

"A truly transformational read that will educate and inspire!" — Joe Lanza, **Dow Jones Barron's**

TRANSPARENCY WAVE

EXPONENTIAL CHANGES
THAT WILL TRANSFORM
OUR WORLD

CHAPTER 5

BARRON'S
& FORBES
TOP
ADVISOR

FOREWORD BY SALIM ISMAIL

PAUL A. PAGNATO

"Transparency is one of the most powerful trends in business, a force that is reshaping everything from corporate governance to personal privacy. Paul Pagnato shines a light on this trend—and the result is an illuminating, important read."

— **DANIEL H. PINK**

#1 New York Times best-selling author of *WHEN, DRIVE*, and *TO SELL IS HUMAN*

Jj Kk Ll Mm Nn Oo Pp Qq Rr Ss Tt Uu Vv

"SO BE SURE WHEN YOU STEP, STEP
WITH CARE AND GREAT TACT.
AND REMEMBER THAT LIFE'S A
GREAT BALANCING ACT. AND WILL
YOU SUCCEED? YES! YOU WILL,
INDEED! (98 AND 3/4 PERCENT
GUARANTEED)."

DR. SEUSS



CHAPTER 5

The 6Ts of Exponential Transparency

If you look at the picture of my second-grade class, taken in 1972 at our elementary school in Jacksonville, Florida, you can't help but notice that one kid is nerdier than the rest. He wears a shirt that was probably already out of style back then (or perhaps never was in style) and thick Coke-bottle glasses.

That little geek was me.

I wear that badge proudly, though, because my nerdiness contributed to where I am today. It led to many of my greatest personal accomplishments and taught me the life lesson of not worrying about fashion as much as substance.

If my look alone didn't cement the label, my hobbies might make the picture even clearer. While other kids wanted a bicycle or sports equipment for their birthdays, I had my eyes and heart laser-focused on something much cooler—a MICROSCOPE. Even then, I was fascinated by

what made things tick. I wanted a lens that helped to put issues into focus, and a microscope could provide clarity and eliminate confusion.

With that microscope, I conducted countless experiments, some of them exciting and revelatory, and others complete busts. Nevertheless, over time the failures decreased in number, even though I was tackling more advanced problems. Why? Because I'd developed systems and parameters that guided my exploration. If you provide yourself with intellectual guardrails, you can walk on the highest peaks and along the steepest drops without fear. By establishing a series of fundamentals and sets of rules, I was able to exponentially increase my chances of success.

Whether you are embarking on your first career or you've been in the business world for decades, you need to keep a constant eye on the past, present, and future. The fundamentals don't change, nor does the inherent DNA of successful businesses, but if you're not willing to adapt to changing conditions, you're going to get left behind.

Transparency is becoming a pivotal success factor for exponential growth. I've created 6Ts of Exponential Transparency to help companies optimize transparency across the board and as an easy guide for everyone to follow.

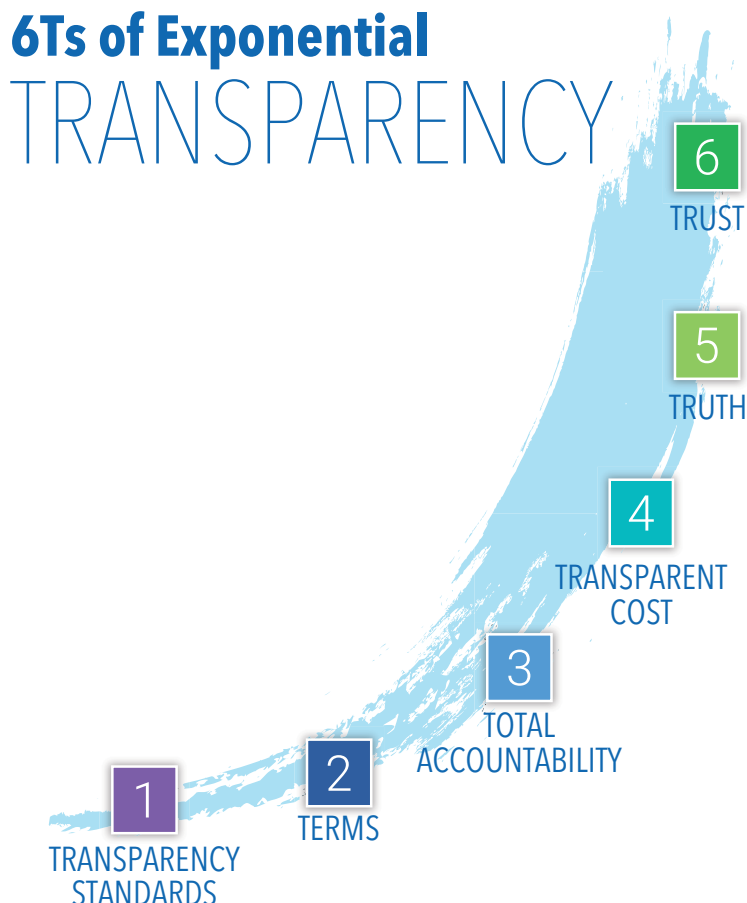
THE 6TS OF EXPONENTIAL TRANSPARENCY:

1 TRANSPARENCY STANDARDS

By creating a set of transparency standards, a company will naturally be in a place to always put the consumer's interest first. It makes transparency an essential part of the culture. At PagnatoKarp, we created True Fiduciary® standards to put the best interests of our clients first. Everything we do is built on a foundation of True Fiduciary® transparency.

2 TERMS

The terms of engagement, which function as the contract with the consumer, need to be ridiculously simple and easy to understand. The ride-share industry is a perfect example. Companies like Uber and Lyft have made the terms and experience ridiculously simple. The consumer now knows exactly what the cost of the ride is, along with the driver's profile, location, and rating. You know exactly which car will pick you up. No surprises ever.



3 TOTAL ACCOUNTABILITY

Accountability leads to quality governance. For example, Patagonia has been an exemplar of environmental responsibility and accountability. Company founder Yvon Chouinard believes that “caring for our planet is not in conflict with running a successful business.” When governments are corrupt, they struggle to maintain accountability. An organization called Transparency International has created a Corruption Index, which recently noted that, on average, every week a journalist is killed in a highly corrupt country. Over the last five years, 352 journalists have been killed in countries that fall below the corruption policy index average. Accountability saves lives.

4 TRANSPARENT COST

Providing accurate and total costs is essential today. The retail industry failed to heed this truth for decades and is suffering for it now. When companies like Amazon and eBay emerged, they preyed upon this corporate vulnerability by providing transparency. Amazon Prime members receive transparent and accurate costs of the product being purchased, but they also enjoy a much better customer experience. They can enjoy same-day delivery and easy returns. The proof is in the pudding: Amazon sold five billion products last year. eBay now sells a vehicle every 90 seconds.

5 TRUTH

Truth is nothing more than the ability to openly and accurately communicate facts and messaging. The founder of The Vanguard Group, Jack Bogle, personified this notion. In our mutual service to the board of directors for The Institute for the Fiduciary Standard, I experienced Jack’s passion for transparency firsthand. A champion of the individual investor, he is widely credited with helping bring increased disclosure about mutual fund costs and performance to the public. By providing

total transparency on holdings, transactions, and costs, Vanguard has grown to over \$5 trillion in assets under management, more than JP Morgan, Goldman Sachs, and Merrill Lynch combined.

6 TRUST

Marc Benioff, the founder of Salesforce, summed it up best: “Companies that are struggling today are struggling because of a crisis with trust.”

These 6Ts of Exponential Transparency have become the fundamental guardrails and guiding light for everything that I do and will do. As you’ll see in subsequent chapters, they are a critical ingredient of success, and if you apply them to every action you take, the result is maximized transparency, which leads to exponential success.

Regardless of the type of business you desire, or what stage of it you’re in, there are fundamental questions that largely indicate why a business succeeds or fails.

First and foremost, a business must create value and solve a problem. That problem might reflect varying levels of complexity, but at heart it’s the same process.

Founding PagnatoKarp has been one of the most fulfilling efforts of my lifetime to date. Every day I remain motivated by the ability to make a difference.

Our country is founded on capitalism, and we have a particularly successful and benevolent model of that sort. The #1 source of wealth creation occurs when an individual or partnership starts a privately-owned business and later enjoys a liquidity event. Nevertheless, of the more than 600,000 new

FIRST AND
FOREMOST,
A BUSINESS
MUST
CREATE
VALUE AND
SOLVE
A PROBLEM.

businesses that open each year, not all of them will succeed, even if their product solves a problem.

What is the primary dividing line between those that do and those that do not succeed?

It comes down to value. Increasingly, the companies that thrive and grow exponentially are the ones that adopt transparency in their organizations and create more value for their clients.

The current generation of ultra-high wealth exemplifies this. Entrepreneurs including Bill Gates, Mark Zuckerberg, Jeff Bezos, and Larry Page all provided products with widespread and transformative utility for mankind.

Bill Gates founded Microsoft and created the Word and Excel products that are now used by over 1.5 billion people. If you created something that 1.5 billion people used every week, you would also be one of the wealthiest people in the world. Jeff Bezos founded Amazon, which shipped over five billion items last year. He saves people time and money every single minute of the day.

IT'S SIMPLE MATH.
THE MORE VALUE
CREATION, THE
LARGER THE
IMPACT,
THE MORE
VALUABLE
YOUR COMPANY
WILL BE.

Mark Zuckerberg has connected 1.7 billion people through Facebook. Likewise, Larry Page, cofounder of Google, helps billions of people with over two trillion Internet searches per year.

It's simple math. The more value creation, the larger the impact, and the more valuable your company will be. More value equals more impact.

WHY BUSINESSES FAIL

Before we provide the essential ingredients to success, let's examine why so many businesses don't make it.

Statistically, three in ten businesses don't survive past their first two years, and there is a consistent set of three reasons why they don't.

First and foremost, cash is king. Adequate financial backing is oxygen for a business and without it, the business will die. I've seen startups and second-generation businesses that have been around for 80 years succumb because of a lack of adequate cash flow.

As a rule of thumb, a company should have access to enough cash to sustain one to two years' worth of expenses.

The second reason businesses fail is lack of a business plan. A business plan should contain a budget, road map to an MVP (Minimum Viable Product or Service), a business model, and a clear breakthrough value proposition. *Blueprint to a Billion* by David Thomson clearly articulates what a breakthrough value proposition is and why it's so essential for every business.

A business plan need not be overwhelmingly long and should build in flexibility to account for the changing world. In fact, Peter Thiel, the founder of PayPal, recommends against creating a business plan for that reason. Still, a business plan can be valuable to ensure focus and accountability.

For example, without a properly planned budget, it will be next to impossible to forecast the cash reserves needed to sustain business operations for the next one to two years. A business plan also provides the foundation upon which a great idea can be validated with customers. This is where an MVP comes into play. Creating a minimum



viable product will enable you to test your product or service. You want to test not only the sweet spot, but on the periphery as well. In fact, sometimes the greatest success comes outside the precise zone where you expected it to occur.

The third critical mistake founders make is expanding too rapidly. In an era of exponential growth, it's hard to put the brakes on our quest to become the next Mark Zuckerberg, but growth without capital and infrastructure will crumble. The ability to change and upgrade our systems, processes, and personnel to keep up with the growth is a necessary backstop against failure.

Your founding cohort may not be the same people best equipped to run your business at \$20 million of revenue or \$200 million in revenue. Those levels require different skill sets and the failure to recognize that can provide a stumbling block at an unexpected time.

PURPOSE VERSUS PROFITS

In order to thrive today, a business must have a strong sense of purpose. That starts with identifying a problem and a way to fix it, and thereby unleashing value. One wonderful example is Whole Foods. Cofounder John Mackey had a mission to bring GMO transparency to the grocery store industry. He wanted to provide transparency on the quality of foods from top to bottom, even identifying instances where suppliers were not meeting ethical standards to their employees.

Mackey wrote a book titled *Conscious Capitalism*, which clearly explained the importance of balancing purpose and profits. The purpose is what drives the mission, creates the culture, and ultimately unleashes value to the client. Profits provide the resources and sustainability for furthering that purpose.

BREAKTHROUGH VALUE PROPOSITION

What is your company's "WHY?"

The answer should be to provide a Breakthrough Value Proposition (BVP) that does not exist today. For something to be considered a

BVP, there should be a 10x increase in value. Examples would be a 10x decrease in price or time savings, on a 10x increase in the quality of the user experience, transparency, and trust. It has to be that dramatic to motivate the consumer to make a change.

Thomson's *Blueprint to a Billion*, cited above, discussed the largest study to date of publicly traded companies that not only made it, but that grew exponentially. Every one of them had a BVP that distinguished them from their predecessors and competitors.

At PagnatoKarp, our company has two BVPs. The first is a set of transparency standards that distinguishes us from other wealth management firms. We call this True Fiduciary®. There is not another wealth management firm that can be called a Fiduciary Business® or

1. Embrace the Legal Fiduciary Obligation to Place Clients' Interests First	2. Deliver Comprehensive Financial Planning	3. Provide Fee-Only Advice	4. Do Not Accept Commissions
Transparency Standards True Fiduciary® In Your Best Interest. PagnatoKarp			5. Receive Only One Source of Revenue: Client Fees
10. Do Not Hold Any Client Assets, Securities or Money	9. Do Not Create Products to Sell or Price Any Public Securities	8. Measure Client Performance Returns Using Independent Third Parties	7. Remain Independent from any Bank, Broker Dealer, Insurance or Custodian

advisor who can call themselves a True Fiduciary®. The exponential model of our standards strives for a 10x increase in transparency, as compared to an advisor who works for a bank, broker-dealer, or insurance company.

The second BVP is our fusion of family office services. By providing investment and portfolio management, tax services, legal and estate services, financial planning, private banking services, family counseling and a full suite of travel and lifestyle services, our value proposition aims for 10x more than a traditional wealth management firm solely focused on asset management. We call it Intelligent Wealth Management™.

MTP: MASSIVE TRANSFORMATIVE PURPOSE

- **What is the Massive Transformative Purpose (MTP) of your company or the company that you work for?**
- **What is your big idea?**
- **How are you going to unleash value for your clients or for the greater good?**

These are not simple questions to answer.

I've taken inspiration from Salim Ismail, best-selling author of *Exponential Organizations*, Chairman at OpenExO and Founding Executive Director at Singularity University. His book clearly articulates why every business should have an MTP; it's in the DNA of every exponential organization. Cathie Wood, CEO Founder of ARK Investment Management, recently described five innovation platforms that are currently being disrupted and changing the way the world works: artificial intelligence, DNA sequencing, robotics, energy storage, and blockchain technology. In each case, the companies engaged in the disruption have an MTP.

Ismail wrote that "Today, if you're not disrupting yourself, someone else is; your fate is to be either the disrupter or the disrupted. There is no middle ground."

Last year I participated in the launch of the True Fiduciary® Institute, which has as its MTP a goal to positively impact the lives of one million students through transparency and financial well-being. Approximately half of the students graduating college today are financially illiterate. Our purpose is to change that.

TRANSPARENCY AND TRUST

As the bulk of this book makes clear, transparency and trust are the cornerstones of modern society. People don't want to work for a company they don't trust, and consumers don't want to buy from a company they don't trust. Where transparency is lacking, they can't build trust and will disengage. Today every company can and should create a set of transparency standards. The ones that do will thrive, retain employees, and grow their client bases. The businesses that don't will eventually go away.

**"COMPANIES THAT ARE
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WITH TRUST."**

MARC BENIOFF
FOUNDER, SALESFORCE



(cc) Kenneth Yeung - www.thelettertwo.com.jpg

EXPERIMENTATION

As a child, I was fascinated by the marine environment. I wanted to scuba dive and eventually become a marine biologist. I idolized Jacques Cousteau—an explorer, inventor, conservationist, filmmaker, and oceanographer. He invented the Aqua Lung, the forerunner of modern-day regulators and scuba tanks.

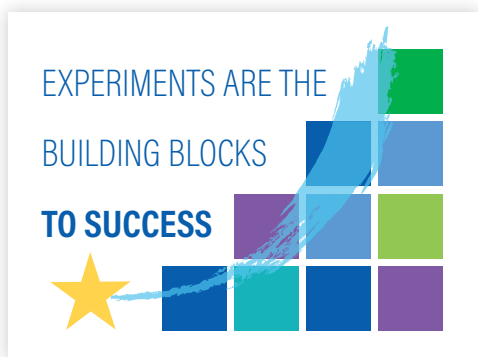
My fascination with the ocean and Jacques Cousteau influenced my decision to attend Florida Atlantic University, which has a very strong marine biology program. Despite those intentions, like many young students, I eventually changed majors, determining that microbiology was my true path.

After college, I spent five years as a microbiologist working in the fields of electro-microbiology and colorimetry for McDonnell Douglas. The projects I worked on were linked to NASA contracts, and specifically to NASA's need for a black box to place on the Apollo spaceships to detect life in outer space. While microbiology was not my long-term career path, those five formative years taught me the principles and value of experimentation.

At that job I ran daily experiments, most of which were expected to fail. While they didn't necessarily attain our end goal, those "failures" nevertheless provided additional data. Each data point was a clue to solving the final puzzle. As my friend Salim Ismail wrote, "The biggest risk is not taking any risk."



When I left McDonnell Douglas and entered the business world, those lessons stayed with me. It didn't matter if the experiment was related to portfolio management, financial planning, taxes, marketing, or relationship management, all the same fundamentals applied—experiment, collect the data, and on the far side, be one step closer to success.



Today, all team members at PagnatoKarp are not just encouraged but **expected** to experiment. We recognize that most experiments are going to fail, but that's not a catastrophe—it's a building block.

Here's how we think about it: If there are eight areas of the business and each area has five experiments per quarter, we have 40 experiments underway. If only two to three of those 40 experiments work, we will be able to increase the value proposition to our clients every quarter.

Our company's growth is premised upon the acceptance of occasional failure. My favorite quote is one often attributed to poet Edgar A. Guest, who wrote in 1921 that "Success is failure turned inside out." Many successful companies employ the term "fail fast." As Salim Ismail wrote in the international best-seller *Exponential Organizations*, "When failure is not an option, you end up with safe, incremental innovation, with no radical breakthroughs or disruptive innovations." Experimentation creates data, and the data provides the clues to success.

EXECUTION

Another difference between the top companies in a given industry and their less-successful peers is the ability to execute.

At PagnatoKarp, we maintain an open-door policy—we quite literally invite our peers to our offices. We have never turned down another

advisor's request to meet team members, learn our best practices, or visit our offices. The attitude we employ is, "Always seek the flourishing of others." Our ultimate goal is to help other advisors become a True Fiduciary®, create a true family office, and improve the overall experience for clients.

Over the last 27 years, I've witnessed time and time again that not many organizations have the ability to execute like we do. Proper execution is hard. It requires laser focus bordering on obsession and complete trust in the team. Execution requires sacrifices and a relentless pursuit of the task at hand. Not everyone is willing to pay the price and make the sacrifices to consistently execute at a very high level.

OUTSOURCE

Every organization is occasionally faced with the question of whether a specific task should be outsourced or handled internally.

My advice: whenever possible, outsource.

The fastest-growing companies in the world all follow this model. Because of the exponential nature of our times, much of what we do every day can be tasked to others in a seamless fashion.

When this issue arises, ask yourself if the skill set needed for the task is uniquely within the company's walls. If the answer is "no," do everything possible to outsource. Statistically, it's almost always the case that there will be someone better at executing the work—superior quality at a better price and with a time savings to you.

We used to put together client performance reports internally. We felt that no one else could possibly understand our clients as well as we do, so there was no way they could customize the reports to our standards. Eventually we were forced to question those assumptions.

It turns out we were totally wrong.

We found a company called Addepar (developed by the original owners of PayPal) that focuses exclusively on financial reporting for ultra-high-

net-worth individuals. They invested hundreds of millions of dollars in assembling their team and their technology and they handle this better than anyone, so outsourcing this function increased value to our clients, increased transparency, enhanced the satisfaction of our team members, and created efficiency at great scale. Everyone won.

The “gig” economy now employs more than one-third (36%) of the population. The number of individuals who can work for themselves, in their desired field, from their desired location, shows no signs of abating. That provides even greater opportunities for companies to outsource. The Transparency Wave is fostering open software platforms, transparent employee compensation, and a higher level of accountability. It’s a “perfect storm” that benefits us all.

MENTORS

In each professional endeavor I’ve taken seriously—as a scientist, then financial advisor, professional bass fisherman, and now entrepreneur—I’ve relied heavily on expert mentors. Their contributions are the primary reasons behind my professional and personal growth.

Growing up, my parents always placed an emphasis on education, family, and team sports, and they pushed me to become the first person in our family to earn a college degree. Because they hadn’t received higher educations, there were certain things they couldn’t help with in school, but rather than seeing that as an albatross around, I saw value in the need to seek outside help. This pattern has continued since childhood.

It started with teachers and coaches when realizing the value of expert advice and finding that people actually want to help. At McDonnell Douglas, experienced scientists all lent their time to my professional development.

When joining Merrill Lynch, I was financially illiterate and quickly had to learn the basics of portfolio management, financial planning, relationship management, and business development. Some of the top

advisors and managers in the country made time to speak with me, and it just took a simple phone call.

While competing in professional bass fishing tournaments, I leaned upon the wisdom and experience of more seasoned competitors who had already put in their 10,000 hours. Once again, it shortened the learning curve.

Even when launching and growing my wealth management business for CEO Founders, you'd figure that the big dogs would want to protect their trade secrets and their wisdom. Not at all. So many experts helped me achieve my success, and I am thankful to each of them.

We are only as good as the people around us. It is always among my top priorities not only to seek the best mentors possible, but also to pay their kindness forward. As your professional career advances and shifts, you will need different mentors. I have never been turned down when asking someone to be a mentor, and don't believe you will be, either.

PMA!!

In our day-to-day lives, we cannot control the weather, the people around us, traffic, or the markets. The economy is out of our hands. So are the taxes we pay, the laws that regulate us, and thousands of other things that affect us every day.

There is one thing we can consistently control, though.

The one thing we can control is our attitude.

We have a choice when we wake up each day to greet the world with a PMA (Positive Mental Attitude) or a negative mental attitude. The choice is obvious. Positivity connects to positivity. Negativity connects to negativity. People want to be around positive people. Positivity is contagious. If you visualize success and embrace positive thoughts, you will experience the confidence to overcome any obstacles on the road to success.

Remember, “the first negative thought is a thought to failure.”

When a negative thought enters your mind, acknowledge the thought and discard it. This is the one differentiator you will always have between you and the majority of your peers. This is also one of the greatest opportunities to make a difference to others. If you can lift someone’s spirits when they’re down, help someone break through a ceiling of complexity, or overcome a personal struggle, the value will come back to you tenfold. I truly believe the people around me—my family members, team members, friends, clients, and mentors—enjoy being with me because of my PMA. The goal is to consistently make a difference to all of them because of PMA, and you can do the same for the people in your orbit.

TRANSPARENCY CHANGES EVERYTHING !!

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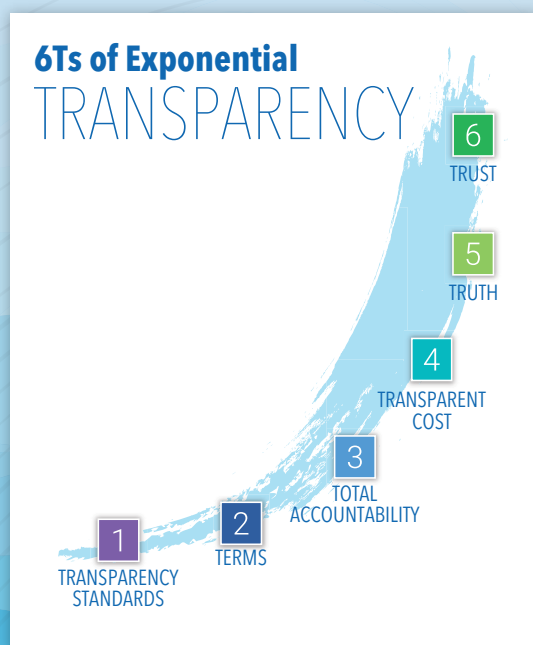
PERSPECTIVES

CHAPTER 5 | THE 6TS OF EXPONENTIAL TRANSPARENCY

ex·po·nen·tial

/ekspə'nen(t)SH(ə)l/

growth whose rate becomes ever more rapid in proportion to the growing total number or size.



SUCCESS
IS
FAILURE
TURNED
INSIDE
OUT.

WHY IT MATTERS:

- Wealth creation occurs through entrepreneurship. Following the ten key attributes of a successful business will increase the likelihood of success.
- Understanding the 6Ts of Exponential Transparency will set you apart from your competition.

ADVICE:

- Experiment—the more experiments, the faster the failure and the quicker the success. Experiments force change and change fuels growth.
- Complacency is a habit. The definition of insanity is doing the same thing over and over and expecting a different result.
- The one thing we can control every day is our attitude.

TAKEAWAYS:

- Companies creating abundance of value are the ones growing exponentially.
- Transparency and trust are the cornerstones of modern society.

ACTION STEPS:

- Create a set of transparency standards and follow the 6Ts of Exponential Transparency.
- Ignite your company's culture, instill trust with clients, and enable the business to break through ceilings of complexity.