

**EPISODE 388**

[SPONSOR MESSAGE]

[00:00:32.3]

**FT:** So Money is brought to you today by Wealthfront. Wealthfront is the most tax efficient, low cost, hassle free way to invest. Now, many of you I know are interested in simplifying your investment strategy. You want to reduce fees, you want to work with a service that you trust and Wealthfront delivers. It builds and manages your personalized globally diversified portfolio.

To open an account, the minimum is just \$500 and that gets you a periodically rebalanced diversified portfolio of low cost index funds. There are zero trading fees, zero hidden fees and advisory fees that are just a fraction of traditional advisers. In fact, Wealthfront manages your first \$10,000 for free. To learn more and sign up, visit [wealthfront.com/somoney](http://wealthfront.com/somoney).

[INTRODUCTION]

[00:01:22.4]

**FT:** Welcome to So Money everyone. I'm your host, Farnoosh Torabi. Today's guest, she's recognized as one of the world's most influential management thinkers in 2015. She was also a finalist for the top thinkers on talent at the Biannual Thinkers 50 Ceremony in London. Whitney Johnson is here. She's best known for her work on driving corporate innovation through personal disruption — personal disruption.

Now, you often hear about disruption as it happens in the market place, entrepreneurship, we hear about companies like Warby Parker and Birchbox as being disruptors because they are changing the way that people shop. Changing the way that companies are thinking and so what is exactly personal disruption? Well, we're going to get into that.

A little bit more about Whitney, she was an institutional investor ranked analyst for eight years at Merrill Lynch, former president and co-founder of a boutique investment firm with Harvard

Business School's Clayton Christensen. And now, she is the author of the critically acclaimed book, *Disrupt Yourself: Putting the Power of Disruptive Innovation to Work*.

Inc. Magazine called it a top 100 business book in 2015. Whitney is also a frequent contributor to the Harvard Business review, a LinkedIn influencer and is the co-founder of 40 Women Over 40 to Watch. So in addition to asking about this whole disruption thing and how is it something that we can apply to our personal lives, Whitney and I talk about investing.

She has a very impressive background as an investor working at Merrill Lynch picking stocks but what is her strategy now that she advocates for the average investor? It might surprise you. The sad but important financial lesson that she learned as a child and what it taught her later as an adult and her biggest financial failure involving a business and a friend.

Here is Whitney Johnson.

[INTERVIEW]

[00:03:21.9]

**FT:** Whitney Johnson, welcome to So Money. I can't wait to learn more about disruption. It's like the word of the times right now. It's definitely an Urban Dictionary term, welcome.

[00:03:33.0]

**WJ:** Thank you. I'm delighted to be here.

[00:03:35.1]

**FT:** Where are you calling in from?

[00:03:37.2]

**WJ:** Lexington, Virginia. It's central Virginia about three and a half hours southwest of Washington D.C.

[00:03:43.4]

**FT:** And are you from there originally? Where you raised there?

[00:03:47.3]

**WJ:** No, I am actually from San Jose, California and long story short, we were in Boston for about 15 years and six months ago my husband, who was the lead parent had an opportunity to go onto a tenure track position as a biology professor at this small liberal arts college in this rural corner of Virginia and so we disrupted ourselves and moved.

[00:04:10.9]

**FT:** I love that. Disrupting yourselves, well speaking of, it's the title of your book, *Disrupt Yourself* and really a timely book because this is something definitely in the entrepreneurial space you're hearing this term a lot. They're giving awards to company startups that are "disrupting" in other words, standing out, changing the status quo.

In some cases, if you ask entrepreneurs to them what does disruption mean? It means fighting with inertia if that makes any sense. I was just interviewing for example Katia Beauchamp, who is one of the co-founders of Birchbox, this concept where you pay \$10 a month, you get a box of makeup samples and beauty care samples. You try on whatever you like.

If you like it enough, maybe you will buy a full size product online from Birchbox.com and this concept is completely new and different because forever, we've been buying makeup at the makeup counter in the mall and so what she's fighting, her biggest competition she says is inertia. She is definitely called a disruptor.

So I find that that's sometimes the unexpected big challenge is our habits. So tell me a little bit about *Disrupt Yourself*, why you wanted to write it and what do you mean, in your world from your perspective, what does disrupt really mean?

[00:05:40.0]

**WJ:** Well, to back up a little bit, I had worked with Clayton Christensen for about six or seven years and co-founded an investment firm with him called Rose Park Advisors together with his son and for us, a disruptor is a low end or new market product that eventually up ends in the industry like Toyota did to GM, like Target has done to Sears and now, we're seeing Uber do to Yellow Cabs. So that is at its essence the definition of disruption.

Now, what I've done is I've said to myself, "Okay, well we know this theory applies to products and services and companies and countries but the fundamental unit of disruption is actually the individual," and so if you want to drive innovation in an organization whether a company or a non-profit, the best way to do that is through personal disruption and so I have taken these frameworks that we used in these other venues or applications and turned them inward onto us as the individual.

[00:06:45.0]

**FT:** So can you bring that to life a little bit for me? If I am somebody at a company and I'm really looking to supercharge my career and that's, I think, a lot of our listeners. A lot of them are mid-career or a few years into their career. So they're not just low on the totem pole anymore. They've amassed a lot of experience maybe even some seniority and now they want to not leave and start their own thing but really make a splash within their existing company or move around within their career. How does someone like that take this framework and apply it and be successful?

[00:07:23.0]

**WJ:** Okay, let me tell you a little bit of my personal story and then I can talk to you about another example of that. If you think about this from a low end, you start at the low end, you climb the

top and then you upped your career where you currently are and then you start all over again and I think of this in terms of eight waves or the S curve waves.

When I started on Wall Street, I started as a secretary. So I went into Wall Street through the secretarial side door. So that was effectively a low end disruptor but then over the course of the next 15 years, I moved from secretary into investment banker, stepped back to become to equity research analyst. But when I left Wall Street, I was absolutely at the top of my game.

I had been an institutional investor ranked analyst for eight years. I had Carlos Slim quoting my research. So he is the controlling shareholder of América Móvil and one of the world's richest men. So really exciting heady stuff and so you look at it and I said to a friend, "I'm going to quit my job" and she thought that I had absolutely lost my mind.

Because from a stature perspective, from affirm to de-firm, in terms of knowing how to do my job, in terms of financial, it made absolutely no sense. It was wholly and completely illogical and yet I knew it was the right thing to do and so, I had climbed to the top and now I was up, ending my career and effectively disrupting myself.

So to many people, it would have looked like and frankly to me a little bit, it looked like a step back which is what disruption looks like initially because you are moving from the top of the curve to the bottom of the curve with the promise that overtime, the slope of your next curve or your learning trajectory will be even steeper.

So financially, you'll be better off potentially but certainly emotionally, you'd be better off and so taken as a whole or an aggregate, you are better off having disrupted yourself than you were where you were before.

[00:09:20.7]

**FT:** What's the difference between disruption and being a risk taker?

[00:09:26.4]

**WJ:** Great question. I would say, a risk taker is a much broader definition and I'd say disrupting is a type of risk that you can take. So you can take on risk that is just completely "wholesale" — that's not a word. A complete wholesale whole hearted risk.

[00:09:48.0]

**FT:** We make up words all the time on this show. Don't worry.

[00:09:49.4]

**WJ:** Yes, exactly. Can we put that in the Urban Dictionary? And then there's something like competitive risk where there's five other competitors in the market place and you say to yourself, "I'm going to enter this market. I think I could compete and win", that's a competitive risk. That is just not a type of disruptive risk.

Disruptive risk is where you look at an opportunity and you say, "I have no idea that there is a mark out there but I think there's a need not being met," and I think you would say Warby Parker even Birchbox fits into that category. They didn't know if there was a market but by taking on this market risk of saying, "I don't know if there is a market but if there are customers in this market because I'm the first mover, I'm favored to own the market."

That's where the theory of disruption comes in because when you take on market risk, your odds of success are six times higher than your revenue opportunities 20 times greater. So risk is the broad category. A disruptive risk is a subset of that.

[00:10:43.7]

**FT:** Gotcha. What is it about our current world, what's going on in the society, the economy where we so need more disruption? Is it just that the status quo has been going on for too long and that's led to inefficiencies or what? Why do you see this being such a now term and the movement is so 2015, '16, '17?

[00:11:08.9]

**WJ:** Right, that's an interesting question. I would have not framed it that way, as you are saying, the call for disruption. I think part of what's happening is that the rate or pace of disruption is increasing from a technological standpoint. The rate of change is increasing. If you look at the number of companies in the S&P 500, the turnover is faster today than it was 10 years ago.

You look at the pace of technological change, that's faster and so you've got these waves of change happening more quickly and so the question becomes, on the one hand if I am a consumer benefiting from this exponential growth, it's like, "Booyah!" But if I'm at the individual trying to deal with this size and shift and what my world looks like can be pretty unsettling.

So I think that the call for disruption is really a sense of individuals saying, "Okay, I don't want to just cope with this. I want to figure out how to ride the waves of disruption. So the best way for me to ride the waves of disruption is to figure out how to be a disruptor myself so that I am prepared to harness this as oppose to just deal with it."

[00:12:13.6]

**FT:** Whitney, let's talk about Whitney. Let's talk about your financial perspectives. I am very curious especially to know that you have worked in investment banking and the finance world. You mentioned you grew up in San Jose, was that during the dot com boom a little bit?

Because I remember watching 60 minutes and it was about 1998-1997. These people who are living in Palo Alto and San Jose, people were knocking on their doors asking them to buy their home for a \$1 million. The home that they purchased for \$110,000 in the 70's.

So I am always fascinated to find people who are from that region way back when before it was Silicon Valley. So tell me a little bit about yourself. What was your upbringing like and maybe link it to money. Were there financial influences that you had as a child growing up?

[00:13:13.2]

**WJ:** A great question. So interestingly, my actual grandparents arrived in San Jose around the turn of the last century, so like the early 1900's. My grandmother lived in like downtown San Jose, which is kind of cool and my father graduated from Willow Glen High School in San Jose and I went to Leland High School.

So when he was growing up, it was just a lot of orchards and this sort of beautiful, sleepy place to live. The PC came out when I was in high school. I was on the beginning. I sort of saw the very beginnings of it, not the PC but the Apple, sorry the Mac came out when I was in high school or actually at the beginning of college.

So I just saw the very, very beginning of it and it was just interesting to see it now go from being San Jose to this place where it's just Silicon Valley. To see the before and after is actually very fascinating. From a money perspective, I guess there is a little bit of you think to yourself, "Wow, I should have held onto that house that we owned in 1980," right?

[00:14:23.5]

**FT:** Yeah right?

[00:14:24.6]

**WJ:** "And then sold it now." And so it's an interesting thing to have lived somewhere that has gone on to be sort of the field of dreams for so many people and really the El Dorado of this century and to have been there before that. It's kind of an interesting sort of perspective. I would say a little bit of nostalgia and also a little bit of wistfulness but also real connected, feeling a connection to that place as well.

[00:14:53.8]

**FT:** What's your greatest money memory as a kid growing up? Did you have a lemonade stand? Did you work your first job when you were 12? What was the lesson that you learned about money?

[00:15:04.0]

**WJ:** Oh, this is a great question. Unfortunately, one of my biggest money lessons is I remember going to a piano lesson and having my parent's check bounce and my teacher handing the check back to me and saying, "Your parents' check bounced." And I think now, I would never do that to a child but I do think that it's an important, and in many ways, a very formative memory because I think it instilled in me this thing of "I am going to always be able to take care of myself. I am not going to have checks bounced."

I think that really motivated me to just always make sure. I have always worked since I've been out of college and I think that's been really important to me to make sure that I could economically take care of myself. So it's kind of a sad memory but on the other hand, sometimes those really sad memories are really what motivate us to make something of ourselves and sometimes become the biggest motivators.

[00:16:00.8]

**FT:** So much, that's so true.

[SPONSOR BREAK]

**FT:** Most nights, usually around 6 o'clock at night at my house, you'll hear, "What do you want to have for dinner?" Yeah, my husband and I are the worst at meal planning and too often, we end up ordering in or making bowls of cereal neither of which is healthy, appetizing or cost effective. It's no way to live people. So it is with such joy and relief that I'm introducing today's sponsor, Prep Dish.

Prep Dish is a subscription based meal planning service that takes the stress out of planning your meals. With Prep Dish, you'll get an e-mail every week that contains a grocery list of seasonal ingredients plus instructions for prepping your meals ahead of time and for just two hours of prep, you get a week's worth of delicious meals. I'm talking Romesco baked salmon with roasted sweet potatoes, turkey and zucchini lasagna.

Prep Dish is offering So Money listeners a special rate of \$4 for the first months' worth of meal plans. It's a dollar per week. Go to [PrepDish.com/somoney](http://PrepDish.com/somoney) to start today, and by the way, they specialize in gluten-free, dairy-free and paleo meals for all you health nuts out there. [PrepDish.com/somoney](http://PrepDish.com/somoney).

[INTERVIEW CONTINUED]

[00:17:12.9]

**FT:** What would you say is your financial philosophy Whitney? Do you have a money mantra?

[00:17:17.6]

**WJ:** I do and that is "save, save, save and save and save some more." I think, well I am being a little bit over...

[00:17:28.4]

**FT:** Do you spend as well, I hope, along the way?

[00:17:30.7]

**WJ:** I do spend but I feel like I have this interesting thing where I feel like my mom was a really hard worker and she really learned how to make money. But I don't feel like my mom's generation really taught us how to build wealth in a way like you know how to make but you know how to spend money but they didn't know so much how to save money or even to build wealth. So my mantra at this point is to be able to work then save and then to teach my children how to build wealth and so that's become my mantra at this point.

[00:18:05.3]

**FT:** What's your best way to build wealth?

[00:18:08.4]

**WJ:** It's a really good question and it's shifted over the years because on the one hand, you would say and I'm sure you're thinking that the obvious response for me is going to be "Well, invest in the stock market," which I did for years and years and also to invest in privately held companies.

But I also think another really important way to build wealth apart from just saving money is to find ways to invest in the local economy around you like local houses and businesses around you because then you are not only investing in something that you think can create value but also can build the economy and create jobs in the place where you actually live.

[00:18:50.0]

**FT:** So how do you actually get in on those deals? Do you just knock on restaurant doors? I mean it seems like, because that's not a public thing, how do you get in on those important deals?

[00:19:02.4]

**WJ:** Oh, I think that where we live now, I would say it's a lot easier because it's a small rural area and so you can network into the community pretty quickly. That's something that we're currently figuring out but I think that the college town where my husband teaches has been kind of decimated 30 or 40 years ago because there were some major floods.

We look at that and say, "You know what? This is such a beautiful place. Overtime, this is going to get more attractive again. So are there opportunities to buy buildings in the downtown?"

These aren't skyscraper buildings but just buildings that could house stores and sort of commercial real estate and then also houses itself and making bets on what will happen in the community.

[00:19:48.7]

**FT:** Yes. Failure Whitney, how would you feel sharing maybe a financial failure with us and it doesn't have to be anything that happened too you recently. If you had a pretty good bill of financial health in the last decade or so but maybe take us down memory lane. Your biggest lesson learned from a financial failure.

[00:20:12.4]

**WJ:** Yeah, I have plenty. I would say my biggest financial failure that I want to talk about at this point but it's still a pretty big one which I think this is an important thing calling us out. When money doesn't go well, I think we feel a lot of shame and in fact, I think people are more ashamed to talk about money than they are about sex which I think is really weird but nonetheless, it's true.

But the one that I will mention is about 10 years ago, we had a friend who had this idea for a business and it was a really good idea and it was her dream and so we made sure that — and she didn't have the money to capitalize it but we did. So we capitalized the business and allowed for her to be the controlling shareholder, which was in retrospect a huge mistake because once she was able to build the business, she became a little bit of an Attila the Hun and mismanaged it.

She mismanaged it, and so when they moved and there was something that felt slightly fraudulent but because she had control, there was nothing we could do, and so we lost a lot of money. So I think the lesson that I learned there is that it's really important to when you go into business with someone to vet your partners and if they're friends to vet them even more carefully and when you're vetting, be really clear on what your rules of engagement are.

So I think that was a really important, valuable lesson. It didn't break us so it's okay but it was an important lesson to learn.

[00:22:06.2]

**FT:** Clearly, I would think, it broke the relationship.

[00:22:09.4]

**WJ:** Oh yeah, absolutely. 100% yeah.

[00:22:12.2]

**FT:** So there wasn't any way to "punish" her or get her to fess up? I mean how did you end up settling this?

[00:22:23.7]

**WJ:** I think there would have been but her husband was a lawyer or is a lawyer and so then that gets really expensive because he can do stuff all day long and there's nothing you can do about it unless you are willing to spend a lot of money. I think the other thing that I've actually learned, and this goes to this idea of failure, is the importance of also forgiveness.

Forgiveness just doesn't necessarily, in fact it does not mean that something that someone's done is okay, but it does mean that you let go of it. I'm sure you could hear my voice, there's still some emotion there but forgiveness is the ability to say, "It doesn't control me. It doesn't dictate how I'm going to live my life from day to day." I'm not held in this thrall and I think that that's an important thing that we all have to learn.

Because I think if you and you probably do because you have these conversations with people is that you find that pretty much everybody at some point has had someone not behave well in a business situation and you have to decide. Like, are you going to be bitter or are you going to be grateful? And the healthiest of us, if we're trying to be healthy, decide to be grateful and move on.

[00:23:34.1]

**FT:** Yeah. Wow, well it's not easy how you just even described it. It's not even easy to say that let alone do that so I'll give you a lot of credit. What would you say has been your greatest success? Let's just flip it and talk your So Money moment Whitney.

[00:23:51.5]

**WJ:** Yeah, my So Money moment. Well an early one is that I remember, I was just had started working and I had just rived Peter Lynch's one up on Wall Street and we were using FranklinCovey Planners at the time and I was like, "Okay, I love this. I'm going to buy what I know," because that's Peter Lynch, "Buy what you know."

We bought that stock and it did really well and I just felt so empowered around that. I bought what I knew, and this was before I was an equity analyst. So I think was still actually a secretary, I wasn't a banker yet and I just felt so empowered and proud of myself of buying what I knew and then making money on it. It was actually really exciting.

[00:24:40.9]

**FT:** How often does that happen in your world, like you're just really right about a stock?

[00:24:46.8]

**WJ:** Well, that's a great question. If you look at the whole behavioral finance thing, we're — even really good investors are right like 55% of the time but we tend to not remember it that way but I would say that having been on Wall Street as, number one, as an equity analyst and being rated as a top stock picker by Star Mind, better than average and then again our fund.

At the time that I left or sold my stake at Rose Park Advisors after five years, our kicker was 11% versus 0% for the S&P, so decent and I do think that stock picking is a fascinating discipline because there's a lot of financial analysis that takes place but stocks have a personality and so there is this whole momentum psychology to it that's important as well.

I think when it comes to stock picking and investing, generally we have to do the analysis but I think we also have to look for momentum and there is definitely sort of a left brain-right brain aspect to stock picking or investing generally.

[00:25:53.2]

**FT:** Yeah, well we talk a lot about just passive investing on this show for the average investor who doesn't really have time to be following stocks let alone the ability to really analyze them, that passive investing and indexing is the way to go. Do you buy into that philosophy?

[00:26:12.4]

**WJ:** I do, I do. I mean I think that it can be on both ends. I think that passive investing is a good philosophy to invest a lot of your money in because we really cannot time the market and you could but we're not disciplined enough to do it because our emotions kick in. So I think that that is important but I also think there is an element for a small portion of your money, maybe it's 10%, maybe it's 20%?

Where picking stocks or even investing in early stage or later stage companies, there's an element to that that is partly about the investing but it's partly about the ownership and partly about the empowerment that you feel when you invest and then also about a more hands on approach to building wealth and to building businesses and buildings and capitalism generally that's important but I don't think it's wise for that to be the majority of your investments. I think you're better off having a lot of these passive investments as you've suggested.

[00:27:18.9]

**FT:** So good to hear from somebody who was an investor.

[00:27:22.6]

**WJ:** A stocker broker, I know.

[00:27:24.6]

**FT:** Yeah, for most of her life. That's reassuring for sure. Whitney, what would you say is your number one financial habit? You talked earlier about how saving, saving, saving is your money mantra, is there a habit that you practice that helps you uphold and practice that mantra?

[00:27:41.8]

**WJ:** Yeah, you may be surprised, maybe you won't but we tithe. So 10% of our gross income goes to our church and I think that that's actually really important because it's sort of this reminder, "Okay, pay God first," but then after that to pay ourselves and that is something that has been steadfast, something that I have done throughout my life. So paying God first and then being like, "Okay, we need to pay ourselves and save second." That helps create a discipline or an approach to money generally that I think is really important.

[00:28:22.8]

**FT:** And a consciousness.

[00:28:24.0]

**WJ:** Yes, exactly. That's a great way to describe it.

[00:28:27.0]

**FT:** Yeah. All right Whitney, you've been so much fun. You're disrupting So Money as we speak. You are giving such great answers and really raising the bar for other guests. Let's do some So Money fill-in-the-blanks. This is when I ask or rather state a sentence, an unfinished sentence and then you finish it.

[00:28:45.1]

**WJ:** Okay.

[00:28:45.5]

**FT:** All right, if I won the lottery tomorrow, let's say \$100 million bucks, the first thing I would do is \_\_\_\_\_.

[00:28:52.5]

**WJ:** Pay tithing and then save.

[00:28:55.0]

**FT:** Yeah, really? You wouldn't buy anything fun or go on a trip or?

[00:29:01.1]

**WJ:** I'd probably buy a Porsche or two but I would do those two things first, yeah.

[00:29:05.9]

**FT:** Okay there you go. Indulge us, okay? This is a dream scenario. All right, one thing that I spend on that makes my life easier or better is \_\_\_\_\_.

[00:29:16.5]

**WJ:** Books. I love books.

[00:29:19.4]

**FT:** Yeah, what are you reading right now?

[00:29:21.7]

**WJ:** I am reading a whole bunch of books, because I read a lot of books at one time. I'm reading a book called *Shadow Scale* by Rachel Hartman. It's a young adult fiction book. I am

reading *The Botany of Desire*, I think it's Michael Pollan and I'm reading *On Combat* by Dave Grossman.

[00:29:42.1]

**FT:** Cool, all right that's nice to always add some more books to the list.

[00:29:46.1]

**WJ:** It's a list.

[00:29:46.9]

**FT:** I know. All righty, the one splurge that I pay for but it's my splurge and I wouldn't have it any other way, what is that?

[00:30:01.5]

**WJ:** Going out to lunch with my daughter.

[00:30:04.8]

**FT:** Oh, how old is your daughter?

[00:30:06.2]

**WJ:** She's 15 and a half and lots of days after I pick her up on school or on Saturday, we don't need to go out to lunch but it's just so much fun and you have this challenge of going to every restaurant in downtown Lexington that we can and we love doing it.

[00:30:24.1]

**FT:** That's important. I remember being 15, 16 and having some one on one time with my mom, you don't forget those conversations. Those are some of the really important times to just hash things out and talk about life and just bond a little bit because you don't really, at that age, I don't probably see her as much as you'd like.

[00:30:44.7]

**WJ:** No, exactly and partly because of her schedule and then partly because I travel a lot.

[00:30:49.0]

**FT:** Right. All right, when I was younger, the one thing I wish I had learned about money is \_\_\_\_\_.

[00:30:56.4]

**WJ:** To build wealth. To invest in the stock market, when I was a lot younger.

[00:31:03.4]

**FT:** Yeah, well no doubt. I don't think anybody got that kind of education growing up, very few. When I donate and maybe I already know the answer to this, when I donate I like to give to \_\_\_\_\_ because \_\_\_\_\_.

[00:31:16.2]

**WJ:** Okay, so apart of the tithing piece, I like to donate to things like Spring Board which is a platform for investing in women and I like to donate to micro credit organizations.

[00:31:34.6]

**FT:** Great, so like Kiva? Do you ever use Kiva?

[00:31:36.6]

**WJ:** Yeah like Kiva.

[00:31:37.8]

**FT:** Super. All right last but not the least, I'm Whitney Johnson I'm So Money because \_\_\_\_.

[00:31:45.8]

**WJ:** Oh wow, this is good. I'm So Money because money helps make the world go round and money finances dreams and I want to finance the world I want.

[00:32:01.2]

**FT:** Thank you so much Whitney. Your book is called *Disrupt Yourself: Putting the Power of Disruptive Innovation to Work*, congratulations. It must feel really good to have that out there and the cover is actually really cool. It's kind of got this Superman vibe to it. Superwoman, Superman vibe.

[00:32:16.1]

**WJ:** Yes, I was hoping you would notice that, yeah. I love it. Thank you, I really appreciate it.

[END]