

USA FINANCIAL TRENDING REPORT

2nd Quarter 2018

Quarterly Commentary from The Formulaic Trending Money Manager



30-Years Boiled Down to 4-Cornerstone Lessons

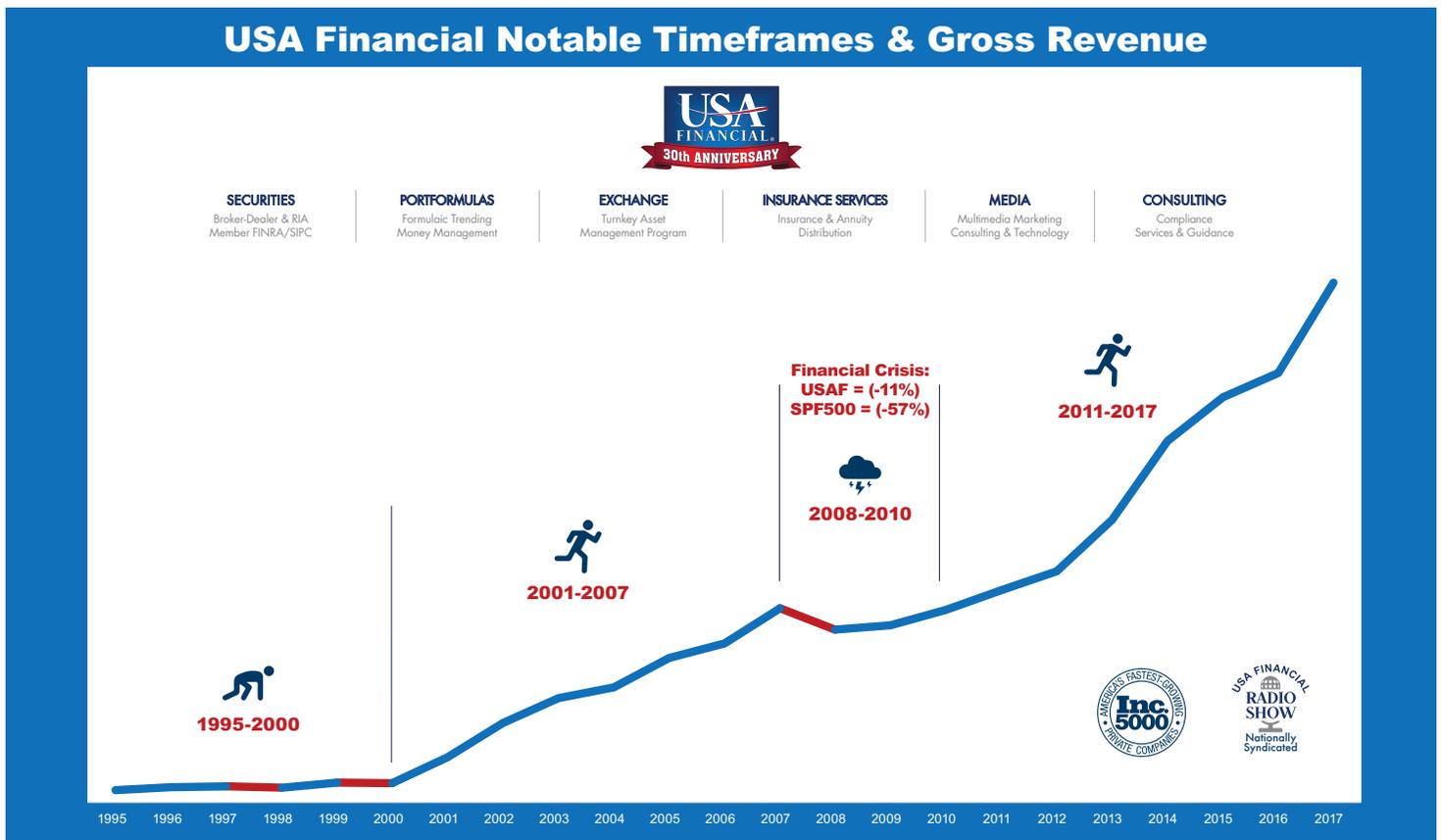
This month, April 2018, marks the 30th Anniversary for USA Financial!

While I am blessed to count all 30 years on my resumé, in many ways USA Financial is more accurately described by separating our first 10 years from our last 20 years, as we were distinctly different companies when contrasting those periods.

In the earliest years, our firm represented other institutions, essentially working under contract to handle education & distribution of their products. It wasn't until 1998-2000, that we retooled our business model, our purpose, and our future... Ultimately leading to the development of our own platforms, investments and offerings.

However, I'm assuming most who are reading this have not spent their career in the financial industry, so rather than focus on the minutia and details of "our" story... I'd like to share a few crucial high-altitude observations I've gleaned over 30 years of evolutionary corporate leadership (albeit, my leadership experiences are derived from steering a financial services holding company and its collection of synergistic subsidiaries).

Let's begin with a simple gross revenue chart:



At first glance, our revenue growth line looks impressive, and it is, but the angle of the line is not what intrigues me as much as it is the phases and eras represented by the line.

Cornerstone #1) Walking Flatlands & Climbing Mountains:

During what I now call our "flatland-years", from 1988-2000, the leadership of USA Financial was probably best described as being self-employed rather than being entrepreneurs (yes, I know the chart data only goes back to 1995, but prior to that it was just more of the same flatline incremental growth as illustrated from 1995-2000).

At the time, we didn't necessarily realize the difference. But with hindsight being 20/20, I do now. In fact, with this one simple example, I would argue that the term "entrepreneur" is one of the most overused business terms, often referenced interchangeably with the phrase self-employed... But that is entirely inaccurate.

What's the difference? Well, let's start with the definitions from dictionary.com.

Self-Employed [self-em-ploid]

Earning one's living directly from one's own profession or business, as a freelance writer or artist, rather than as an employee earning salary or commission from another.

Entrepreneur [ahn-truh-pruh-nur]

A person who organizes and manages any enterprise, especially a business, usually with considerable initiative and risk.

By definition, there is a significant difference. Keep in mind, this does not mean that one is "good" while the other is "bad." Nor is one "right" while the other is "wrong." But I would contend, if you are the owner of a business, you need to determine which you are and/or wish to be as you grow and mature as a business. The decision is entirely yours. Often it is an ownership lifestyle choice. Or a managerial choice. Or a choice based upon the acceptance/avoidance of complexities. Or in our case, one was the direct stepping-stone to the other.

Prior to year 2000, we made a quality living, because we had good jobs. We didn't have a world-class business, just really good jobs. We were our "own boss," but we weren't running a dynamic organization. That all changed in 2001 as our new entrepreneurial business model (which took two years to redesign and redeploy) took off. That's when we began climbing the mountain.

Some businesses launch as entrepreneurial entities. Most do not. Most start off as self-employed.

Our conversion from being self-employed to being entrepreneurs definitely saved us during the Financial Crisis. Take a peek at the years 2008-2010 above. We absorbed an -11% hit, which wasn't a walk-in-the-park, but more importantly, we navigated to avoid getting clipped by -57% as reflected by the S&P 500 from

its ultimate high to its ultimate low during the Crisis.

On the other hand, had the Financial Crisis struck prior to year 2000, our ability to survive (and thrive) would have been questionable.

Cornerstone #2) The Corporate Security Fallacy (aka, Avoiding Valleys):

I've often been quoted as saying, "**Long ago, economic security was simply a function of a company's SIZE and AGE, whereas now economic security is more a function of a firm's continued GROWTH and AGILITY**". Ironically, even though we strategize as a growing agile organization, we can lay-claim to our achieving high-grades in each of those four categories:

1. **SIZE** – Our combined overall custody is almost \$4.5 billion while on-track for over \$1 billion in new annual assets.
2. **AGE** – As you already know, this year, 2018, we celebrate our **30th year** in business.
3. **GROWTH** – In 2017, we were named to the **Inc. 5000** list for the 4th year in a row. This is an annual list of the fastest-growing private companies in the United States.
4. **AGILITY** – Early 2017 "took-off" with **USA Financial Exchange** making a splash as a turnkey asset management program (TAMP) with industry leading features – this spurred **USA Financial Portformulas** to all-new highs in assets under management - while **USA Financial Securities** redefined itself as fee revenues surpassed transactional revenues embracing our growing role and marketplace influence as fiduciary.

On the flip-side, we all know too many stories of long-time established companies with underfunded pensions, downsizing, laying off employees, closing operations, or even filing bankruptcy. The point being, I will contend that today a young growing profitable company provides more stability and safety than does a large mature stagnant company.

Reflecting back to our revenue chart, you'll notice with this mentality of "security" we've been able to maintain our growth in all but one year (2008).

Cornerstone #3) Give 'em What They Want – Followed by What They Need:

Sustainability comes from what I call the front-side & back-side of deliverability (you could also call it the emotional & intellectual).

On the front-side, you need to give people what they want. No matter how good something is for people, human nature will lead them astray if they don't "want" it (the emotional).

On the back-side, long term repeatability and stickiness comes from giving people what they "need" (the intellect).

If you can combine the emotional want with the intellectual need and deliver a quality experience, that's a foundation you can build a business upon. And I'm not just talking about customers - same goes for hiring employees. This is the only way to pursue quality and quantity (versus quality or quantity)

Provide what people want followed with what people need and you have the yin and yang of business (and maybe even personal relationships, but that's a whole different discussion).

If you deviate from this combination, well, that's when things can get sketchy or even become a PR nightmare. For example, consider the repercussions of the tobacco industry, telemarketing, any high-pressure sales environment, politics, or outright illegal activities. In each case, the want & need are not exiting cohesively together.

Understanding this dynamic, is at the core of business risk assessment. Gambling is risk, but risk need not be a gamble. This is why you must always conduct thorough investigation, doing your reconnaissance, research and testing (just don't let it become a convenient excuse for procrastination).

Cornerstone #4) Moonshots are Crucial:

Business adopted the "moonshot concept" from President John F. Kennedy, via the speech he delivered before a joint session of Congress on May 25, 1961, where he stated, "I believe that this nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to the earth."¹

On July 20, 1969, Neil Armstrong and "Buzz" Aldrin became the first men to walk on the moon.²

Thus, the moonshot was born:



Some have incorrectly categorized business oriented moonshots as being outlandish ideas that have little or no founding in reality, but this is not the case.

In other words, President Kennedy did not just make this challenge on a whim. The idea was researched, feasibility assessments were made, and then an educated challenge was proposed. There was no guarantee of success, but that does not mean that the idea was just something he snatched from an old episode of Flash Gordon. (Too young to recognize that reference? Google it and you'll understand.)

What many forget is that earlier in that very same speech, President Kennedy stated, "*With the advice of the Vice President, who is Chairman of the National Space Council, we have examined where we are strong and where we are not, where we may succeed and where we may not. Now it is time to take longer strides - time for a great new American enterprise - time for this nation to take a clearly leading role in space achievement, which in many ways may hold the key to our future on earth.*"³

What defines a moonshot in business?

While there is no official formal business description, I define a moonshot as...

- **undertaking an initiative so unique that it could/would change the trajectory of your business;**
- **attacking problems/challenges so magnificent in size and scope that it both scares and excites you;**
- **requiring radical thinking to fuel giant leaps forward (10x growth vs. 10% growth).**

The Harvard Business Review describes a good moonshot as having three key ingredients:⁴

1. **It inspires** (it's not a routine goal like trying to increase sales by 13%).
2. **It is credible** (as I mention above, it is not just ridiculous, but is founded in reality).
3. **It is imaginative** (it's not just the next logical step, but is a meaningful leap).

I contend that most great businesses are riddled with moonshots even if they have gone unrecognized by outsiders...

In fact, I think that in certain world-class companies, moonshots become commonplace (or even expected) as they are imbedded into the normal culture of the company. In our case at USA Financial, I would describe our moonshots as being key "turning

points" or "giant leaps forward" that pinpoint our past and shape our future. Essentially, they become the major milestones in our historical corporate timeline. Here's just a brief look back at a few of our examples:

- **2002 Unit Investment Trusts** - Began investment product research & development applying risk management models to the structural chassis of Unit Investment Trusts (UITs) as we designed product for two different administrators.
- **2007 Investment & Risk Management Platform** - Our investment product "development" led to our becoming an investment product "manufacturer" via our patented formulaic trending approach to risk & money management.
- **2008 Tech Company** - We crafted our first piece of proprietary financial industry technology, launching and converting our overall cultural mindset to our being "a technology company serving investors and the financial services space."
- **2016 Turnkey Asset Management Platform** - Designed a highly flexible and benefit-rich Turnkey Asset Management Program/Platform (TAMP) to streamline and simplify account custody and management for both advisors and investors.

Moonshots can look and feel a lot like they are only success stories... But keep in mind, moonshots, by definition, may include equally explosive failures. **And this is crucial to your understanding moonshots.** A moonshot failure may be even more important than success! Therefore, it must be okay to fail (as long as proper risk assessment, strategy and effort were applied) as today's failure often leads to tomorrow's breakthrough and/or strategic byproduct. It can truly be said that failure leads to the next-bigger-better moonshot.

For example, even though I included our 2002 Unit Investment Trusts example on my moonshot listing above, what many do not realize is that we eventually chose to unwind that venture as we determined that some of the leadership at the first administrator could not be entirely trusted (from a business relationship sense, I do not mean they were stealing money or doing anything illegal). So we transitioned to a second administrator, but more importantly, we also began the development that led to our subsequent moonshot, the 2007 Investment & Risk Management Platform.

Had we not endured a "less than desirable experience" with that first administrator, we may never have launched our own 2007 and/or 2016 platforms.

Thank God for the failures and bad experiences that we have the strength to endure as they ultimately will both define and guide us.

Every time I speak with entrepreneurs about failed moonshots, it

seems they always point to the power of what was learned, along with phoenix-like stories of how even greater success has risen from the ashes within subsequent moonshots.

Moonshots may be one of your most powerful tools in business (and life). Who'd have known?

BONUS: Finding Your Cornerstones

Interestingly, nothing I've discussed is exclusive to the financial industry, nor does it deviate when applied in any other industry. In fact, historically, I've grown more from speaking with CEOs operating in entirely unrelated businesses than I have from conversations within the financial industry.

Business and career success is generally a universal language that shares many of the same attributes, regardless of the job or industry... Which in my humble opinion, only emphasizes how vitally important it is that you get outside-your-bubble to locate and uncover your biggest breakthroughs and gain your most influential learning experiences.

Thanks for allowing me to decompress and reflect. I hope you found the cornerstones valuable and entertaining. Next time I'll get back on task with my financial writings.



That's the "30-Year" Skinny

Mike Walters, CEO
USA Financial

1 May 24, 2004, NASA.gov under NASA History, "Excerpt from the 'Special Message to Congress on Urgent National Needs'"

2 NASA.gov

3 May 24, 2004, NASA.gov under NASA History, "Excerpt from the 'Special Message to Congress on Urgent National Needs'"

4 May 14, 2013, Harvard Business Review, "What a Good Moonshot is Really For"