

Sound Retirement Radio^{.COM}
KKOL 1300am, Saturdays 8AM
HOSTED BY JASON PARKER



032 Stacking The Deck With Former CEO Of Charles Schwab David Pottruck

Announcer: Welcome back, America, to Sound Retirement Radio, where we bring you concepts, ideas and strategies, designed to help you achieve clarity, confidence and freedom as you prepare for and transition through retirement.

Now, here is your host, Jason Parker.

Jason Parker: Seattle, Tacoma, Olympia, Gig Harbor, all the good people right here in Kitsap County and for those of you tuning in from around the country thank you so much for making Sound Retirement Radio your source for expert advice. As you know, I'm always looking for experts that we can bring onto the program that will add significant meaningful value to your financial life. Today, I have David Pottruck on the program. He's got a new book out called Stacking the Deck. David Pottruck welcome to Sound Retirement Radio.

David Pottruck: Thanks Jason. Thanks for having me on your show. I'm delighted to be here.

Jason Parker: Absolutely, so David tell me and let our listeners know, you've got this new book out called Stacking the Deck. What motivated you to write it?

David Pottruck: Well the book is, the subtitle to the book might give a little insight. It's How to Lead Breakthrough Change Against Any Odds. Otherwise you might think it's a book about gambling and it's not.

I've been teaching executives both in MBA programs and in executive education at the Wharton School of Business for almost a decade following my career at Charles Schwab. I've learned a lot about their concerns and challenges with leading big bold disruptive changes that occasionally come to companies. My course has resonated with students. It was twice voted the outstanding course in our school so I thought maybe we ought to try to take this message out to a broader audience than the fifty people or so that I teach every year.

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Jason Parker: One of the things I enjoyed because I've had a chance to read most of your book so far before our interview is that as I read it you can tell that you're somebody that has lived it. You have the real world experience. Sometimes you get these consultants and academics, folks from academia that have all these great ideas but they've never actually been on the front lines and I really appreciate that component.

Now you mentioned your experience with Charles Schwab. What were you doing there with Charles Schwab.

David Pottruck: Well thank you Jason for that comment. If I can just step back for one second, one of the reasons I wrote this book was because all the books in the field that I could find were written by consultants and academics and they hadn't actually been in the trenches leading these changes and gotten a bit bloodied in the process and so I thought it needed the perspective of myself and others who are operators like I was in my career.

In my career, I started at Schwab as the head of marketing and I rose through the ranks to become the President, the Chief Operating Officer and later the CEO. When I joined Schwab, we were doing about a hundred million dollars a year in revenue so it was already a small but successful company and when I left we were doing five billion in revenue so it had got a lot of growth and a lot of exciting times during my time there.

Jason Parker: Yeah, that's awesome. Then today I understand that you are the Chairman of HighTower Advisors, a twenty-five billion dollar wealth management firm that you helped launch in 2008 so your record of success continues even beyond Charles Schwab.

David Pottruck: Well I'm a pretty successful builder. I wasn't successful when the challenges at Schwab turned around in 2000 and I had to start shrinking the company that really was not a talent that I possessed. I was not very good at. The nice thing is when we started building HighTower in 2008 I was returning to my roots as a builder and I had a chance to partner with a wonderful founder and CEO Elliot Weissbluth and we've been pretty darn successful. Last year we crossed over a hundred million dollars a year in revenue threshold and so we feel like we have a lot of momentum and the company is really growing.

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Jason Parker: Yeah, that's incredible. That is incredible. When I was sharing with some friends I was going to have you on the program I didn't even bring up the Charles Schwab background. I just mentioned HighTower and a friend of mine said I see those guys on the news all the time so you're obviously making a pretty big splash in a very small period of time that's awesome.

I want to ask you some very specific questions about wealth management and looking out into the future, how that could impact folks in retirement but before we get into that I do want to talk some more about your book because you have so much insight and wisdom when it comes to building businesses but also grappling with change and I don't care if you're running a business or getting ready to retire my good friend Dean says, "The only person that really likes change is a baby with a wet diaper." Tell me what you've learned.

David Pottruck: I'll have to remember that line.

Jason Parker: Tell me what you've learned, what you know, how to conquer change, how to deal with it.

David Pottruck: Well what I've learned in a nutshell is pretty much everybody hates change. They just do. It's disruptive. It makes you uncomfortable. It's new. It's unpredictable. Organizations in general are built for consistency, reliability, predictability and risk minimization. That's the opposite of bold breakthrough change. Companies are built for incremental change, for getting a little better all the time, but then something comes along and either a huge opportunity or a huge threat or maybe something that's a bit of both. I lived through that Schwab when the internet hit the scene and suddenly we had to think were we going to embrace the internet or were we going to fight the internet and how were we going to play that card.

It's easy today to look back and say, "Well the internet has been the biggest transformational force in our lifetimes." It wasn't that obvious in 1995 that that's what the internet was going to be. If it was that obvious we all would have invented Facebook but we didn't. For Schwab, a company that was built with telephones and make calling and placing trades over the phone in a traditional fashion since 1974, the idea of reinventing

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ourselves around online trading was extremely challenging because it meant that we were going to have to cut our prices by over sixty percent. Of course really we ended up cutting prices by almost ninety percent.

The average trade of a hundred shares of stock in 1995 at Schwab was about eighty-five dollars. Today that trade is nine dollars, nine dollars. That's devastating change but Schwab is more profitable than ever, more successful than ever because they embraced the internet and they got behind it. Getting employees on board with these changes is extremely challenging.

It really requires an ability to be an inspiring leader because there's no amount of reward you can offer to get people to get behind some of these kinds of changes. They're so frightened. They're so threatened that it's not about rewards and behaviors. It's about inspiration. It's about trying to convince people that we have an opportunity to create something truly special. Sometimes companies fail at that. You can just look back the last few years, look at Blockbuster Video they were a hugely successful company out of business. Look at Borders, hugely successful company out of business. Tower Records, hugely successful out of business.

These companies had important positions in the marketplace and the internet just rolled over them like a steam roller or even take a look at a company like Blackberry. I mean if you look back I bet you had a Blackberry in your pocket six or seven years ago and you don't today. None of us do. What happened? How could a company that had a forty-five percent market share of smartphones end up today to be almost out of business? How does that happen? It happens because when there's change in the air you either get victimized by it or you take advantage of it and it takes strong leadership to make the difference.

Jason Parker:

One of the things that I remember reading in your book was that you said the difference for people who embrace change is purpose. Talk to us for a minute about purpose. What has that looked like for you? When you were going out to start this new venture, HighTower back in 2008 what was the purpose?



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David Pottruck: What I was taught years ago by the people who were coaching and developing me, I worked with a guy who is very smart. His name is Terry Pearce and he taught me that people in general hate change. They love progress. The difference is purpose. It's a purpose that you can sign up. It's a purpose you can believe in. If you want to sell the change that is needed we've got to go and connect people to the purpose.

Now this sounds pretty easy. It's not easy at all because people may or may not buy into the purpose. It depends on their confidence in the leader. People will buy into the purpose if you as the leader can look them in the eye and tell them why the purpose matters to you. Why is it something you connect with? Before they can connect with them, they have to understand why it connects with you. You've got to reveal yourself. You've got to talk about the things that are important to you. You've got to talk about who you are and why you care because people will start by trusting you. They'll forget what you said, but they'll remember how you made them feel.

These are really important concepts at the heart of leadership in getting people to buy into change and to believe in purpose. That's incredibly important. When I started HighTower, the founder of the company a guy named Elliot Weissbluth came to me and said, "Dave you know the world needs a new wealth management firm." The reason that the world needs a new wealth management firm is because in my opinion there are lots of financial advisors who work for companies that are more interested in selling investment products than in giving great advice. The advisors who work in those companies are stuck selling the products that are built inside the company.

It's like if you go into Ford or you go into Chevy, they're going to sell you the best Ford or Chevy they have in the store. If you'd really be better off with a Toyota, they're not selling you a Toyota. They're selling you what they have. If you're going to a salesman, you expect that. If you're going to an advisor, you expect them to look in the world and find you the best product. The thing that's the best in the world for you that's what you expect from an advisor.

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Your listeners who have financial advisors not just stock brokers should expect that from their financial advisor.

Jason Parker: Boy that is a ...

David Pottruck: Elliot said to me ...

Jason Parker: I'm sorry. I'm sorry. That's an awesome point David. I was just going to say we're at that point where we need to take our first break. Well be right back.

David Pottruck: Sure.

Jason Parker: We'll continue this conversation. All righty folks welcome back to another round of Sound Retirement Radio. I'm your host Jason Parker. Today, it is my good fortune to have David Pottruck on the program with us. He is the Chairman of HighTower Advisors, a twenty-five billion dollar wealth management firm that he helped launch back in 2008. He serves on the Board of Directors for Intel Corporation. He's on the Board of Directors for several early stage companies. He was the President and Chief Executive Officer of the Charles Schwab Corporation.

Talk about an awesome guy that I get to pick his brain here for a little bit and help bring value to our listeners' lives as you're preparing for and transitions into and through retirement. David you were just talking about purpose. You were talking about the purpose behind why you were part of starting this new wealth management firm, HighTower Advisors back in 2008. You were also talking about the difference between an advisor and a salesperson.

I think our listeners whether they're right here in Seattle or around the country really need to understand that because I don't think everybody really understands the true nature of the financial services arena. Go ahead and give us some more information there.

David Pottruck: Well today, well actually let's turn back the clock. Let's turn back the clock twenty-five years ago. We would have talked about people who are stock brokers working at Merrill Lynch or



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E. F. Hutton or Lehman Brothers, naming companies that are no longer with us, we had these guys called stock brokers. Then over the years they changed their name. No one wanted to be stock brokers anymore. They started calling them sales financial advisors.

The difference in training was not necessarily anything, anyone can call themselves a financial advisor or a financial consultant, not a certified financial advisor. That requires you to pass an exam, but you could just put on your business card financial advisor or financial consultant even though you're really just a stock broker working on a commission. You get paid if you sell something. Now sometimes what happens with these products is that the amount of money you earn as a salesman is not disclosed.

If you buy a car at a Ford dealer your statement of what you're paying for, you understand you bought the car, you bought the undercoating, you bought the leather seats, but no one says salesman commission. It's not on the statement. The same thing in the investment business. You don't understand what your stock broker/financial consultant is being paid. Sometimes you have no idea how the rewards work or whether that person is working in your best interest.

Now this is so critical understanding how the financial advisor is paid. What kind of money does he earn? Does he earn a fee for giving you financial advice. That's the way you should be working. In my mind, the way you work with a financial advisor is you pay a fee for their advice or you pay for the time they spend with you. Either one of those is fine but paying commissions that if they sell you something they earn a commission is the wrong set of incentives. It's not in the client's best interest in my opinion.

Jason Parker:

Obviously people have voted with their confidence because in a very short period of time HighTower has accumulated twenty-five billion dollars in assets so I think you guys are on the winning side. For our listeners out there, such an important thing to know, if you're thinking about hiring a financial advisor, ask the question, ask the question, understand how they get compensated and make sure you're okay with that because

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there is a big difference. You would think that everyone would have a fiduciary responsibility that was acting in your best interest but I have learned that that's not the case and I think that's what Mr. Pottruck is explaining to us. I want to ...

David Pottruck: Yeah, ... I'm sorry go ahead.

Jason Parker: I want to ask you there are some specific questions I want to ask you about retirement. David I don't know if you know this but Sound Retirement Radio is all about helping people prepare for and transition through retirement so I do want to ask you some questions about that, but in your book your new book is coming out or your new book is out called Stacking the Deck: How to Lead Breakthrough Change Against Any Odds.

Chapter two is Assembling and Unifying Your Leadership Team. Talk to us for a minute because whether or not you are getting ready to retire or you're leading a business chances are you're going to be looking for a team to help you through that process. What are the steps for creating that team?

David Pottruck: Well so having a bunch of people who work together inside a company is not necessarily a team. A team are people that can collaborate that can work together and the foundation of teamwork is trust. I remember I was working at Schwab in the early days when I first joined the company and the President of the company said we're going to have this meeting. We're going to go away for a couple of days to a hotel. The top six or eight of us we're going to go away and we're going to have a team building session. I thought what a gigantic waste of time. I don't have time for this team building session. I mean come on. I've got stuff to do. I've got work to do. We work together every day. What is this team building? What is it hold hands and sing songs around the campfire? I mean I was a nasty guy when I was young.

Here's what I learned what I learned is teams have to be able to argue. They've got to be able to debate. They have to be able to question each other's ideas in a constructive fashion. The foundation of being able to have the permission to have a constructive debate and arguments and not take it personally the foundation of that is trust. Before a team can effectively



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collaborate, disagree, come together and go forward you have to build trust and trust doesn't come automatically. Just because we work together doesn't mean I trust you.

The question is do I understand who you are, what drives you, what your motives are, what are your dreams and hopes for yourself, what are the things that make your socks go up and down at night. I need to know you more which means that the other person has to get comfortable enough to reveal themselves.

All of this is a process and this is what consultants get paid to do and I got to learn that this valuable. I didn't think it was. I thought it was a big waste of time and I learned that it's not a waste of time and that spending time, building trust and building team is a process that you should go through that takes time and takes energy.

Jason Parker: You know you've had this amazing career and it sounds like you're still working on some amazing projects. You've got a lot to go in front of you but how in the world do you start off in the marketing department of Charles Schwab and end up as the CEO? What's been the trick, the key to your success in business and life?

David Pottruck: Well you know the lucky thing about my career at Schwab is that our founder Charles Schwab or now everybody calls him Chuck in the ads today but he loved marketing. He was the marketing guy so when I got hired as the Executive Vice President of Marketing at Schwab, I was replacing Charles Schwab as the head of marketing. Just because I came into run that department didn't mean that he wasn't coming to the meetings anymore. He came to all of the meetings only I was the guy who was responsible for the day-to-day management of that department.

He knew everything I did. He knew everything that was going on in that department. He contributed. He contributed his ideas. He was well aware so I had the opportunity to perform every day good or bad in front of the leader of our company. My contribution what I was good at, what I was not good at were visible for him to see. Frankly early in my career I was a

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handful. There were some things I was pretty good at but there were some things I thought I was good at that I wasn't very good at at all.

I had a lot to learn and I was fortunate that Chuck was patient with me and gave me a chance to grow and develop and become more of the leader that the company needed.

Jason Parker: It wasn't just with Charles Schwab. I mean you had that obviously that great experience but you have been able to continue on and so down this path of continual development and so if there were one thing for our listeners out there now this show is geared towards folks in retirement but there's going to be a lot of people listening to this program that maybe aren't retired yet and they would like to duplicate what you have done. If you could give them one piece of advice, what would you say?

David Pottruck: Well here's what I would say. I would say that the key to success is learning how to be a good communicator and that has two parts to it, your mouth and your ears. It's not about just being a good speaker. It's also about being a good listener. A good listener is not about thinking well I'm hearing. It's about really, really listening to understand. Listening to gather the nuance. Asking questions, active listening. I can't stress enough the importance of being a good listener.

You also need to learn how to be a good communicator as a speaker. Those two things to be able to spread ideas, inspire other people to reach a little further than they think they might, be able to gather everyone together to get on board is a hugely important talent but you also have to be a good listener to make that as effective as possible.

Jason Parker: That's great. I want to ask you again and this is just out of my personal curiosity, you've accomplished a lot, as you look back over your life at this point what's been your greatest accomplishment?

David Pottruck: That's a good question. I think my, I don't know if this would be the answer you're looking for but I think my greatest accomplishment has been my commitment to keep learning and that I've never been satisfied with how well I do. I've never said that's good enough. I always believe I can get better. I can

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do better. I have to learn more that it's a process of expanding both my hopes and dreams as well as my talent that I'm never going to be good enough. I always want to get better and I get better from listening to other people, reading books, watching others. You always can be better.

I want to learn to be more humble and learn to continue to learn. Learn to learn. That's really important.

Jason Parker:

This is a very, very rich, rich interview and I think I'm probably getting more out of it than a lot of people but I really appreciate the time that you're taking to spend with us. I want to transition into chapter four of your book. It's Planning Ahead for Known and Unknown Barriers. We've got a lot of those right now.

People that are getting ready to retire, they're looking out at the economy and they're saying, "Boy can I retire. Is this going to be workable?" The stock market has been running hot. There's concern that there could be runaway inflation in the future. There's concern that if they buy bonds interest rates are going to go up and they're going to get creamed.

I want to ask you some more specific questions about doing just this planning ahead for known and unknown barriers but we're at that point where we need to take another break and then we'll be right back.

Seattle, Tacoma, Olympia, Gig Harbor, all the good people here in Kitsap County, Jason Parker Sound Retirement Radio, thank you so much for tuning back in and what an interview we have lined up and in the middle of right now with David Pottruck. His new book Stacking the Deck: How to Lead Breakthrough Change Against Any Odds.

If you're just tuning in and you don't know David Pottruck is the Chairman of HighTower Advisors a twenty-five billion dollar wealth management firm. He serves on the Board of Directors of Intel Corporation. He's on the Board of Directors for several other companies and he was the President and Chief Executive Officer of the Charles Schwab Corporation.

When I tell you that we're bringing experts onto this program to add significant meaningful value to your financial life, I know

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you've been tuning in for five years and we've had a lot of amazing guests but it sure is great to be able to have y'all on the program with us, again David.

David Pottruck: Thank you. It's a pleasure to be here. I'm very excited. Thank you.

Jason Parker: Chapter four Planning Ahead for Known and Unknown Barriers and as it relates to retirement planning and wealth management and financial advice for people heading into retirement what are your thoughts about that?

David Pottruck: Well as someone who is in that stage of life myself I spend a lot of time thinking about this. Unquestionably, my biggest earning years are behind me and so I have to make sure that I'm thinking about my financial future and how I'm investing my portfolio. I learned a lot during my years at Schwab and I've learned a lot during my years at HighTower.

I'm lucky to work with a lot of investing professionals who share their wisdom with me. What I've learned is that most people really have a bad idea of what investing is all about. When I was at Schwab and went out and spent weeks and weeks every year out on the road and talking to our customers, I do that today. I did an event last night with a hundred customers of HighTower in Las Vegas with our Las Vegas team. I hear people talk about, "Gee I want to understand how do I beat the market? How do I beat the market?"

What I hear when I hear people talk about beating the market is that they don't even have the right objective in mind. It's not about beating the market. Beating the market would require you to take an enormous level of risk and that really what you want to do is you want to understand how do I balance risk and reward. How do I maximize my opportunity while also trying to understand how to protect myself in downside because we don't know what's going to happen tomorrow?

What we do know is that the economy will fluctuate. We know the markets will fluctuate. They will go up. They will go down. I see very few people if any, if any who are successful at day trading or trading the markets and buying today and selling



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tomorrow anticipating where the markets are going. People talk about that as if they know how to do it so well but very few do.

In some ways, the best thing to do is understanding how do I get balance in my portfolio so I can get some of that upside that comes from the market and protect myself on the downside. I think that's the long and short of it Jason.

Jason Parker:

Great advice. When I'm reading your book one of the things I appreciate about your book is that you're not just bringing your own real life, real world experience to the topic but you're also you have all these connections, all these people you've relationships you have developed over the years and you've been able to bring other people into the mix. One of the things you talk about over and over again is that we're resistant to change. We don't like change but ultimately we're all going to have to deal with it.

You give a lot of different examples in the book about not just the change that you had to overcome but the change that other people are having to battle through. One of the things I thought about as I was reading through your book and I want to just kind of a more personal question I wanted to ask you as you look back over your career at this point, we talk about your greatest accomplishment, what about your greatest regret looking back over your career at this point?

David Pottruck:

Well I think my greatest regret was that when Schwab went into the retrenchment period starting in 2012 when we had four years of declining business because of the stock market declines and the economic headwinds we faced that I didn't adjust myself to deal with the new realities of our company. The company needed more than I could give. The company needed someone who would go after downsizing the company, recognizing that's what the company required. It's not what I wanted to do. I wanted to grow the company. That's what I loved doing. I loved creating new ideas but that's not what the company needed.

As the CEO it's not about what I want to do, it's about what the company needs from me. I failed to step up to the challenge of what the company needed. I should of surrounded myself with



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people who had been through downsizing, who knew what downsizing was all about that could have helped me, could have trained me, could have coached me. I didn't do that. I tried to wade through it on my own. I thought I knew enough and I could figure it out, but it was such a big deal. It was such a huge headwind. I needed a guide. I needed someone to help me and I didn't do that and that's my big regret.

Jason Parker: That's insightful. Chapter seven of your book *Stacking the Deck, Defining Metrics, Developing Analytics and Communicating Results*. When you're leading change, what are the most important components that you should be measuring as everything is brand new? How do you know what to measure first?

David Pottruck: One of the things you have to always remember when you're leading breakthrough change, a couple of things. Number one by definition breakthrough change is big, bold, takes time. It doesn't happen overnight and people are frightened and they need reassurance. Breakthrough change projects require building momentum. You're always trying to look for evidence of success. Evidence we're moving in the right direction.

Now in businesses most of the time what we're measuring is profit and loss. Are we making money? Are we making more money than we made before? All indicators, all measurements fall into one of several categories. They are basically either leading indicators or lagging indicators. Lagging indicators are those indicators that happen at the end after you've been successful so your profit, the fact that you're making more money, that's a lagging indicator. That comes at the end. You introduce a new product. All you're doing in the beginning is you're spending money, spending money designing the product, packaging it, selling it. There's no profit.

Everything at that state is a leading indicator. Are we succeeding? The lagging indicators happen after the product is out in the marketplace and it's starting to sell. Those are the things that happen toward the end. In the beginning, what you need Jason is you need to have the right kinds of leading indicators. You have to understand what you should be measuring.

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Let me give you an example. We're introducing a new service and we're hoping people will buy this service. We're putting the service out and we're explaining it on our website. Well how much traffic is our website attracting? How many click throughs are we getting? Are people downloading information? Those are leading indicators of engagement. We don't yet know if they're buying it but at least we know they're engaging, they're looking, they're testing, they're kicking the tires.

When I was at Schwab, we'd run ads and we'd actually put little, little devices on the doors of the Schwab offices to measure how many people walked through the door of our branch office. Now it didn't mean that everybody that walked through the door was in there to buy something but what it meant was if our advertising seems to generate more traffic in our branch offices we took that as a leading indicator that something good was happening. We were creating visibility. People were interested. They were showing up.

Then we had to actually close the sell, get the account and then we'd see the trailing indicators of assets, financial assets coming into our company, revenues happening, profitability and so forth, those are the lagging indicators.

Jason Parker: In our country where we continue to spend more money than we bring in in revenue every year and we have a national debt that's quickly approaching eighteen trillion dollars, should Americans feel comfortable and confident that retirement is something that's going to be sustainable? Is social security going to continue to be around? As you look at this world that we're creating for ourselves from a financial standpoint, David, what's your take on that?

David Pottruck: Well it's a great question. I'm amazed, amazed at the way not only America but basically everyone is spending money today. A couple of years ago, I thought, "Gee you know our currency has got to weaken because we're spending money we don't have where basically when you starting running the deficits you're debasing your currency," but in fact our currency has strengthened. We're sort of if you'll pardon the expression we're like being the tallest midget in the place because everyone else

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is doing worse. We're not doing well, but they're doing worse. I got surprised our currency has strengthened. It hasn't weakened against most other currencies in the world because everyone's tax policies are worse than ours.

There's just simply no way we can continue to print money, spend money and run the kinds of deficits we are. We are mortgaging our future. At some point, this will come back to absolutely haunt us. We haven't had to pay the piper yet. It's just like being a family with big credit card debt. Fortunately, fortunately our credit card debt interest payments are really low right now. Rates are down.

When rates come back and they are five and ten percent on our credit card debt which is our national debt, there's going to be hell to pay. There's going to be hell to pay. How much of our national budget will be eaten up by interest payments on the national debt?

Jason Parker: As the Chairman of a successful company now, how do you manage debt with growth?

David Pottruck: How do I manage the debt in my company?

Jason Parker: Yeah, try to put it into perspective. You see some companies that operate with no debt. You have some companies that have a lot of debt. We have a country that seems to be massive amounts of debt, so if somebody is running a business, they're in growth mode, how much is too much money to spend?

David Pottruck: I have a saying that I always use around the topic of leverage because if you use the money if you margin, interest margin if you margin your brokerage account and you use that buy in security and you're paying a five percent interest but you're making eight percent on your money then that difference between what you're paying and what you're making is pure profit. Right in your pocket feels great and that's the power of leverage.

If your house is depreciating at seven percent and you're paying four percent interest on your mortgage, you're making a difference. That feels great. It's profit. I like to say leverage is

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good until it's not and then you're dead. Why I say it that way is take mortgages for example, you buy a house ...

Jason Parker: Hold that one thought David. We've got to take a break. We'll be right back after this.

David Pottruck: Okay, sure.

Jason Parker: Seattle, Tacoma, Olympia, Gig Harbor, Jason Parker here. Thank you for tuning into Sound Retirement Radio and just to remind you all of the programs are archived. Everything is transcribed. You can get this right online at soundretirementradio.com. I appreciate you making this little program go on five years now but it's amazing to see that our listeners if you do a search on iTunes today under retirement this program is now one of the top five downloads in the iTunes library for retirement issues so thank you for all that support.

Today, I have David Pottruck on the program. He is the author of the new book, *Stacking the Deck: How to Lead Breakthrough Change Against Any Odds*. He is currently the Chairman of HighTower Advisors. He serves on the board of several companies include he's on the Board of Directors for Intel Corporation and he's a past CEO of Charles Schwab. We were just talking about leverage, Mr. Pottruck, what were you saying there?

David Pottruck: Well I was saying that I was giving an example. Let's cut to the example. Let's use the ground numbers you buy a house for say a million dollars, that's an expensive house but it's a round number. It's easy to calculate. You buy a house for a million dollars. You put down two hundred and fifty thousand dollars, twenty-five percent and you borrow seven fifty. You're paying five percent on your mortgage on your seven hundred and fifty thousand dollar mortgage you're paying five percent interest so that would be about thirty-seven thousand five hundred dollars a year.

Now if your house goes up in value by ten percent, that's ten percent on the full value of a million dollars so your million dollar investment is now worth a million one hundred thousand. You've made a hundred thousand dollars on your investment and it's cost you the interest thirty-seven thousand five



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hundred. It feels great. In the decade of the nineties, that's how real estate performed. In fact it performed that way most of the decade of the eighties too.

Everyone learned that buying a big house, taking out a big mortgage, the biggest mortgage you could get was a great way to create wealth. Now let me tell you how that comes back to bite you because it comes back like this. That same million dollar house, that same two hundred and fifty thousand dollar down payment, if that house goes down in value by thirty percent your two hundred and fifty thousand is a hundred percent lost, it's gone so leverage was good until it wasn't and then you're wiped out.

It doesn't have to be a hundred percent downturn for you to lose a hundred percent of your money. In fact if the house goes down by fifteen percent, that's a hundred and fifty thousand so two-thirds appropriately of your two hundred and fifty thousand dollars just got wiped out. The house only went down in value by fifteen percent but you've lost two-thirds of your value.

Jason Parker: Let me ask you about real estate. I mean you're talking leverage and you're talking about real estate and I think man boy a lot of people paid the price with real estate and it seems like we may have come out of it but as you look out in the world today, we've got interest rates at all time lows and it seems to me in a lot of places, I mean you're down there in San Francisco where I can't ... When I hear the real estate prices down there I just shake my head. I can't understand how anybody can survive down there in San Francisco but what do you see happening with real estate in the future as interest rates start to rise?

David Pottruck: Well I think so down here right now it depends on where you live but housing prices between a thousand to two thousand dollars a square foot. It's shocking if you're living around the country there are places where you can buy a lovely house for a hundred dollars a square foot, so a thousand to two thousand dollars a square foot is unthinkable in some places.

I think as interest rates start to rise the ability to get a mortgage, the ability to service a mortgage, the buying power



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of people to go out and buy these luxury homes especially in the higher markets that's going to be mitigated. That's going to be reduced and I think that, I don't think that real estate is the guaranteed play it was. For thirty or forty years real estate seemed like an investment that almost never went down. I don't think you could say that anymore.

Jason Parker:

Now looking forward as we look forward if real estate isn't the place to make all of your money because there's a lot of people that have been very successful in real estate over a long period of time but we're trying to look forward not backwards with what we do with our money.

Let's say you're going to retire today. I know that's not part of your game plan. You're very obviously inspired about the work that you're doing. Let's say you're going to retire. What would you do today with your money trying to look forward into the future to make sure that you're going to have enough, it was going to last, and you weren't going to have to be up worrying about it all the time?

David Pottruck:

Here's how I think about the world. I believe that human beings like to be creative, like to make new things. I think problems get worked out. I mean I'm an optimist by nature so I think the world continuous to grow, but let's remember that the stock market is not a game. It's not just winners and losers. If you're in a casino at the end of the night or at the end of the year, there's no more money. The money has just changed hands. Different people have it.

The stock market grows because there's new companies. There's new commerce. There's expansion of the world. There's new ideas so the stock market can grow and continue to grow because it's the way we measure the value of the companies that produce goods and services for people in the world. I believe that will continue to go up, but it doesn't go up every year and it can have some pretty harsh downturns.

You have to invest your money to be able to get through the tough periods without selling. The risk to every portfolio is that when times get tough, that week, that month, that year when we had this horrible downturn that it's so frightening to you that



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you say, "Oh, no. I can't. I have to go to cash. I have to sell. I can't take this loss."

Next year could we suffer a thirty or forty percent downturn, absolutely we could. Of course we could. We did it in 2008. We did it in 1987. We did a twenty plus percent loss in one day, in one day. There's no question we don't know what's happening tomorrow. I believe you need a long view of what's going to happen over the long haul and you need to invest your money to make money over the long haul and protect yourself for the downturns. I think about if the market is down let's say forty percent, how much do I want to be down? Well I want to be down only twenty-five percent of the downside.

If the market is down forty percent, I'm willing to suffer through a ten percent loss in my portfolio. If I want to be down only twenty-percent of the down side I can't get a hundred percent of the upside and twenty-five percent of the downside. I have to give up some of the upside. A lot of the upside. If I can forty or fifty percent of the upside and only twenty-five percent of the downside, I'm very happy with that performance of my wealth manager.

I look for advisors that can help me with what I call asymmetrical, a fancy word meaning not the same, asymmetrical upside, downside, capture. I want forty to fifty percent of the upside and only twenty-five percent of the downside.

Jason Parker: All right.

David Pottruck: Does that make some sense to you Jason?

Jason Parker: It makes a lot of sense and we don't have a lot of time left and I've got a couple of really important questions I want to ask you but the next one is you've got this new book out. You've got a lot of initiatives that you're driving forward with right now. What are you most excited about? As you look out into the future, what are the greatest opportunities for people to be capturing right now?

David Pottruck: The company we haven't talked about tonight. I'm also the Chairman of a company called CorpU, C-O-R-P-U, and CorpU is

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in the business of leadership development for corporate clients. What we do is we take the corporate education that I do at Wharton where executives from all over the world fly in to hear me and my colleague professors educate them and we converted those courses into online education that's both online and real time, so some of it is video. Some of it is reading and video watching, but some of it is dialing in to conference calls with professors to educate you.

I'm teaching classes now for people all over the world where they instead of having to fly into San Francisco or fly into Philadelphia where I teach they can be wherever they are in the world dialing into my classrooms, watching my videos, reading my stuff. I think the world of education is ripe for outstanding and creative innovation and that excites me because that's an opportunity to both do good and do well at the same time.

Jason Parker: That's awesome. Our listeners out there if they want to learn more about you, they want to learn more about the work you're doing, what's the best way for them to do that?

David Pottruck: I'm almost embarrassed to admit this but I actually have a commercial website called ... Actually I have a Facebook page and a commercial website. My website is called davidpottruck.com. My publisher insisted that I need to have a website so now I have a davidpottruck.com website which has all the information about my teaching, my leadership speaking, my books. I've written two books so it's all right there and that's probably the best way or you can find me on Facebook, David Pottruck or on Twitter which is @davidpottruck which is my twitter handle.

Jason Parker: All right David Pottruck. For those of you that have been listening to this program, we've had David Pottruck on the program. His new book *Stacking the Deck: How to Lead Breakthrough Change Against Any Odds*. David Pottruck thank you so much for being a guest on Sound Retirement Radio.

David Pottruck: Jason, it's a pleasure. A big shout out to Seattle and we have a HighTower office there in Bellevue so a shout out to those guys to.

Jason Parker: All right. Thank you so much.

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David Pottruck: Take care.

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