

Memorandum

To : FORUM Staff
From : BW
Copy to :
Date : February 16th, 2019
Subject : Work Ethics at FORUM_V_1.4

I have decided to document the desired work ethos at FORUM in order to

- a) communicate to any applicants wanting to join FORUM **what to expect**
- b) have a structure and starting point for an efficient discussion within the team **how to evolve.**

A. The Concept of Work Ethos

Wikipedia describes “**work ethos**” as follows (bold type by me):

*“A work ethic is a set of **moral principles** a person uses in their job. People who possess a strong work ethic embody **certain principles** that guide their work behavior, leading them to **produce high-quality work consistently** and the output motivates them to stay on track. A good work ethic **fuels an individual's needs and goals**, it is related to the **initiative by a person** for the objectives. It is considered as **a source of self respect, satisfaction and fulfillment.**”*

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What I get out of this definition is that **work ethos is about a virtuous circle** as depicted in the graph below:



The virtuous circle works as follows:

- a) It starts with **a set of principles** related to the work ethos a person has.
- b) These principles create an **intrinsic motivation** to approach work in a way which creates consistent, high-quality results.
- c) These positive results lead to **satisfaction**, creating a psychic reward **which reinforces the principles**.

Thus at the centre of work ethos is **a personal philosophy** about how to live the 50% of our life spent working in a way which creates good results – which in turn creates happiness in you.

Below I will set out some **determinants of the required work ethic at FORUM**. They are

- a) The **trade/business** we are in: we manage other people's savings
- b) The **specific positioning of FORUM** within the asset management's industry
- c) Key lessons about **human motivation**
- d) **Core values** of BW as the founder of FORUM.

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In the end the work ethos at FORUM has to integrate all these inputs meaningfully in order to arrive at **a consistent set of principles which re-inforce each other.**

B. Determinants of our Firm's Work Ethics

1. The Trade we are in – Managing Money for Clients

FORUM manages **the money of other people.** First, we manage the complete wealth of **the family** at the core of our family office. In addition, we advise a fund for “friends and family”. Some of its customers are looking to us to manage the money they need for a good retirement, many of them are personal friends to some of us.

Thus, it is hugely important for everybody working at FORUM to understand that **losing somebody else's money is a terrible feeling.**

I have seen many FORUM professionals fail who loved doing their personal investing in their leisure time. And they enjoyed exchanging ideas in investment clubs – enthusiastic amateurs. In general we love to recruit people who have started their learning roadmap aged 14, doing amateur investing.

But private investing is **one of the most dangerous entry points** for a career in a professional money management firm. You change

- **from betting your own money**
- **to risking other people's money.**

The latter **requires a completely different work ethos.** Thus, if you an enthusiastic amateur investor and want to make your hobby your profession **you will have to change your work ethos completely – or you will fail fast and miserably!**

The analogy about this elevated fear of losing in business which comes to my mind is the title of Andy Grove's summary the way he managed Intel: **“Only the paranoid survive”.** I would like to modify this principle to the requirement at FORUM as follows:

Work Ethos Principle No.1: “To succeed in investing, you must be paranoid about not losing money.”

There is a second requirement following the fact that we are active in money management: it is about making money! Why do I make this apparently obvious statement? **Because it is NOT obvious, many young people enter investing because the entry level title tends to be analyst,** and they are looking for an analyst job.

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But the intrinsic motivation you have to have in our trade – the North Star which all your work should be directed towards – is making money. Yet so much of the work produced by analysts **piles analysis on top of analysis** just to end inconclusively. What is needed in our trade is a very strong strain of the “**money gene**” – **the inner drive to see money work and grow.** Thus to become a successful money manager you need **a strong sense of money as the compass for the way you screen and process information:**

Work Ethos Principle No. 2: “To succeed in investing you must be driven by compounding money.”

2. FORUM Investment Philosophy

At the core of the FORUM **Investment Philosophy** is the requirement for “**Conviction**” in any **investment decision: this is the ultimate test of any analysis we perform. We will only invest if we have a strong conviction.**

Our Investment Philosophy is largely built on the observation that **long-term outperformance in investing is achieved by making few, high allocation bets in investment situations** where the risk-/reward ratio is very asymmetrical. The high allocation **requires conviction** – otherwise we could not tolerate the risk.

Thus, conviction is the key requirement derived from the FORUM positioning within the asset management industry.

Work Ethos Principle No. 3: “The relevant end point of any work at FORUM is delivering conviction.”

This means that **you do not turn in half-baked analysis.** Or opinions without a solid foundation. And do not turn in work with the conclusion “if I had more time I would look into this and that,…” either, it does not add any value relative to what is required. **You need the passion to get to “conviction” - nothing less.**

3. The Concept of the Learning Mindset

This concept was defined by **Carol Dweck in her book “Mindset”.** Other authors have adapted it and carried it further, e.g. **Ray Dalio in his book “Principles”.**

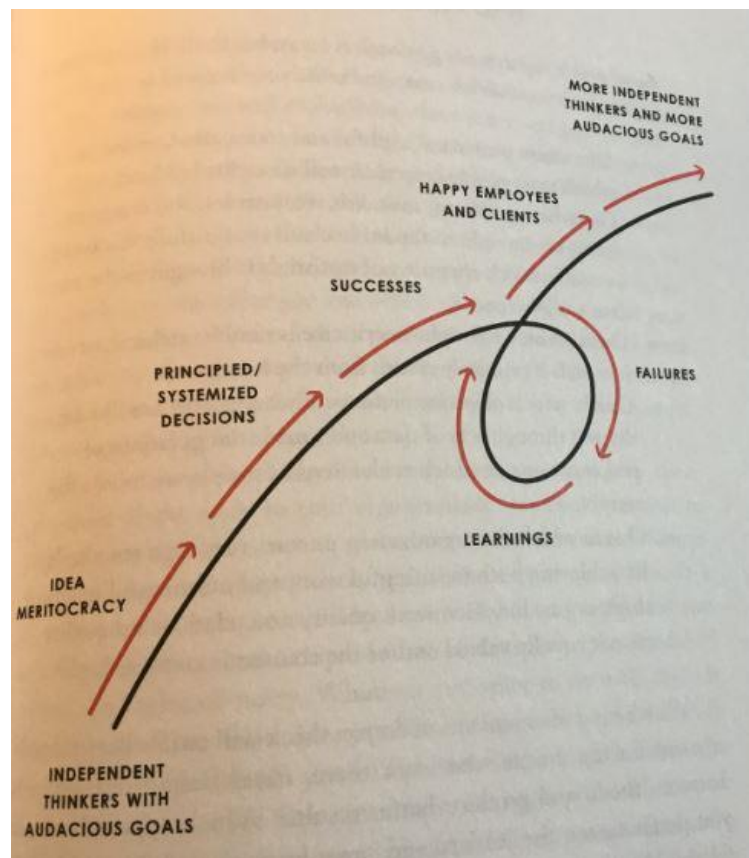
The core of the concept is that success in life requires you to **continually adjust your mental models whenever you experience setbacks.** This leads to a better approach, which will carry

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you further – until you experience another setback. And there you will learn again. **During the process you will be happy**, enjoying the learning, and not feeling threatened by new challenges.

The whole process is **a continuous set of loops on an upward trajectory**, see below the graph from Dalio's book:



Source: Ray Dalio, Principles, page 313

The alternative concept for dealing with setbacks or changes is the **fixed mindset**: when people with this mindset experience setbacks, they blame it on external factors outside of themselves, e.g. “the teacher was not good” or “this year the exam was particularly difficult”. This allows them to leave their mental models unchanged, no effort – but unfortunately no progress, either. **People with fixed mindsets will not grow and eventually they will reach the limits of their mental model.**

The growth mindset is such a central part of personal development that it should be part of any work ethos. I would therefore like any staff member at FORUM to share the following principle:

Work Ethos Principle No. 4: “Grow with your setbacks – embrace them for learning.”

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I recommend strongly that **you read Carol's book**, it is an eye opener – so is Ray Dalio's as well.

4. Beliefs and Values of the FORUM Founder

Below I have outlined the values which are core to **my personal intrinsic motivation**. These are the values I would like FORUM to integrate in its DNA and preserve going forward.

4.1 Dedication to Quality

Quality is something which makes my heart beat higher. I enjoy quality in all aspects of life: the Acropolis, an oldtimer car, a precision watch or 3-star cuisine. I admire the persons who had the opportunity to work in a setting encouraging or even demanding quality.

I do the same at FORUM: I spend time – sometimes lots of time – to generate work which meets high standards of quality. E.g., I re-read write-ups as the second time I go through them I pick up inconsistencies, repetition or poor grammar. And when doing a background check on a CEO I do not stop until we have identified at least 4 persons who know him/her and talked to them.

When I am finished with a piece of quality work I feel proud and happy. On my way from work I smile when I recall the aspects which break new ground – it was worth the effort.

Conversely, when I see sloppy work, e.g. a superficial write-up, I lose my interest quickly. It tells me that the author did not drive himself/herself to immerse in the problem, get conviction or was paranoid about losing money. Apparently staying in his/her comfort zone was more important to him/her. Personally I do not want to waste my personal time with poor quality.

I wish that **everybody at FORUM shares my personal work ethos on quality** – and the associated happiness - as expressed in the following principle:

Work Ethos Principle No. 5: “Finish any work with uncompromising quality.”

4.2 Professional Values in Service Companies

My work ethos for working in a professional service company was shaped at **The Boston Consulting Group** where I spent the first 13 years of my professional life after graduation. I joined 1977, and at that time BCG was a tiny boutique with the founder Bruce Henderson still very present. He liked to take us young guys aside, to engage us in intellectually demanding discussions and to share his values with us.

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BCG was also a professional service company and one of the key values Bruce Henderson preached relentlessly was

Work Ethos Principle No. 6: “The client comes first, then the firm, then you.”

This is a very demanding principle, requiring that **you put yourself last**. At the time these values were key at driving what we did and how we did it. In effect I worked 7 days most weeks, with work on weekends starting a bit later, i.e. at 9:00. But I am convinced it was this principle and the people internalizing it **which laid the foundation of a continuous success story**: today BCG is ca. US-\$ 3bn. in revenues and is the thought leader among the top 3 global management consulting firms.

Thus we worked incredibly hard – but in hindsight those years were the ones I enjoyed the most!

4.3 Pushing the Boundaries

Allow me to get back to my days at BCG once more. In the late 1970s strategy was all qualitative, putting together verbal input on the many aspects of a strategy questions, e.g. the strengths/weaknesses trade-off of Michael Porters five forces. Little of this input was quantified, and in general a lot of strategy statements were just opinions.

Bruce (Henderson) taught us to challenge this approach – **he claimed that any strategy problem/question could be converted into a precise hypothesis, and these hypotheses could be quantified and thus verified or falsified**. You could call it applying the rigorous scientific approach of Carl Popper to what was a discussion subject dominated by opinions.

Since then **business strategy has become increasingly quantitative** and with the use of more data and analysis strategic decision-making has become much better. **Thus we were pushing the boundaries in something which has by now become mainstream.**

I sense that **investing today is at a similar stage of transition**: in general the analysis is often split into hyper-complex financial modelling, but the description of business quality or investment situations is still largely qualitative. This is an opportunity to get an edge: if we question the way businesses or investment situations are described, going beyond the storytelling to rigorous quantitative analysis, replacing opinions with data. **To do that you have to have an attitude that one can get factual transparency on everything.**

Take the assessment of a CEO: we have developed a model with 5 areas of input to get a reliable reading on a manager. It requires a lot of cumbersome work, e.g. reconstructing the organizations where the CEO worked before, identifying the people he reported to or who were in his team, developing a questionnaire which uncovers negative issues (always difficult to get from a cold contact) and leading interviews. To execute this approach **FORUM needs**

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professionals who see the value of pushing the boundary and go through the effort. Thus we are looking for staff with this aspect of work ethos as well:

Work Ethic Principle No. 7: “To get to an edge in investing we have to continually push the boundaries of how we do things. A lot of this is about replacing opinions with facts and data.”

5. Summary

By now we have developed a list of 7 principles defining the work ethos at FORUM. Let me group them a bit differently:

First, we are a service business, managing other people’s money. This requires a work ethos covering the aspect of **working in a professional service company managing money**, namely:

Work Ethos Principle No.1: “To succeed in investing, you must be paranoid about not losing money.”

Work Ethos Principle No. 2: “To succeed in investing you must be driven by compounding money.”

There is another set of principles around **uncompromising quality** – which allows you to develop conviction:

Work Ethos Principle No. 3: “Finish any work with uncompromising quality.”

Work Ethos Principle No. 5: “The relevant end point of any work at FORUM is delivering conviction.”

Work Ethos Principle No.6: “The client comes first, then the firm, then you.”

And then there is a third group of principles about the **topic of growth**: it should happen **both at the individual level and the level of the firm**:

Work Ethos Principle No. 4: “Grow with your setbacks – embrace them for learning.”

Work Ethos Principle No. 7: “To get to an edge in investing we as a team have to continually push the boundaries of how we do things. A lot of this is about replacing opinions with facts and data.”

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Together this set of principles creates a work ethos which lays the foundation of a firm which can play in the top league of money management – **with a staff which draws happiness from working in a team which shares them.**

C. Other Aspects of Work Ethos

The list above covers the most important principles of our work ethos. When I concluded the chapter, several aspects of work ethos I had identified as additional candidates were left over, and you may also miss certain aspects. Here is a short comment on the most obvious candidates:

- a) **Passion:** this is a term used in a lot of writing about work ethos. I think that I understand and appreciate it. The issue I have with it is that **it is rather generic: passion for what?** As a generic term it describes a way of approaching any task in life with a high level of intrinsic motivation.

This is helpful, but adding it to the 7 more principles outlined above would in my opinion not add much – **it is an integral part of all of the 7 principles.** Some of you may find these principles a bit “brainy” – appealing more to rationality than emotion. **If you have this feeling, add passion to your personal work ethos.**

- b) **Competitiveness, winning:** it is a wonderful habit to continually measure oneself against competition or best practice in what we do, i.e. benchmarking. This is the source of work ethos in sports and helps to push the limits. I am a bit afraid of emphasizing it too much in our trade as **competitiveness in obtaining results may lead to unsound risk-taking.**

It is definitely useful when applied **in the competition for the best approach and methodology.** Therefore we use benchmarking against our peers regularly to learn from their successes and failures. If winning motivates you, apply your competitiveness to this aspect of your work.

- c) **Focus on the Important:** this is a useful principle, but in my opinion it is not part of work ethos as I cannot see how it can come out of an inner drive or create happiness. I will get back to it in the **chapter on efficient working techniques.**

D. Practical Implications – so what?

At this point some of you may ask what all the talk about work ethos **implies in practical terms.** Here are some answers to questions you may ask:

1. Recognizing Work delivered with a High Work Ethos

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I recognize a piece of work written with a high work ethos by the following characteristics:

- **Creativity:** thinking out of the box. The writer is able to not just “list and describe the dots” of a business situation, **but to “connect the dots”** to get a new perspective on an investment idea.
- **Peer Review Mindset:** as in a good scientific paper the writer anticipates questions by a critical review committee and addresses them proactively. This requires the **willingness to “poke holes” into the own logic and presentation.**
- **Mental agility:** this attitude is related about the previous points, it refers to **mental flexibility, thinking of analogies, related experiences and ways to find data required to address unknowns.** The opposite is following a template/using a copy & paste approach.

2. Working Hours

The concept of work ethos has intrinsic motivation at its core. Intrinsic motivation leads you to work intensely on an issue, getting absorbed in it and driving your brain to generate ideas and insights. It resembles the state of “Flow” described by Mihály Csíkszentmihályi, laying the foundations of positive psychology. **If you get into this mode you will forget time. As a result you may spend long hours on a task.**

But always remember cause and effect:

- a) The work ethos makes you **think intensively, getting absorbed in an issue and forgetting time. This leads to great results.**
- b) Just putting in more hours will not lead to much if you lack the inner drive. You will sit at your desk, as there is no intensity you will tend to produce volume, not depth.

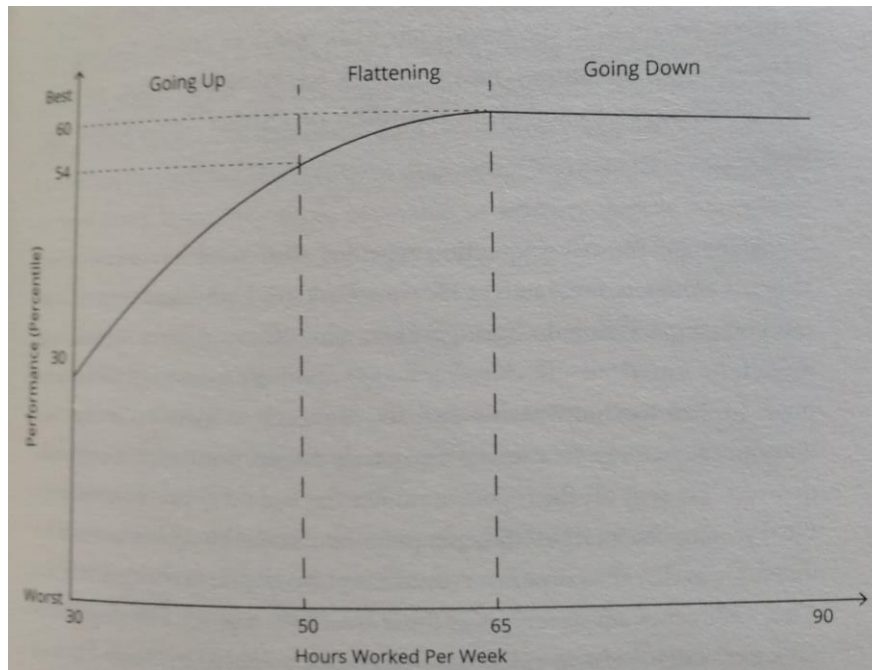
Therefore it makes no sense for us to prescribe a number of hours you should work. If you can deliver on the principles of our work ethos in 40 hours per week, that is just fine.

In practical terms a person with a high work ethos may end up **working between 50 and 65 hours per week. This makes sense, given what we know about the relationship between working hours and output, see the chart below:**

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Working Hours and Efficiency



Source: Morten T.Hansen, Great at Work, page 47

The above graph depicts **the direction of output in relation to hours put in**. It does, however, not capture the effect of work ethos **on the level of output**. In reality there are multiple curves along the y-axis, **all having a similar shape, with the upper ones depicting the level of output for a person with high work ethos, the lower ones for a person with low or no ethos**.

3. Work-/Life Balance

This is a term attributed to the generation Y and the millennials – it suggests that employees do not want to get fully absorbed by work, but enjoy their private life.

The term implies that **there is a dichotomy between two spheres of one's life:**

- a) Work – which is not about “good life”
- b) Good life – which requires work to be “far away”.

Personally the concept reminds me of **the theory of alienation “Entfremdung” coined by Karl Marx. He described alienation in his “Ökonomische und philosophische Schriften”, p. 136:**

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“First, in the fact that labor is external to the worker, that is, that it does not belong to his essential being; that in his work, therefore, he does not affirm himself but denies himself, does not feel well but unhappy, does not freely develop his physical and mental energy but mortifies his body and ruins his mind. The worker, therefore, feels himself only outside his work, and feels beside himself in his work. He is at home when he is not working, and when he is working he is not at home.”

I do not share this philosophy. For me **work ethos transgresses the dichotomy between the two spheres, leading to a life which is enjoyable in both of them.** Therefore with a strong work ethos the boundaries between the two become flexible.

If you are driven by your work ethos your working hours will show a great flexibility, on some days with a good flow you may stay late, similarly you may end up in the office on weekends when you are up to something. In exchange on other days you come into the office later. **And you may continue to think out of the office, while travelling or under the shower.** This is the work pattern required for best results.

Conversely, I have never understood people who have lunch every day at the same time or leave at exactly the same time: for them the main driver of motivation appears to be their wristwatch, apparently they do not get into an inner flow or absorbed by a question which fascinates and challenges their minds.

I do recommend strongly, however, that you **reserve enough time to spend with your family, clear your mind and keep fit and healthy and have a free mind in those times.** Personally I have started transcendental meditation to keep my inner balance.

E. Practical Tips to Work Efficiently

I would like to conclude this paper with some practical tips on how to work efficiently:

- a) **Travel outside of your productive hours:** you should arrange your travel in the early morning or late afternoon/evening **to have the day for productive work.**
- b) **Use travel time effectively:** A good analyst **should travel ca. 5 days a month,** meeting people to build up his conviction and to get an edge against other market participants who stay glued to their computer screens. Make sure you use this time effectively, working on your laptop in lounges, waiting areas and trains. A 4 hour train ride is massively more effective than doing the same trip via plane in 3 hours as you can work in a very concentrated manner in trains – but not when travelling by plane.
- c) **Summarize meetings fast:** documenting a meeting in the 24 hours thereafter will be easy for you and lead to high quality as your memory is fresh. If you document the meeting a month later not only will you need considerably more time, **but it will be less insightful because you will have forgotten many nuances und subtleties.**

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- d) **Focus on the Essence of an Investment Idea:** in general new analysts work with a very broad-based approach, covering all aspects of a question. The key in investing is to **identify the essence of the investment proposal early on and the focus on these selected issues – to get conviction on them.** Just write down what you think is the essence of an investment proposal, discuss it with experienced team members to sharpen the thesis, then focus on the key levers and sensitivities.
- e) **Specialize:** it is impossible for a beginner to cover the full investment universe effectively – with conviction. To be successful in investing, decide to specialize on a sector or class of businesses, then obsess in building up depth in them.

F. Conclusion

This paper describes a blend of where FORUM stands as a firm and where we would like to get. Not all of us are role models for the 7 principles outlined above. **But I would like the firm to get closer to the work ethos as outlined because only a team with these values will be able to generate outperformance.** To get there we need **new hires that raise the average significantly** – i.e. to have a very high identification with the principles and the practical implications.

We therefore would like you to consider whether you want to work in such an environment – if you feel unsure and find this too demanding you may not want to join. **But if this description of our work ethos resonates with you and you recognize yourself and your motivation, we welcome you strongly.** If you bring this intrinsic motivation to the table we will provide you with a proven set of investment philosophy and processes and invest a lot of time in teaching you – to make this a “give and take” deal.