

## CORE VALUES

What are your core values? What are the two or three values about you that you hold most dear and that you are willing to go to the greatest effort to ensure that your day-to-day behavior reflects those values?

Working through the good, the bad, and the ugly that are a part of all of us, every individual has his own set of core values. However, we wonder how much people consciously think about these characteristics and actually drill down to define concisely those items that drive their inner soul. A clear set of core values also exists for a family, a country, a club, a church, or most any commonly bonded entity.

Patrick Lencioni, author and a business management consultant who founded The Table Group, Inc., has done a lot of work with corporations in this area. He notes that these values should not be contrived or unrealized aspirations but rather reflections of the authentic culture of the organization. These values should be deeply ingrained in the company and, therefore, not that hard to recognize. It is also important that they should not be marketing buzzwords but

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rather words that characterize the company.

It is a good exercise for a company's employees to try to inventory all of the firm's core values. Once collected, an effort can be made to condense the numerous values into the few guiding pillars or strategic anchors that are the foundation for all purposeful decisions of the firm.

We reviewed the core values study that Mr. Lencioni's consulting firm conducted for Southwest Airlines. This is clearly the most successful U.S. airline of modern times, and they have accomplished this success during the most difficult period in commercial aviation history.

After many interviews, discussions, and meetings with employees, the consultants itemized numerous important characteristics about Southwest Airlines. If you have ever flown Southwest, you would be familiar with these characteristics, which included things like: no frills, open seating, humor, customer service, attendants' wearing shorts, on-time flights, only one type of airplane, low fares, party seats, regional routes,

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## HOW RETURNS RETURN

A confession: At CornerCap, we do not perform well in all products all of the time. Also, at firm "X", whether confessed or not, the same statement is true.

Over the last couple of years, we have not been pleased with the performance with our small-cap equity product. We have lagged the standard indices, and we think we understand the reasons why. We have lost a couple of small-cap clients who did not understand or appreciate those reasons. Not surprisingly, these were two of our institutional clients (discussed further on page 3).

Why are we willing to promote publicly our recent poor performance in this product? Primarily, because we want to do all we can to help our clients understand

**". . . THE SITUATION FEELS MUCH LIKE OUR OTHER EQUITY PRODUCTS DURING THE TECH BUBBLE OF THE LATE 1990S . . ."**

and, hopefully, realize good performance with their assets over time. Historically, when clients have left us because of poor performance, we have tended to begin an ascent to a higher point in the performance cycle, and the ex-client has gone to a hotter manager who was about to begin his descent. While we cannot protect clients from this natural, yet destructive, behavior, our commitment is to advise and educate as much as possible.

With our small-cap product today, the situation feels much like our other equity products during the tech bubble of the late 1990s when we were performing well below the indices. Of course, following the tech bubble, all CornerCap products performed exceptionally well as we watched other less disciplined investors take the full impact of the market crash.

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# CORE VALUES (CONTINUED)

peanuts, quick turnarounds, employee focused, no travel agents, leisure travel, etc. In the final analysis, the consultants determined that the core values that reflected Southwest's strategic anchors were (1) low fares, (2) customer satisfaction/fun, and (3) frequent flights.

We thought that it would be both fun and a healthy exercise for the employees at CornerCap to try to define the core values and strategic anchors for our firm. Following our usual pattern at our cost-conscious firm (i.e., one of our core values), we worked through the analysis ourselves rather than use outside consultants.

At a recent monthly staff meeting where we gather all of our employees, we asked each employee to toss out characteristics or activities about which they believed the people in the firm felt most passionate. We advised our employees that these were not necessarily characteristics that clients or others outside of the firm might see in us but rather characteristics that we see in ourselves, as a single collective group of people working toward some purpose.

We were surprised at how many characteristics were itemized by our 16 employees. Following the meeting and prior to our next monthly staff meeting, employees kept adding to the list of characteristics that they felt were important to them and to the firm.

At the next staff meeting, we tried to group the characteristics or values we had assembled into a logical order. This logical ordering was necessary for our most difficult and concluding discussion about our core values. How do we combine these numerous core values to come up with just three strategic anchors that essentially define our reason for existence? What are we here for? What are the three strategic anchors that we feel most strongly about, that connect to all of the other core values, and that are key in driving our success?

Not surprisingly, the real "value" that we realized was not in actually defining our values but in the many fruitful discussions that we shared as we worked through the process. For everyone at all levels inside the firm to see, feel, and articulate the many characteristics that define us was a wonderful message to deliver to ourselves. While we did a good job selling us to ourselves, we may not be able to sell the outside world on our adherence to these core values and our ability to implement them for our clients. However, we will have a much better shot at getting our message out to others if the people walking the CornerCap halls everyday believe that these are the values that motivate our firm.

In the final analysis, there is probably no "right" answer for the three strategic anchors for the firm. As we marched around the room, every employee articulated his best composite from the many itemized core values. Fortunately, each employee's suggested composites tended to cluster together. Accompanying this article is **a concluding chart** for the exercise that we conducted over a two-month period. Be aware that this was an internal document, so our readers may misunderstand or not understand some of the terms. As noted on **the chart**, the core values that we came to as a firm were:

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## Why Do We Exist?

Why do we exist? What are the three (3) traits that are inherent in our organization and most important for our success?

### 1. CLIENT FIRST

- High customer service
- Personal/personal response
- Client-first attitude
- Target only quality clients
- Reject most intermediaries
- Client failure not allowed
- Reject some prospects
- Investment discretion required
- Limit product offerings
- Portfolio managers also service

### 2. TEAM FOCUS


- Employee satisfaction
- Employee retention
- Employee owned
- Only team bonuses
- Do-it-yourself approach
- Create own software
- Education for staff
- Humor encouraged
- Cost conscious
- Enjoy what we do
- Shared Values
- Self starters

### 3. CONTROL OF OUR PRODUCT

- Trustworthiness
- Integrity
- Do what we say
- Honesty
- Do the right thing
- Attitude of stewardship
- Trust in selling
- Un-slick selling
- Clients best sellers (referrals)
- Pay no sales commissions
- Wear professional attire
- Do not discount our fee
- No imbedded costs
- Get what you see
- Independence critical
- Minimize brokerage costs
- Focus on best execution
- Eliminate use of soft dollars
- Long-term perspective
- Conservative
- Want to report performance
- Short-term performance unimportant
- Performance is critical, over time
- Economist forecasts of little value
- Always growing research
- Quant research emphasized
- Value-based investing
- Disciplined investors
- Contrarian mindset
- Research done in-house
- Emphasis on CFA designation
- Disregard for the "experts"
- Pay no investment return bonus

- Client First
- Team Focused
- Control of our Product

Whether you are an individual, a company, or a whatever, the formula for success is actually very simple. Like Southwest Airlines, you must clearly state those basic core val-

ues that drive your reason for being and then make sure that everyone "on the bus" feels the importance of those values. 

# “RETIRING” BUSINESSES

As we all observe the baby boomer bulge move into their sixties, much has been said and written recently about retirement. In this article, we will use “retirement” to spring to a couple of tangential thoughts: (1) Like individuals, many investment firms advance into retirement, and this is not a good thing for their clients, and (2) it is also not a good thing when people or organizations have unlimited resources (i.e., time and money) at their disposal, if creativity and motivation are lost.

There is nothing wrong with retirement. In fact, we partner with many of our high-net-worth clients in building their assets toward retirement and later disbursing their earnings to support their living needs. In retirement, these individuals have accumulated excess financial resources for their financial security, and, at CornerCap, we work to ensure that their needs are met and that they are protected from inflation over the years.

One generally accepted characteristic of retirement is an intentional slowing down. After ending their careers, new retirees tend to have more free time available to them than they have had since childhood.

Time and money seem to be our most precious resources. Both individuals and businesses do all they can with efficiency, technology, transactions, etc. to accumulate more money and time. However, the accumulation of an oversupply of money and of excess time can also be disconcerting. Studies have shown that talented people with too much time are less happy and less satisfied than people with limited time. Being efficient and staying productive

in worthwhile activities is satisfying to the human soul.

Similarly, people with extreme wealth often find the search for happiness to be more of a challenge than the average guy on the street. Operating with less and looking for more helps to motivate effort and stimulate creative thinking.

Our somewhat obvious conclusion is that retiring with excess money and time may actually be problematic. The problem is much more serious whenever a business decides to “retire.” We have witnessed this evolution to retirement of a number of investment management businesses. The successful firms create substantial wealth for their founders and senior managers. Highly motivated and lacking wealth in the early days, these managers worked exceptionally hard to create this success. Now, having wealth, these managers feel that they can enjoy the luxury of more time and toys. It is at this point when we have observed many investment firms sell out to the large banks, brokers, and other companies. In justifying these owner liquidations to their clients, these successful firms point to their newly acquired benefit of unlimited resources.

At CornerCap, we consciously plan for our non-retirement. We must always structure our business so that we realize the underappreciated benefit of operating with limited resources. And, regardless of how large we become, we must structure CornerCap to realize the benefit of always operating and thinking like a small business and a business owner.

CornerCap’s promise is to remain as committed to helping our high-net-worth clients achieve and enjoy retirement as we are at avoiding it. ▲

## HOW RETURNS RETURN (CONTINUED)

The small-cap indices to which we are compared are loaded with real estate investment trusts (REITs) and small banks that have done exceptionally well over the last couple of years. Viewing REITs more as a real estate investment, we do not include these securities as an alternative for our small-cap equity product. And, while the zillion small banks happen to be in the indices simply because of their market capitalization, we have chosen not to overload our universe of investment candidates with all of those look-alike securities. Bubbles come in many shapes and sizes, and, while predicting their inflating requires some combination of magic and luck, predicting their eventual deflating is a bit of a no-brainer.

With our small caps, just as with our other equity products, we feel confident about how our relative performance will measure up over the long term. This performance (along with all the other firm core values itemized in *the chart*) will ensure that CornerCap will be a successful enterprise. We feel equally confident that

investors who move from manager to manager after realizing poor performance in the near term (i.e., less than five years) will perform very poorly. As we have stated in prior commentaries, find a good advisor and stay with him over time. Studies have shown that these more patient investors perform dramatically better.

“ . . . FIND A GOOD ADVISOR AND STAY WITH HIM OVER TIME.”

One of the many reasons that we work to incorporate all of the core values (*see chart*) into our business is to help bind our clients closer to our firm, which will hopefully help us ride through the performance rough spots together. It is interesting, though not surprising, that the bigger “victims” of this manager flipping and performance whipsawing are the institutions. High-net-worth individuals are fiduciaries of their own assets, and they seem to be able to see the realities better and to take a long-term perspective. The institutions work as committees for somebody else’s assets, and they seem to be more subject to the fallacies caused by group behavior and possible fiduciary liabilities. ▲

# CORNERCAP HIGHLIGHTS

## ***New CornerCap CFA® Charterholders***

We recently learned that we have two more professionals at CornerCap who have earned the right to use the Chartered Financial Analysts (CFA) designation. Douglas M. Dougherty, vice president and senior portfolio manager, and Phillip M. Mitchell, trader/analyst, have both passed the third and final exam of the rigorous CFA program. We now have five CFA charterholders at the firm. We believe that our focus on the academic rigors of this professional investment program supports our commitment to growing our research and portfolio management techniques.

## ***Office Renovation***

After visiting several properties in the Atlanta Midtown area, we extended our current lease for a 10-year period and are renovating our space. What could be more appropriate for an Atlanta headquartered firm than being in the Peachtree Tower of The Peachtree building on Peachtree Street. The renovation will be completed in early October, and we look forward to showing it to our clients and friends.



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