FT: Dave Pottruck, so happy to have you on the show. Welcome to So Money.

DP: Thanks, Farnoosh. I'm really happy to be here.

FT: Congratulations on your new book, Stacking the Deck: How to Lead Breakthrough Change Against Any Odds, and I look forward to going down memory lane with you, Dave, shortly and talking about some of the changes you've experienced in your career and I'm sure you know which ones I'm going to be asking you about. But, in the mean time share a little bit more about the title. The title kind of resonates with me and I want our listeners to really kind of know where you are coming from when you titled the book, Stacking the Deck. What does that really mean?

DP: Well, you know, it's interesting. I never planned on having that title and I was talking about this subject with a friend of mine and I was talking about the fact of what I've been teaching. I have been teaching this course in the Wharton MBA Program for almost a decade and I was explaining to him that 'the deck is stacked against you when you want to lead breakthrough change'. It's so hard. Companies are built for reliability, consistency, predictability, control and risk minimization and breakthrough changes are the opposite of that. And so, none of these systems, none of the performance appraisal, planning, budgeting, bonus, they don't work very well for breakthrough change. And so, it's really hard and the deck is stacked against you. And, he said, "Well, why don't you name your book, *Stacking the Deck*, and explain to everybody how to restack the deck in their favor." And so, that's how the title was born. It was not my idea. It was the idea of one of my colleagues.

FT: And, you don't have to be a CEO to create breakthrough change. This book is really meant for really any employee at any level, right?

DP: Well, the course I teach at the Wharton School, my students are typically about 35 years old, they're Executive MBAs. I teach in the Exec Ed Program, also at Wharton, where my students are typically Division Leaders, Division Managers, they're usually about 45 years old. And so, most of my teaching which is really where my book came from is for people who are not CEOs, they're leaders of Business Units, leaders of a business or of a unit, a department and the idea of leading breakthrough change is really something for any executive who wants to get off the momentum plan and do something bold and innovative.

FT: This idea of change, sometimes it's not in our control, not breakthrough change, you're talking about something different there but this kind of this broader concept of change. Change, you know, sometimes we feel like we don't have any control over that and I think what maybe is inspiring from your perspective is to say you can get on top of that, you can control the change, you can own the change as opposed to the other way around.

DP: Well, the reality is that we don't make a choice about whether we're going to be part of change in our lives. The world is changing so fast. We all know this. I won't go on and on about this because we all see how the pace of change, technology, globalization, regulatory changes, all these things that are creating an enormous amount of change, companies that had been part of our lives. There was a Tower Records down the street from where I live. It was there for 50 years, it's gone in the blink of an eye. So, change is not a choice. We don't have that choice. So, the only choice we do have is are we going to get in front of the change or be swept along by it and it's my belief that we want to lead the change rather than be swept along which also, by the way means that part of that change has to be how we change ourselves as part of that process.

FT: I'd love to get a little bit more personal now and talk more about your experiences with change and as you said sometimes in case, well, actually in all cases change is not something that we can control or choose sometimes. You were the CEO of Charles Schwab and in 2005, you were let go very publicly and that departure is something that you have talked about openly with the press and I'd love to have you share with us that moment in your life. I mean there's obviously been, it's been years since that experience. You've gone on and have hit major successes but I think for our listeners, we would love to hear about kind of what was going on in your head at that moment. Not so much the next day or 3 weeks later or a year later but that day. Take us there. How did it all come apart?

DP: Well, I guess the fact of the matter is that Schwab deciding to terminate me was mostly a surprise and I say mostly a surprise in the sense that I had no idea the board was considering this but I certainly knew that the company's performance during the .com downturn from 2000 to 2004, the company's performance was nothing to be proud of. We were struggling and what we were struggling with was downsizing the company and I was downsizing the company. I hated every minute of it. I wasn't very good at it. I failed to bring in outside advisers to help me and I didn't really know what I was doing to downsize. That was not my skill set. I was a grower. I was pretty good at growing the company and not very good at reducing, shrinking the company and that's what, that first part of the 00 decade needed our company to be downsized. That was the mission of leadership was to not look for a silver bullet but to accept the notion that we had to downsize the company and that's what we needed to do and I struggled with that. So, when Chuck informed me that the board had lost its confidence in me and that they were going to need to make a change, I was devastated. I was embarrassed. I was humiliated and I was devastated. And, it was an extremely difficult moment and I didn't really know what I was going to do. So, it took some time for me to regain my footing and one of the fortunate things that happened was at that time I was on the board of Intel and I actually hadn't been on the board for that long. I had been on the board about, I guess about 5 or 6 years so I guess it was longer than I thought. So, I'd been on the board for a while and I had gotten to know Andy Grove who was the Chairman, who was a legendary CEO and leader in Silicon Valley and I was at a board meeting a few weeks later and he came up to me and said, "Dave, you seem obviously I could see that you're either quiet in this meeting and you're still adjusting to the change. I just want you to know that you're the same guy that was here a month ago at our last board meeting and we are immensely delighted and proud to have you as a member of our board. You're that same great guy that's been a part of this company for 6 years and we are proud to have you as a board member and we are confident in your contributions going forward. So, you know, suck it up and get back out there." And, you know, I haven't said that exactly right because Andy was not one to mince words and he kind of gave it to me between the eyes, "Fine, suck it up, let's go. Let's go, man. Get back out there

FT: Would you say, would you go so far to say that you're happy it happened?

DP: No. I would not say I'm happy it happened. I would say that I made the best of it and it opened up new opportunities for me. I am happy that I left Schwab. I actually wanted to leave Schwab in 2000 and Chuck talked me out of it and convinced me to stay. I had another conversation with him in 2002. I was sort of anxious to go do something else. And so, in the sense of it unleashed me to move on and that I am happy. I just wish that it happened differently. I wish the board had perhaps come in and talked to mps come in and talked to me about a more orderly transition, something that allowed me to preserve my dignity a little more in that moment. But, you know, things happen and I learned a lot from the experience and I've tried to share that learning with others who go through similar things. It happens. Lots of CEOs get fired. The average tenure, what I read the other day, the average tenure is 3 to 4 years. So, it's a high risk position and things happen.

FT: High risk, high reward and fast forward now, 10 years, you have a book. You're still on the board of Intel, correct?

DP: I am.

FT: And also, you're the Chairman of High Tower Advisers which for folks on the podcast who aren't familiar, it's a multi-billion dollar wealth management firm you helped launch in 2008. I went on the website earlier this weekend. I like the positioning. It's removing the walls from Wall Street. Do you think that the public is just completely distrusting of Wall Street these days?

DP: I think people distrust the Wall Street institutions but they do trust their financial adviser or stockbroker or whatever you want to call the person who works with you on your individual account. So, I think the big firms have had their reputations tarnished to a large extent but I think people really like the person they're working with and they trust that person. That's an immensely important thing. They just don't like the firms they work for.

FT: Right.

DP: So, and so, we started High Tower in 2007. We started High Tower from a piece of paper and today, this year, we'll probably do about $170 million of revenue and we're very profitable and we're in 20 states now and the company is growing. It's actually growing as fast or faster than Schwab did in its early days so it's a big opportunity and we're excited about it. I don't know what the future holds but we're pretty excited about what we're building.

FT: Congratulations. Well, let's transition now, Dave, to my So Money questions, beginning with your financial philosophy. I'm curious to know what is a money mantra that you uphold that has helped carry your financial strategy and financial decision making throughout all these years and I'm actually curious to know 'has it changed' given all of your experiences but what would you say currently is a financial philosophy that helps to keep your money where it needs to be?

DP: Well, Farnoosh, I think when I was younger I was more of risk taker and I think that you have more time to live through downturns when you're younger. You have 30 years, 40 years of saving and investing in front of you so my early strategy was to be much more concentrated and the truth of the matter is when I was younger 100% of my financial future was tied up in one stock and that stock was named Charles Schwab. So, I was in a very, very concentrated position. As I got older, I started to diversify my holdings because my goal was more about risk minimization and holding onto what I had made. I made a fair amount of money and so I didn't need to shoot for the stars. I needed to protect the downside as well as go after the upside. So, my philosophy today is patience and its diversification and diversification will have years, it will have many years where you'd be much better off not diversified. You'd be much better off with a hundred percent of your money in the

S&P 500 and the ETF for an index fund but that's going to give you a more volatile up and down ride and you've got the risk of one investment that could suffer extraordinary losses. So, I'm much more in the patience, in the diversification, in trying to continue to grow without having as much volatility. I think when you get older, you want a little less volatility in your investments.

FT: Right. I was talking to my financial adviser the other day and I said to her, "You know, I really would like to see where we can swap in some more index funds, ETFs for funds that are above or have a higher than average perhaps management fee." And, her advice was, "I totally understand. We're going do that. Let's do that." But she said, "You know, for some of these funds that are like say an emerging market fund where there is going to be a lot of volatility, you might want a fund that's a little bit more managed just for, like you said, to manage the downside." And, in some cases, there aren't a lot of options when it comes to index funds for categories like an emerging market or something a little more nuanced. Would you agree with that?

DP: I agree with that wholeheartedly, Farnoosh. I think that the large US companies is such an efficient market. There's so much information, there's so much liquidity, there's so much trading that is very, very hard to outperform in investing in large US companies so index funds makes a lot of sense as a cornerstone of your large US investing position. But, if you're investing in an emerging market is just a perfect example, the markets are less liquid, the markets have less information, you often do want a and manage your who is looking at those markets and who's paying attention to individual investment opportunities and looking at the mix of where your money is going. Do you want to be in the BRICs, Brazil, Russia, India, China? So, emerging markets includes those big economies. Or, do you want to be in the smaller economies of the r market, as they're sometimes called, where today there seems to be a greater opportunity. The frontier markets are accelerating their economic growth and the BRICs are actually decreasing their economic growth so you really have a tail of 2 different markets within what is commonly thought of as emerging markets.

FT: You spoke a little bit about your experience at Schwab and the departure. I'm curious to know now, what is a financial failure that you personally experienced that while it was devastating or it was impactful it did ultimately lead to a path towards more success?

DP: Well, so when I left Schwab I started investing in startup companies and I really hadn't done that before. I had put all my time and energy in Schwab. And so, I started investing in various ideas that people brought to me that I liked. And, here's what I learned, I learned that a good idea does not necessarily create a good business and a good business does not necessarily translate into a good investment. So, you have to look at something in terms of its idea value, its value as a business and then its value as an investment. All of those are different and so I didn't know that and I had to learn that. Then, I learned, number 2, that when you're investing in startups, your first check is just your first check. There will almost always be follow on investments and the size of your follow on investments are often determined by your first investment. If you invest and you put a million dollars into a company and that gives you 5% of the company and then they want to raise a new round and you don't want to participate, well then, A, you're going to get crushed by the way the preferences work and, number 2, it just looks bad. It looks like you're not being supportive so when you go in you have to expect, there's going to be follow on investments and you have to be prepared. So, go in small and be prepared to build your position over time.

FT: Can you speak specifically to this? I know that when you left Schwab you invested in a number of startups. What was one in particular that exemplifies this lesson?

DP: Oh, a wonderful example, 'how would you like to own a startup airline'. Doesn't that sound like a great idea?

FT: Oh yeah, sure.

DP: Well, so some very smart guys came to me, asking me to invest in a startup airline and I thought, "Oh God that sounds so much fun, airlines, travel around the world." This company was doing an all first class airline. They called it business but believe me it was first class, 48 seats on the plane, New York to London, every day. And, I thought, "Man, that's got to be a homerun. That's a great idea. People would love being on a plane with 35 or 40 people, no crowds at immigration, no crowds at baggage claim, limousine taking you right downtown, all lay flat seats, I mean it was a very, very cool idea." And so, I and they asked me to join the board and put in an investment. So, I actually wrote a 7-figure check and I put my money in and I joined the board and I was on this airline. And, of course, the airline got started. Our CEO was a very smart strategic guy, knew virtually nothing about marketing and sales and the airline launched and the planes were beautiful but had no passengers, no passengers. And so, after 6 weeks of that the CEO was demoted. We had to look for an interim CEO. I got tapped for that job. It was supposed to be something I was going to do for 2 to 3 months while we found somebody but who the heck would want to go to work for a failing airline. So, we had to turn the airline around before we could find someone willing to take the job and that took 14 months. And so, and then we had to raise more money because we burned through all of our money. Ultimately, when oil suddenly shot up from a hundred dollars a barrel to a hundred and fifty dollars a barrel, we were almost instantly out of business because that was such a devastating price change to our company. So, there was a good idea that turned into a mediocre business and a horrible investment.

FT: I think I remember interviewing the founder as I was a reporter at NY1. Was it called EOS?

DP: Yup. It was called EOS.

FT: Yes.

DP: And, everyone who flew it, by the way, loved it.

FT: And so, what do you think was the…

DP: A great product. Great product. And so, that's my point that great products don't necessarily translate into a great business.

FT: Well, it was pretty compelling, I have to say. They were showing the price differences. You know, if you were to fly first class on a traditional airline it would be, you know, $25,000 at the time, international, versus I don't know whatever it was 8, $9,000 for a seat on what was almost like a chartered plane, you know, with such few seats.

DP: But, here's the problem, the vast majority of your back and forth New York to London is Wall Street and the individual employees don't buy the tickets, the Travel Department buys their tickets.

FT: Right.

DP: And, the Travel Department didn't want to do business with a new customer or a new airline, they wanted to send everybody to United or American or even British to get the big discounts they got for their company because the Travel Department was more concerned about the cost they were paying for the seat than how comfortable it was for their employee.

FT: What is your earliest money memory, Dave? Did you grow up thinking I want to run a financial services firm or was it something else? I mean, I wanted to be a waitress. That's as far as my mind went when I was 4, 5, 6 years old. I thought that was a glamorous job. What is your earliest money memory and now looking back on that memory you can say, "Wow, that's very telling of who I sort of am today and how I proceed with my finances as an adult."

DP: Well, when I grew up, Farnoosh, I had no sort of executive role models or business role models or professional role models in my life. I grew up outside of New York City, out in Long Island, a place called Levittown. My street was full of garage mechanics and bus drivers and policemen and firemen and factory workers. My dad was a factory worker. And so, I saw how everyone kind of struggled financially but they all lead a very nice life. I mean they all, it was a nice life, everyone, it was a community. But, nobody loved their work. They did their work. It was a way to pay the bills and I guess the only person who really seem to like their job in my neighborhood was the one guy in our street who was a teacher. And so, I thought that's what I would become, I would become a teacher. And then, when I got to Penn and I started to broaden my social relationships, I met people whose parents were business people and I suddenly noticed, they seem to live sort of a nice sort of life. They traveled to different places. They enjoyed the benefits of a little more economic resources and that actually they enjoyed working more than the blue collared guys I knew and I never knew what people in those tall buildings from Manhattan did. We went into Manhattan once a year for a school field trip to a museum or United Nations or something, I never knew what those people did. And then, I met some of them, parents of friends and they enjoyed working in businesses and they told me about that. And so, I thought "Well, gee, maybe that's something I can do." And so, that's when I realized that number 1, business would be more fun than I though and maybe I could be good at. So, that's when I went off and got my MBA and rechanneled myself toward a business career.

FT: You made a decision and you made it happen. I love that, so inspiring. How about a So Money moment, Dave, a time in your life where you feel like you had a real financial and I'm sure there've been many moments like this for you but if there's one that you wouldn't mind sharing with us.

DP: Well, I would say that the thing that was my biggest win was when we, so Chuck and myself and 14 other executives had an opportunity to buy Charles Schwab back from the Bank of America in 1987 and we sold Schwab or Chuck sold Schwab, I wasn't there yet. Chuck sold Schwab to the BA for $57 million in 1982. We bought the company back for about $300 million in 1987 but actually what we did, Farnoosh, was we put up 19 million dollars. We scraped together $19 million and the rest was all leverage, all borrowings and warrants. And so, with this $19 million, we controlled a hundred percent of the equity of Charles Schwab and I was part of that group. And then, we took the company public in 1987 at $16.50 a share. It was a 50% premium over what we bought the company for and then the company, the stock market crashed in '87 and we were below our IPO price for 4 years. For 4 years we could not get above 16.50 a share and I saw a lot of guys sell their stock at $10, $11, $15. Anytime we got near 16.50 a share, guys started to get the cash and I didn't I just held the stock and I held the stock and then I got a big stock option grant in 1992 and I became the president of Schwab and I held that until it expired, just before it expired in 1999 and 2000. And, by being patient, the power of compounding, the power of being concentrated in one company that managed to grow. If you're going to put all your eggs in one basket, really watch that basket carefully. And, that's what I did. That was my life. My life was building Schwab. I stayed very concentrated and it was a big financial win for me.

FT: It helps to be the CEO to have to, for that basket to be compiled of stocks that you work for, right, because I think for the average person, they shouldn't put all their money in one basket. That would be, that's like look at the Enron folks or the Tyco folks or the Lehman Brothers people, you know, like your company could go under and if that's where your pension is or your future is then, you know, that's devastating.

DP: Oh, I agree with you 100% but I was 35, 40 years old so I had time, when things went bad I still had time in front of me. But, you're right. As I got older and as this became worth a lot of money, I started to diversify and I hired an estate planning attorney to help me diversify and I used a whole bunch of interesting themes and estate planning themes, charitable remainder trusts and other things that would allow me to diversify with the minimum tax consequences and starting to do more in the way of philanthropy. Philanthropy has become a really important part of my life and I'm so lucky because, you know, not everybody has a chance to do that and I have had a chance because of the financial benefits I have from working at Schwab and when I was at Schwab, we went public in '87 at a market cap of 450 million and then our stock went down to 150 million when the market crashed, 150 million. And then, over the next 15 years, the market value of Schwab went from 150 million to over 30 billion.

FT: Wow. Well, I'm going to ask you about philanthropy in a little bit I'll ask you more about that. Ahead of that though, Dave, what's a habit that you practice, a financial habit that you practice that helps you keep your money in check?

DP: Well, I'm a great believer in budgeting and the truth of the matter is I don't really have to budget at this stage but I still do. I still watch how much I spend on different things because I think it's important and it just is who I am to pay attention, how much money am I spending on different things and I always think to myself "Gee, is that really the best in highest use of a dollar and is there something else I ought to be doing?" And, I think to myself "Okay, it's not a question of whether I can afford it but is that money I should be, let's say, donating to a charitable organization?" I try to put some threshold on myself that makes me ask the question "Do I really need this? Is this really a good use of a dollar?" And, it's not 'Can I afford it.' I think that's a bad question to ask.

FT: Should you afford it?

DP: It's the should question. Yeah, I think it's a should question. One of the habits I've gotten into, this is really funny but I think it's actually terrific. I've decided that I absolutely need no more new clothes. I have as much clothes as I can fit in my closet. I don't need new clothes. So, here's my new habit. But, I like buying clothes. So, here's my new habit, if I buy 2 new shirts, I give away 2 shirts. If I buy a new pair of pants, I give away a pair of pants. So, and I look for the thing I haven't been wearing and I just give it away so there's no net adds to my closet. I would say there's a goodwill store in my neighborhood that has a lot of nice clothes in it.

FT: Alright, let's go ahead and do some of these fun So Money Fill in the Blanks, Dave. The first is if you won the lottery tomorrow, I'm going to say, you know, infinite amounts of dollars, what would be the first thing you would do?

DP: Well, I would try to figure out something I could do to make it, to really change the world. If I had an infinite amount of money, I know I can't change everything but I think that, I look at Gates, for example, and he has really focused himself on certain diseases in Africa. He's really, he's out to eradicate them. And, I would pick out something I think I could change in the world and I would try to execute that change in my lifetime.

FT: That's really powerful.

FT: What is one thing in your life that you spend money on that makes your life easier or better or both?

DP: Starbucks. I'm a Starbucks fanatic. I know that I could make a latte in my office with the machine, a lot cheaper than going to Starbucks every morning. There's a Starbucks in my building and I love that place and I probably, I know I drink too much coffee but it is my guilty pleasure and I'm an addict. I go to Istanbul and I walk, you know, 10 blocks to find the Starbucks in Istanbul so I can get my Starbucks fix in the morning.

FT: You should try some Turkish tea when you're there. I mean when in Rome, goodness.

DP: I'm just an addict. I admit it. I'm…

FT: So, it's also your guilty pleasure which was my next question. So, coffee qualifies as both the Starbucks, specifically, is both your guilty pleasure and what makes your life better.

DP: Well, I also admit to being a big fan of the company, Howard Schultz is one of the executives I interviewed for my book, when I was writing my book as opposed to teaching my class I came to realize that the stories of how we lead breakthrough change, the story shouldn't be all my stories. We needed to hear how other executives have learned lessons about leading breakthrough change. And so, I interviewed a dozen executives which was so much fun. You already have that pleasure in your life. I interviewed the CEO of JetBlue. I interviewed the CEO of eBay. I interviewed the former CEO of Wells Fargo. It was just great fun to hear these amazing executives talk about their careers.

FT: One thing I wish I had known about money growing up is _____.

DP: Is how to do a startup. I would have loved to have done a startup when I was younger. I had no idea. How does one raise money? Who do you go to? I didn't know anybody who had any money. So, I had no idea how you start a company but I would have loved to not go to work for big companies. I would have loved to do startup or even how to find a job in a startup. You know, that world was so foreign to me and yet I have friends who were my contemporaries who worked in venture capital and startups almost their whole lives and I'm so envious of their careers and wish I had spent my life doing stuff like that.

FT: ~~-~~Alright, time for you to brag about yourself. I like you to end on a happy inspiring note. I'm Dave Pottruck and I'm So Money because _____.

DP: Because, I think that I don't need a lot of money to be happy and so I'm still in awe of the opportunities I have and I'm still just, everyday I'm excited and everyday I'm in awe of how my life has turned out and how fortunate I am. I am so grateful for the people in my life, who've made a difference, who have to and still do make a difference and it's just and the people I've gotten to know I'm just a pretty happy guy.

FT: Well, thanks so much, Dave. You put a smile on my face. Everyone, please check out the book. It's called Stacking the Deck: How to Lead Breakthrough Change Against Any Odds. You can check it out at DavidPottruck.com. Thank you so much. It's been wonderful to have you on the show.

DP: Farnoosh, it's been fun this morning. Thanks. Thanks for inviting me.