SIGMA INVESTMENT COUNSELORS

Sigma Summaries

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Good to Great
Are We There Yet?

This past Thanksgiving, my wife, three children and I drove to St. Louis to visit members of my extended family. Despite the fact that the trip takes a good 10 hours, my children are very good travelers. It helps that we have an assortment of books, CD players with headphones and a DVD player to make the time appear to go faster. Our two dogs, Angel and Daisy, love to travel and sleep for most of the trip, content to be nuzzled on a blanket next to one of the kids. Provided with these distractions and strategic stops along the way, we have minimized but not completely eliminated the question oft spoken by children on vacation, "Are we there yet"?

As for myself, I listened to a book on tape titled Good to Great *with the subtitle* Why Some Companies Make the Leap…and Others Don't. *My colleague, Bob Bilkie, read the book and suggested to the rest of the staff that we might find it of interest. I dutifully volunteered to listen to the audio version of the book, and chose my roundtrip drive to St. Louis to be as good of a time as any to complete the task.*

The author of *Good to Great*, Jim Collins, began his career as a member of the faculty of Stanford's Graduate School of Business. He then founded his own management research company, which provided the foundation for his original best seller, *Built to Last* as well as his more current best seller, *Good to Great*.

Built to Last highlighted how certain companies were able to achieve superior operating performance based on a business model that was engineered perfectly from the start. *Good to Great,* on the other hand, highlighted how companies that were mediocre at best, were able to achieve enduring greatness from within.

Through exhaustive research, the author found common themes that were prevalent among companies that were able to achieve great operating performance over a sustained period of time. Common characteristics that allowed these companies to outperform their peer group included a corporate culture that could accept mistakes, address problems and conflicts head-on and provide an environment where colleagues are able to openly challenge the status quo in pursuit of excellence. It was equally important that once a decision was made, these same colleagues be willing to stand behind a decision regardless of one's personal self-interest.

Moreover, the firm needs to balance the sometimes conflicting needs of allowing enough freedom and responsibility for each manager to do his or her job as they see fit while maintaining a "religious consistency" to stick within the firm's core competencies and operating guidelines. On the issue of technology, Collins found that it was more important how technology was creatively employed to efficiently effectuate change rather than just having the most cutting edge technology itself.

The book also discussed that it is vitally essential to understand what business you are in. Be it a product or service, the focus of the enterprise should be to concentrate in those areas one is passionate about, where you can be the best in the world, and that which drives the firm's economic engine.

Finally, referencing the amount of energy that is required to rotate a heavy giant flywheel by one rotation after another made an interesting analogy. If the flywheel is stationary, the amount of energy that is required for the first rotation is great. However, once momentum is established, it takes substantially less energy to maintain that speed. This is also true in corporate enterprises where constant improvements, however small, which are collectively aimed at improving the firm's product or service, can have a dramatic and long lasting positive impact to that organization.

As I journeyed through the farmlands of Indiana and Illinois, immersed in the book and my own thoughts, I would periodically be brought into the present by a small voice asking me, "Are we there yet"? I found duality in this question given that not only was my son or daughter asking how much longer before we got to our destination, I was asking myself whether Sigma might be on the road from good to great?

It is not my intent to suggest that Sigma has evolved from good to great. I do believe, however, that there were many similarities between Sigma and the companies highlighted in the book. These similarities include both the accomplishments that we have already achieved as well as challenges that lie ahead.

Since I first joined Sigma, Bob has held a vision "to establish Sigma Investment Counselors as the preferred provider of wealth management services to high net-worth individuals." At first, I wondered whether we were setting our sights too high, particularly in comparison to the much better known Wall Street firms that have substantially greater resources. I have since learned that size does not matter and in fact, we can compete with the best of them. I have also learned that we have no chance of realizing this dream if we don't believe it is even remotely achievable.

To that end, I have witnessed first hand a multitude of improvements that we have made at Sigma since my employment with the firm nearly six years ago. While none of these changes appear significant when viewed in isolation of the other improvements, the cumulative impact of these changes are starting to yield meaningful results within our firm. Clearly, the work is not yet done and in fact, I would suggest that the work is never completed, as there will always be areas in which to improve.

Nevertheless, I thought it might prove insightful to look back over the past several years and see what changes we have introduced in an effort to help us achieve our vision of success.

For example, when I first joined Sigma, a substantial amount of our time was spent on quarterly reports. It was nearly unthinkable that we could get all of our client reports out following the end of the calendar quarter so we segregated our accounts and sent approximately one-third of our reports out at the end of March, another third at the end of April and the remaining at the end of May, only to start the cycle over again the next month. We used to joke that two weeks out of every month was like a fire drill. Since then, our account load has increased measurably although the amount of time it takes to assemble and mail out our quarterly reports has fallen by more than 50%. We can now send all of our reports following the end of a calendar quarter.

We are also moving towards an all-digital filing system although I am not convinced we will ever see a true paper-less office environment. This conversion has not only substantially reduced our need for physical storage space, it also provides a more efficient and secure means to store and retrieve client records.

From a trading perspective, we have substantially improved our block trading capabilities, resulting in lower commissions for our clients and better pricing in many instances.

Our proprietary SPA (Sigma Portfolio Analytics) program has provided substantial enhancement to the portfolio management process. For example, the portfolio manager can quickly scan all of their accounts and see those accounts that are in need of rebalancing, either by security or by asset allocation. Moreover, when an equity portfolio needs to be rebalanced, the process of examining a client's existing holdings and discerning what changes are necessary to realign the account has been materially improved.

Our proprietary SCA (Sigma Client Application) program allows us to note our conversations with clients, prospects and centers of influence. In addition, it provides client specific details for our co-manager and administrative staff in the event the portfolio manager is unavailable.

In recent months, we have materially enhanced our fixed income expertise. First, for those clients who have signed Prime Broker

Agreements, we can now search for a desired bond among multiple broker/dealers and independent wholesalers and use a competitive bidding process to reduce the price paid for bond purchases. Moreover, we have asked Tony DiGiovanni to accept the role of our Fixed Income Manager. In this capacity, Tony is leading the charge in developing a cohesive fixed income process which all of the portfolio managers can use when managing their individual portfolios. Where possible, we are also bunching trades as we can often command a better price when seeking to buy a large bond versus buying the same bond in smaller increments.

Several months ago, we highlighted our compliance efforts in one of our Sigma Summaries. Shortly thereafter, we received notice that it was time again for our SEC examination. While we have not yet received the official notice detailing their findings, the indications were that our policies and procedures were up to date. We are particularly proud of these findings given the host of new rules recently implemented by the SEC.

From a servicing perspective, we have significantly increased our understanding of estate planning, long-term care insurance, funding for retirement and college education, and financial planning. While we do not practice law, prepare tax returns nor sell insurance products, we act as an advocate for our clients and help them better understand the merits of a particular strategy that they may be considering with any one of these disciplines.

We have also introduced a proprietary financial planning model, which allows us to incorporate random stock or bond returns into the equation to better reflect real life conditions. Often referred to as a Monte Carlo simulation, this program has allowed us to better ascertain how solid our clients' financial plans are as well as educate our clients in the inherent risks of investing in the capital markets.

Our compensation program has also evolved in an effort to better allocate our corporate resources as well as to insure that we are appropriately rewarding each individual based on their contribution to the firm. In addition, our employees have a clearer picture of the host of opportunities that are available with our firm and are able to be more informed on what is expected of them in order to achieve their own financial rewards as well as help Sigma achieve its objectives.

We have tightened up our portfolio management process with the establishment of daily and weekly investment strategy meetings combined with the establishment of 52 week price targets and stop loss limits. Moreover, the scrutiny being placed on quarterly reports and earnings revisions has increased noticeably as we refine our portfolio management process and steadily improve our investment performance.

While we are routinely altering our business practices to improve the manner in which we can serve our clients, there are certain principles that will never change. First, Sigma understands that each client has unique circumstances and it is the firm's desire to provide the most creative and personalized level of service to meet those individual needs. Second, we understand that we are in the relationship business and the cornerstone of this business is trust. The material proportion of our clients that have been with us 20 years or more suggests that perhaps we have earned this level of trust yet we will never take it for granted.

Change never comes easy but I feel that we have assembled a staff committed to excellence and willing to embrace change in order to constantly take those steps, however small, to help us achieve our vision. Good to great…are we there yet? I don't know. But I feel energized by my association with Sigma and every one of its members, looking to shake things up over and over again as we continue to improve the process.

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Your financial situation and investment objectives should be reviewed periodically to ensure applicability to your current situation. Please remember to contact Sigma Investment Counselors if there are any changes.