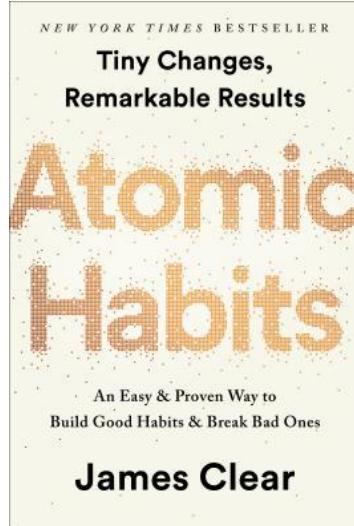


Atomic Habits:

Tiny Changes, Remarkable Results



Filtered Thought Leadership

"Top Business Books Summarized for Financial Planning Leaders"

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By Eddy Ricci, CFP ®

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Introduction

What is “Filtered Thought Leadership”?

The purpose of “Filtered Thought Leadership” is to provide the “key concepts and ideas” from today’s top business and leadership books to professionals in the financial advice industry. I am not sure if I love the phrase “filtered” but you get the point.

It’s tough to argue against reading more, as we know it will help us be better professionals and leaders—however it can be tough to find the time and focus to complete recommended books. I found in my financial planning career, countless books were recommended to my peers and I, even given as gifts. The majority of us had good intent to read these books however we rarely make the time for focused reading.

This is an attempt to summarize books in a few pages, specific to the concepts that can best help people in our profession. This will be a tool to keep advisors and leaders aware of key studies, trends and ideas that will aid their conversations with prospects, candidates or the advisors they coach.

The final pages offer my perspective on how the core concepts could be implemented by leaders in the financial planning industry. I offer the key concepts FIRST, without my suggestions, so that you can think freely of how you could apply before seeing someone else’s take on implementation.

We purposely omit fancy fonts, pictures (unless necessary) and stick to basic text to comply with reading “on the fly” and avoid formatting issues depending on your device.

This Edition

“Atomic Habits: Tiny Changes, Remarkable Results”

By James Clear

Published 2018; 250 pages

This book was recommended by one of the all-time leading financial advisors in a Fortune 100 financial planning firm last Fall and was given to me as a gift at a leadership retreat. Throughout our careers in the planning business, we have been coached to focus on your “controllable activities.” This book ends up being 250 pages on that very concept.

This report is condensing key concepts that would be most helpful (or interesting) to advisors and leaders in our profession into four pages followed by another three pages of my thoughts specifically for advisors and firm leaders.

Key Concepts & Thoughts

The author starts the book with sharing his near-death experience in high school. A teammate had a baseball bat slip out of hands when swinging and hit the author in the head- causing a coma and a long recovery. It was his habits that allowed recovery for him to pursue a college baseball career.

A habit is a routine or behavior that is performed regularly, and in many cases- becomes automatic. The quality of our lives often depends on the quality of our habits. With the same habits you will end up with the same results.

The core of the book is around a 4-step model of what habits are made of: **CUE, CRAVING, RESPONSE, REWARD.** The book takes a deeper exploration of internal thoughts and emotions that lead to our habits versus B.F. Skinner's 1930 research on the right REWARD or PUNISHMENT (external factors) that could get people to act in a certain way.

Chapter One uses British Cycling history. The British went 110 years without a Tour De France winner and only 1 Olympic gold medal in the sport. David Brailsford was hired as a performance coach and his relentless strategy of "**the aggregation of marginal gains**" - tiny **margins of improvement in everything you do will lead to a significant increase.** Just get 1% better at each step in riding a bike. 5 years later, there were ample Gold Medals and 3 Tour De France titles.

Habits are the compound interest of self-improvement. Most people dismiss small changes because they cannot see them early on. A flight from LAX (LA) to JFK (NYC) can demonstrate: If a pilot adjusts a heading only 3.5 degrees south at take-off, its barely noticeable, however that plane would end up in Washington D.C. A slight change in daily habits can guide your life to a different destination.

SYSTEM FOCUS: Your outcomes are lagging measures of your habits and time magnifies the difference between success and failure. Goals are good for setting direction, but systems determine the progress. You do not rise to the level of your goals you fall to the level of your system.

YOUR INDENTITY: Behavior that is incongruent with self, will not last. The ultimate form of intrinsic motivation is when a habit becomes part of your identity. It's not what you want, it's who you are. "No thanks, I don't want a cigarette- I am trying to quit" is different from "No thanks, I am not a smoker." When pride gets involved, you fight for your habits. If you are proud of your biceps, you will likely not miss a workout. The goal is not to read a book - it's to become a reader...it's not to run a marathon, it's to be a runner.... There is an internal pressure to maintain your self-image and behave in consistency with your beliefs. This becomes a two-way street- your habits shape your identity, and your identity shapes your habits.

A habit is a behavior that has been repeated enough that it becomes automatic. Neurological activity is highest when you are trying new things. Habits are simply reliable solutions to recurring problems in your environment.

How habits work; Cue → Craving → Response → Reward. **Cue** triggers your brain to initiate a behavior. Because a **cue** is the first indication that there could be a reward, it leads to a **craving**. **Cravings** are the motivational force in the habit. What you crave is the outcome of the habit. You don't crave smoking a cigarette, you crave the relief it gives. The **cues** are meaningless until they are interpreted which is unique to each person - A gambler may have the lights and sounds of a slot machine initiate a craving whereas a non-gambler can be annoyed by the lights and sounds of a slot machine. The **response** is the actual habit. Your **response** depends on your ability and takes into account physical and mental effort. Finally, the **reward...rewards** satisfy the **craving** and it teaches us what we should remember in the future.

To change behavior the author examines four laws for having good habits or kicking bad ones.

	Creating Good Habits	Breaking Bad Habits
Cue	Make it obvious	Make it invisible
Craving	Make it attractive	Make it unattractive
Response	Make it easy	Make it difficult
Reward	Make it satisfying	Make it unsatisfying

Hearing your habits spoken aloud makes consequences real. Once our habits become automatic, we stop paying attention to what we are doing.

The best way to start new habits: research experiment had 3 groups. Group one tracks how often they exercise. Group two, the motivation group, were asked to track and read material about benefits of exercise. Group three had the same as group two but also had to build the plan by stating the day, time and place they would exercise. In groups 1 and 2, 35% of people exercised, in the third group 91% exercised. How you INTEND to IMPLEMENT was the determining factor. The formula he suggests is simply using a time and location CUE to the habit: **I will [BEHAVIOR] AT [TIME] IN [LOCATION]**. He goes on to suggest HABIT STACKING.... which is building a new habit on top of one that is already engrained. "After I take off my work shoes, I will immediately put on workout clothes." "After I pour a cup of coffee in the morning, I will meditate."

Environment typically matters more than motivation. In retail, people often buy products because of how they are presented not based on what they want. Coca-Cola stacked at the end of the aisle...People drink Bud Light because it is in every bar - it is easy. We like to think we are in control. If you want to make a habit a big part of your life, make the CUE a big part of your environment. We RARELY think about environment design- we typically live in an environment designed by someone else. We also tend to assign our habits to location. When I am at WORK, I do this- when I am HOME, I do that. What is your relationship with the objects in the environment? HABITS are EASIER to CHANGE in a NEW ENVIRONMENT because there are new cues.

90% percent of heroin users become readdicted once they return to home from rehab because it's the same environment. **Self-controlled people don't have more will power, they spend LESS time in tempting situations.** Bad habits are autocatalytic: the process feeds itself. You feel bad, so eat junk food - because you eat junk food, you feel bad. Watching TV makes you feel sluggish, so you watch more tv because you don't want to do anything. You are worried about your health, so you smoke to relieve the anxiety. This is called "cue-induced wanting": an external trigger causes a compulsive craving to repeat the bad habit. To break a bad habit, try to set up environment to make the cues invisible.

Habits are a dopamine driven feedback loop. Dopamine is released not only when you do the behavior but also when you anticipate it. Coke addicts get a surge of dopamine when they see powder... When dopamine rises, your motivation to act rises. It is the anticipation of the reward not the fulfillment that gets people to take action. TEMPTATION BUNDLING is a term he uses to link a bad habit with a good one. I will only watch Netflix when I am on the stationary bike. He then goes back to using a HABIT STACK + TEMPTATION BUNDLING.

1. After {CURRENT HABIT}, I will {HABIT I NEED}.
2. After {HABIT I NEED}, I will {HABIT THAT I WANT}.

"After I get back from lunch break, I will make three prospect calls. After I call three people, I will check ESPN."

We imitate the habits of three groups: THE CLOSE, THE MANY, THE POWERFUL. We pick up habits from people around us, we pick up on habits of what everyone else is doing, and we want to imitate what the powerful are doing.

A professor told one group of students, the quantity group, you would be graded on the number of photos you take this semester. He told the quality group; they would only be graded on finding one perfect picture. At the end of the semester, he found all the best photos came from the quantity group. The quality group spent too much time speculating what perfection was while the quantity group honed their skills and kept trying. IN MOTION and TAKING ACTION are different. Motion (planning) makes us feel like we are making progress, but ACTION is a behavior that delivers an outcome. Habits aren't formed by TIME (21 days fallacy), they are formed by frequency. People should ask HOW MANY TIMES not how much time to build a new habit.

When you start a new habit, make sure it takes less than 2 minutes to do. Run three miles becomes put on my running shoes. Read before bed becomes read one page. Make your habits easy to start. Commitment devices are choices you make in the present that controls future actions. Victor Hugo, had a tough deadline for HUNCHBACK OF NOTRE DAME and was procrastinating - So he asked his assistant to lock away all of his clothing, so he couldn't leave the house, in order to discipline him to write the book.

What is rewarded is repeated. What is punished is avoided. We are looking for immediate satisfaction. Time inconsistency - you value the present more than the future. The consequences of bad habits are delayed. Unprotected sex provides pleasure right away, but disease is days/weeks/years away. The cost of your good habits is in the present, the cost of your bad habits is in the future.

Don't break the streak of good habits. Pay attention to streaks. Also, you aren't perfect, so adopt a "don't miss twice" mentality. You can skip the gym today, but not two days in a row. Don't fall into an ALL or NOTHING cycle with your habits. Also 5 minutes in the gym is better than nothing - it reaffirms your identity. When a measure becomes a target, it ceases to be a good measure. Measurement is only useful when it guides you and adds context to a larger picture, not when it consumes you. Each number is simply one piece of feedback in the overall system.

Genes do not determine your destiny; they determine your areas of opportunity. Genes influence how proactive and reactive you are, how obedient or rebellious you are. Build habits that work for your personality. In order to stack odds in your favor of success ask yourself “What feels like fun to me but work to others?” “What makes me lose track of time?” “Where do I get greater returns than the average person?” “What comes naturally to me?” Genes do not eliminate the need for hard work, they clarify it. They tell us WHAT to work on. Once we realize our strengths we know where to spend our time and energy.

The human brain loves a challenge but only if it is within an optimal zone of difficulty. Humans experience PEAK motivation when working on tasks that are right on the edge of their current abilities. Not TOO hard and not TOO Easy. Once a habit is established, it is important to continue to advance in small ways- little improvements. The greatest threat to success is not failure but boredom. We get bored with habits because they stop delighting us and become expected outcomes.

Habits create the foundation of mastery. Each chunk of information that is memorized opens up the mental space for more effortful thinking. Habits + Deliberate Practice = Mastery.

Be careful that identity becomes too connected to the role. If you a CEO and identify with being a CEO, what happens when you retire? Instead- “I am the type of person who builds and creates things.” Make your identities flexible.

The problem is your system.

Eddy's Commentary

The book has obvious parallels to all facets of the financial planning business. Mentors often share that the habits a new advisor forms in the first six months are likely ones that they will take for the rest of their career. I also think about career/company changers coming into a new culture and how management's first concern is that they will bring "bad habits" from their previous environment and there will have to be a reconditioning process. As leaders, we are often aware of WHAT the good habits of a successful advisor or leader are, but I cannot say I've seen anyone dissect the four "particles" of a habit like in this book.

The "aggregation of marginal gains" performance coaching method referenced in chapter one around the British cycling teams can easily be applied in coaching advisors or clients. The cycling coach broke down every single step of riding a bike and then went to work on slightly improving each step which would eventually lead to drastic change in performance. When do veteran advisors do a full-process audit in their practice? When do leaders do a full audit of every recruiting and development system in their process- and then look for slight improvements in each system?

I think we can implement the LAX to JFK plane reference when coaching advisors or clients. "Keeping one more meeting per.... taking one more fact finder... Or saving just \$100 more dollars this month...." This might not be noticeable at "take off" but will put you in a different spot long term. What are the easy, almost unnoticeable changes you can make now that don't disrupt your current state but over the years will put you in a significantly better state?

"Goals are good for setting direction, but systems determine the progress." For leaders, what percentage of time is spent in your development systems for advisors unwinding your advisors' systems versus talking about outcomes? Yes, accountability is necessary for most advisors but would you know what percentage of time & resources is spent on outcome based accountability versus helping to teach and tweak systems?

Your Identity: Intrinsic motivation comes from behavior or a habit that is aligned with who you think you are. How deep should we get in the selection process uncovering someone's perceived identity or what identity "crisis" will prohibit them from doing the necessary habits? If they could never identify with being a salesman, or that identity for them comes with too much "baggage" then they may have a hard time making dials. If they identify with being a networker or a connector and they are proud of that, they may be more likely to embrace prospecting activities (as long as they have belief in the product/company). Maybe a great in-depth interview question to start asking is "How would you describe your current professional identity? (I think PROFESSIONAL is a key word from HR standpoint). "How do you think your identity would change, if at all, in this profession?"

TO CHANGE BEHAVIOR: These four “particles” in a habit can be used in a new method to coach advisors going forward. It can be a more helpful approach to activity/measurement-based coaching.

CUE - Make it Obvious:

CRAVING - Make it attractive:

RESPONSE - Make it easy:

REWARD - Make it satisfying:

“Hearing your habits spoken aloud makes consequences real.” This reminds me of accountability/coaching/client builder meetings starting with a narrative of the monthly work, without commentary. This also speaks to the importance of “playing tape” and recording the language that has become automatic for constant tweaking.

Environment matters more than motivation. People buy products based on how they are presented not what they want. (Coca-Cola on the ends of the aisles). Who has audited your planning presentation for feedback lately? Bud Light sells because it is easy and at every bar. How “easy” is your planning to understand or career value proposition in recruiting? Perhaps the audit shouldn’t be with another advisor who understands the concepts that you are presenting but another professional outside of the finance world, that you can confide in.

90% of heroin users relapse once they return home from rehab because it’s the same environment. This makes me think that after an industry conference, study group, new learning event, when advisors took time away to re-engage and learn to essentially “get better” - we need to switch up the office environment upon their return. After the annual conference do you assign a new mentor or study group? Do you switch up your calendar or the way your office looks after investing in a coaching session as an advisor? There is enough professional development (REHAB) in the wealth management space however there are rarely environmental changes once we “come home.” **HABITS ARE EASIER TO CHANGE IN A NEW ENVIRONMENT.** If you need to get a good producer out of a rut - how can you change the environment. From a recruiting standpoint - if you are talking to an existing producer - it may be interesting to talk about the power of a new environment.

Most bad habits are autocatalytic - the process feeds itself. I don’t prospect because people say they can’t think of anyone and because no-one can ever think of anyone I don’t prospect. Catch yourself and your peers in this loop!

Temptation Bundling and Habit Stacking can be used in coaching yourself or other advisors. (Dopamine effect and the anticipation of the reward gets people to take action).

"After I get back from lunch break (current habit), I will make three phone calls (Habit I need). After I call three people (habit I need), I will go on espn.com (habit I want).

In imitating the CLOSE, THE MANY, THE POWERFUL. In coaching your advisors, I would have a pulse check on the following AND update this for your files quarterly:

1. Who does this advisor spend the most time within the office and outside the office?
2. What is their perception of "the many"? Is it your office? Is it their class? Is it their peer group?
3. Who is considered powerful to them? It may be someone different than you would assume.

It takes a village to develop an advisor. In recruiting - think about who the candidate is closest to and their opinions on the career (market surveys), they are getting opinions from "the many" which they may view as industry stereotypes, glass door ratings or what current advisors look like in the firm...do they spend enough time with the powerful, which would be top advisors in your office, in the selection process?

Motion and action are different. Motion is planning, action delivers an outcome. Great to separate these for advisors when coaching them. Many of you may disagree with this statement but I had a successful entrepreneur once ask, "are you looking to pitch your business to investors?" Which I responded "no." And he said "then don't spend more than 10 minutes making a simple business plan. It is more of a distraction and makes you feel like you are doing more than you are in getting the business off the ground."

Habits aren't formed by TIME they are formed by TIMES. What great language you can use in recruiting/onboarding and on how to speed up or delay the compensation that is necessary. Marrying income outcomes/projections to HABITS can be used in recruiting advisors or even in helping clients in their planning. This habit, this many times, will lead to this outcome. In talking to clients, instead of "save more" what are the habits in their budget (finding the money) that can create more savings? Tedious, YES. But I've never heard the term "habit-based discovery meeting" or "habit-based fact finding" yet.

What is rewarded, is repeated. What is rewarded in your practice? What is rewarded for your clients? Do you update the plan to show how recommendations they implemented last year, has moved the needle towards a net-worth goal? If so - then they may be more likely to save more, invest more, etc.

What is the most important behavior you reward in your firm's culture?

Time Inconsistency: PEOPLE VALUE MORE TODAY THAN IN THE FUTURE. This is the ultimate hurdle in financial planning, and this can be tough in recruiting. If there isn't' a financial "feel

good” TODAY then the experience, feelings and understanding of the other important factors in someone’s life needs to be deeply explored to make up for the delayed financial rewards.

Streaking good habits! For leaders - how can you keep track of advisors consistently doing good habits and showcase them, so they fight to keep streaks alive. 5 new fact finders per week streak....15 kept meetings streak, etc.? For advisors - can your associate send an email each quarter recognizing that they saved a certain percentage of their income? Maybe this is extreme, but you get the point.

“Build habits that work based on your personality.” Advisor development AND client financial planning has a lot to do with math which makes paths more predictable but sometimes limits us in our coaching ability if we always come back to “the way” or “the math that works.” People’s genes don’t determine their destiny, but they do determine their areas of opportunity. GENES influence proactivity vs. reactivity and how obedient you are or rebellious. How can we learn about this with the people we work closely with, so we do NOT fight uphill battles constantly?

Humans experience PEAK motivation when working on tasks RIGHT OUTSIDE OF REACH of their current abilities. If this is true, then I believe it is important for advisors with their clients and leaders with their advisors to be really IN TUNE with someone’s current ability and not default to “the written way” if we want people to progress. Once the habit is established, it is important to continue to advance in small ways. Mutual patience (yours and the person you are working with) seems like the price for progress. I think about this with saving money percentages, moving more money from cash into the market “current FEAR ability”, protecting “some” of their income to start...etc. Or if coaching an advisor: If keeping 15 meetings a week is the MATH, but they only have been keeping 8 (current ability) challenge them to 10 instead of pushing on the 15...and nudge forward.

Habits + Deliberate Practice = Mastery. Communication is our greatest skill set as a leader or an advisor. How often do we deliberately practice language, presentation skills, etc.?