to be respectful one another.

We have written about that recently the art of collaboration, or the art of tribal peace, is what we called it, and we'd say that. But we don't say that organizations are supposed to be nice, that would be oversimplifying our message.

So what do you do with a direct report? Say somebody is working with a *Red X*, and these are assignments we get every week - somebody saying you know god it's hard to work with this person they are just and you know and they are a pain, and they double guess everything I turn in you know.

Russell: Yes. I've got three points I'd make there, the first one is don't take it personally. They probably don't get along with a lot of people, including their spouses.

Jim: Right.

Russell: So don't take it personally, you know just work it out for yourself, go for counseling, do whatever you need to do to figure out how to not allow it to affect you. Second thing is, like I said before for the leaders, find a way to like them. Even if they don't like you, if you like them, that can make a difference. It can make a difference in how they treat you long - term, and so I think that is useful thing to live by.

And then the final thing is figure out how to make them look good, in their way. It's going to be idiosyncratic, it's going to be different from what you have seen before probably. It may mean you know, giving them reports faster, it may mean staying out of their face, it may mean a million different things, but figure out for yourself how to make them look good in a way that is satisfying to them.

Jim: That is good. I have to say to the listeners, I am sitting with one my colleagues and the colleagues is shaking their head saying no, no, no and I think that really brings up what a poignant subject this is, because again, I love your viewpoint here, Russell that the talent is so rare, and we both agree totally on that one.

We work with firms all the time where I think, you know when I ask them what their edge is in the market they don't really have a good answer. You know, we are smart people that work hard. Great, show me the shop that has dumb lazy people.

Russell: Right.

Jim: You know, and that is not a good answer, so when you get somebody who really can see around corners, I agree you have to really, really think long and hard about saying, well we don't want you because you know you're not polite or you are not respectful or something. But it is a real issue in the industry and it's compounded by, I don't if you saw [BillRosen's] recent piece that says the man in the mirror. And he wrote a very interesting piece, very self - deprecating piece saying, "I don't know if I am a great investor. Because you know maybe I was just....at the right time or the right era of history where my style of investing was successful and if I entered a different era I would look like a jerk, I would look like a horses ass and then he pointed fingers at Soros and Buffet and Peter Lynch and all the rest and he said it might be true of them as well. So it's a fascinating question, how do you know you really have an alpha contributor, you know

Russell: That is true.

Jim: So well I wish we had more time for this Russell, because it is a truly interesting topic. The main take away for me, and then I'll give you a moment to say your take away, but the main one for me is what you said about trying to love these characters, and I actually do that in my work, you know I meet one of these guys everybody else has labeled the *Red X*, and I say well let's get to know this guy, and there is always a loveable side to them, and there is always something that you can find that is truly a noble and agreeable characteristic. And that is what I look for. You want to close?

Russell: Sure, I just repeat, you know treasure your talent, this alpha generating talent, which you agree with. Leaders need to step up and worry about how to do this effectively because it's not easy, there is no question about it, and the bottom line is the organization should really revolve around this talent in my view. And in that way, I am a little different from yours. But again, thank you very much for allowing me to be a participant in this, I really appreciate it Jim.

Jim: Great, you are very welcome; I hope listeners recognize that this is an example of what we try to teach teams which is to have good debate about topics. You know, stocks, bonds investments, asset allocation etcetera, and I know for my part I had fun during this discussion, and I don't feel like I got defensive in a sense of I think it's great that we differ on this. That is fabulous. If you want more from Russell, we will be happy to send it to you. As always contact Liz here at Focus for a recording of this session. Next Hit it And Quit It will be June 28th and we are very excited to present the focus elite winners for 2012 that is 7 firms that really have strong leadership and culture and if you want to join our distribution list for all the white papers and what not let Liz know as well. A final thank you to Russell for joining us, we wish you well and all of you have a great long weekend in the states and signing off for now.

Russell: Thanks Jim.

Jim: Bye now.