



## Dennis Stearns on Super Trends, Predicting Change, and Scenario Planning

by Carly Schulaka

**WHO:** Dennis Stearns, CFP®, ChFC®

**WHAT:** Founder of Stearns Financial Group, author, speaker, super trend expert

**WHAT'S ON HIS MIND:** “We can’t predict everything, but absolutely we can predict a lot of things.”

If you think predictions are futile, think again. By taking a close look at the convergence of globalization, technology accelerators, the global age wave, and other “super trends,” we can likely make some predictions about our lives.

Dennis Stearns, CFP®, ChFC®, heads Stearns Financial Group, which has become known for its scenario expertise, incorporating a scenario approach into its financial planning for clients. And it’s Stearns’ preeminent understanding of the effects of super trends on clients’ investments, careers, and the economy that plays center stage in that scenario approach.

In addition to his super trend expertise and scenario planning know-how, Stearns regularly leads and participates in think tanks on financial planning and investment topics. He is also co-author of the book, *CEO Road Rules: Right Focus, Right People, Right Execution*, and co-author of the white paper “Women of Wealth: Caught in the Middle—How Does the Sandwich Generation Woman Not Get Squeezed?”

Stearns is a popular speaker at professional conferences and will provide a keynote presentation at the FPA Annual Retreat, April 24–27, 2017, outside Atlanta, Georgia, where he will discuss the trends that are rocking our world.

The *Journal* recently sat down with Stearns to learn more about super trends, scenario planning, making predictions, and his advice to other financial planning firm CEOs.

1. *You are an expert on the effect of super trends on investments, careers, and the economy. Before we explore that a bit more, define “super trend” for us. What distinguishes a super trend from merely a trend?*

So in the old days, we called big, impactful trends “megatrends.” Today, a handful of trends have risen to the super level, meaning that they’re game changers for economics and our society. McKinsey [ & Company] has studied these super trends; they are 10 times faster and 300 times more powerful than the first Industrial Revolution. You multiply these together, in their opinion, for 3,000 times the impact. My firm constantly researches this world, and we’re not even sure what that means. So to use a current Trumpism, this is ginormous.

Tom Friedman in his new book, *Thank You for Being Late*, profiles several super trends and describes how we all need to learn to be more adaptive and learn to “dance in the hurricane.”

And as for what distinguishes a super trend from merely a trend—there are many smaller sub-trend storms within the big hurricanes. A tornado that’s spawned by the big hurricane can damage a career, a business, or an investment strategy just as easily as the bigger super trend. So it’s really become a complex array of factors driving change in our world today.

2. *What super trends are affecting us today?*

The most talked about super trends are globalization and automation, and automation is really a subset of what we call technology accelerators. It’s interesting that 15 years ago at the Financial Planning Association annual conference, Jim Collins talked about these technology accelerators and how huge they were going to be in the future.

We also view demographic shifts with a wider lens and call that the global age wave super trend. And then urbanization is a fourth super trend that’s featured in McKinsey’s work and is certainly a huge trend both here and around the world.

Climate change is featured as a super trend by Tom Friedman in his new book, along with globalization and technology accelerators. We usually classify climate change as a symptom of the super trends, but it is certainly becoming an economic factor around the world and worthy of being called a super trend in its own right.

It’s interesting that the CEO and senior team of a Fortune 500 company recently flew into my hometown to consult with one of our clients who’s a nationally known retail expert. And climate change-related

topics affecting their business plan, revenues, and profits were on the top three list for their agenda for that meeting.

### *3. What role is the U.S. political environment playing in today's super trends?*

Politicians, including the president, can rarely affect things as much as these big, long-term trends, but they can produce tailwinds or headwinds within the hurricane. Globalization, for example, has been a hot topic in the Brexit vote and the recent presidential race. Most of the counties in the U.S. that voted for Trump were adversely impacted by shifting jobs to China. But industry experts believe automation is actually a bigger factor in explaining the “change anxiety” rolling across the U.S. and the world today.

A friend of mine is part of the management team of the worldwide consortium of fusion energy researchers. He was recently in Washington D.C. and described the knowledge of these trends as being subpar. But the real story is the U.S. has always been an innovative culture, not waiting around for Washington to save the day. There are many areas of the country that have been dubbed “brainbelts” where innovation and entrepreneurship—the real drivers of new jobs—are growing rapidly (many of these brainbelts are profiled in the book, *The Smartest Places on Earth*), and the U.S. has more of these than anywhere else. Whatever you think of events going on inside the beltway, there is reason for optimism.

I firmly believe 75 percent of super trends will be extraordinarily positive, but 25 percent are not going to be so positive. [That 25 percent] will be run over and over and over again by CNN so we'll all think the 25 percent is actually the 75 percent. And so politics is probably going to be changed forever by all of this. And with the behavioral finance issues with us as professionals and also with our clients, it is going to be harder and harder to stay grounded.

### *4. How should financial planners discuss and prepare for super trends with their clients?*

In the past, it's been our practice to consider the super trends but use more traditional planning and investing concepts in our work. So, thinking about things like price-earnings ratios and how they impact investing strategies, rather than how the P/Es might be affected by a super trend event. But we have come to a place that we're now seeing super trends affect things much more directly.

So the first priority is knowing how powerful they are and what impact they can have on your strategy or financial advice. I've talked to dozens of planners who have been confused in the last decade by events that have unfolded differently than they thought they would. So their asset allocations and general advice hasn't always been on target.

The super trends can explain a lot of the anomalies coming out of the Great Recession and what's happened since. Something as simple as inflation versus deflation; some of the super trend effects are very deflationary and so right now, Trumponomics is a bit like Reaganomics 2.0 just being run in a different economic environment. If this were the late '70s when we were running this sort of experiment, that's one thing. But in a low interest rate, low unemployment environment, there are going to be unintended consequences. So without the super trends, I'd be very worried about inflation. As it is, I'm only moderately worried about inflation.

The second big thing for financial planners is behavioral. As clients freak out about the pace of change, or the latest Trump tweet, or whatever crisis du jour has popped up on CNN, having the bigger vision of what is happening that isn't on the news can help calm client fears. We've been quoting excerpts from the super trend books, research in our newsletters, and podcasts to help clients frame the world better. We're providing copies of books on change. One that we've used is by a leading change expert named Gary Bradt, and his new book is called *Change*. It's really helpful for clients to get something that gives them practical tools to deal with the anxiety effect of what we're going through.

And third, super trend effects like longevity trends are factoring into our financial plan projections. We're working with one of the leading global futurists out of Silicon Valley who works with major health care companies. He believes we're five to 10 years away from a quantum leap in length of life and quality of life. So we ask ourselves all the time if we've baked enough of these trends into our future projections.

##### **5. *Can we really predict anything that is actually relevant to our future?***

We can't predict everything, but absolutely we can predict a lot of things. For example, by following the global age wave, Johnson & Johnson has done a great job of predicting what baby boomer consumers would want and need at various stages of their lives. It was Band-Aids in the 1950s, and heart stents in the 2000s.

Some of the super trend effects like longevity can be safely predicted for the masses, but none of us know when we'll die. So the dynamic tension between live and spend for today, versus save for an uncertain future—counseling clients in this area is going to be a growing skillset that needs sharpening by all of us who are trying to be a master in our profession.

As a scenario planner, I'm trained to be skeptical of future predictions. So instead, we play the movie of various scenarios; we develop our game plans around how we would react or adapt in various future scenarios. One of the masters of this is Mohamed El-Erian, chief economic adviser at Allianz. He is a

gifted scenario thinker. He relies more on his ability to adapt than his ability to predict a particular outcome. He's prepared to be wrong and pivot better than their competition can.

Here's an interesting side story that happened just on the front end of the Great Recession. El-Erian assembled a team of scenario thinkers in New York City to think through what would happen if Lehman Brothers collapsed. They came up with four scenarios, and the scenario they actually predicted, that Lehman was too big to fail, was not the correct scenario, but they had played the movie of the scenario that actually happened. They were able to pivot faster because they already had their game plan worked out. So even though their prediction was wrong, the scenario exercise was extraordinarily valuable.

**6.** *In a TEDx talk from a few years ago, you said "EQ [or emotional intelligence] trumps IQ." Does that still hold true today? If so, why?*

I do believe it still holds true. Study after study has shown that high EQ is a top predictor of career success, and low EQ can be a cancer that spreads throughout any organization. The other side of this is that workers need a sufficient IQ in any job to handle the requirements of the job. So you can't ignore IQ. And back to the super trends and the future; we're not going to be able to outthink IBM's Watson or Google's artificial intelligence software, but we can out-human them through empathy, humility, curiosity, and concern for one another—that will remain our unique competitive advantage in the workplace.

**7.** *In your 2014 white paper co-authored with Sharon Allen ("Women of Wealth—Caught in the Middle: How Does the Sandwich Generation Woman Not Get Squeezed?") you write about the widespread and growing problem of women serving double duty, caring for children and aging adults. How can good planning help alleviate this problem?*

Many of the superwoman balancing acts end up in crisis mode of some kind, usually for the woman caregiver. So good, advance planning before the crisis hits is critical to help the woman understand her options and lower her anxiety about being ready for most eventualities. This is the old scenario technique of playing the movie; you're helping her play the movie.

This is where planners need to really widen the advice lens. Good, old-fashioned financial planning is necessary, but it's not sufficient. We also need to study aging strategies, provide guidance on a care plan and give referrals to appropriate-fit professionals. Eighty percent of women in our "Women of Wealth" sandwich generation study reinforced the need for both financial and life planning from their adviser. Have we really vetted the referrals? Have we thought about which referral may be the right fit

for not only the situation, but the emotional state of whoever it is we're referring? We think that's all pretty important. Even if all we do is provide a few reading and website resources, it goes a long way to helping clients dig their well before they're thirsty.

**8.** *Your firm is known for its scenario expertise. How are you incorporating a scenario approach into your financial planning?*

The essence of good scenario learning and planning is to carefully think through likely futures, test those futures with experts and people with a different view of the world—interestingly, a lot of people don't do that step—and then build action plans around three to four likely futures. Then you watch the scenario factors very closely and pivot when it's at least 70 percent clear a scenario is becoming a reality. This takes a chapter out of Charlie Munger's (of Berkshire Hathaway fame) playbook.

We use scenarios in our financial plans to frame possible futures for our clients, from living longer, to spending more, to big potential changes in long-term care trends. We use what we call the Gandhi approach: less is more. We don't overwhelm our clients with what-if scenarios.

Friedman writes in his new book about how, when he was doing research for the book, he sits down with Jeff "Astro" Teller of Google X, and Astro draws this little chart. The chart is a technology line that's going up and to the right, but then starting to go up at a faster and faster rate. Then he draws a line for human adaptability. Then he draws a little star above the human adaptability line on the technology chart and says, "You are here."

That is a recipe for behavioral finance train wrecks at a level we've never seen before. So that's another key piece of what we're trying to do with our clients: when we play the movie in scenario terms, we're preparing them better. It doesn't mean they won't freak out when something happens, but we're preparing them better for possible futures. And Gary Bradt, who I mentioned earlier with the book *Change*, is trying to shift that human adaptability curve up. None of us are wired for what's happening now and what is probably going to accelerate in the future; none of us. So it's crazy and brain-swelling for everybody.

We're also using these scenario techniques in our Trumponomics analysis today. It's a very valuable technique in a time of greater uncertainty.

**9.** *You were recognized last year as one of the most admired CEOs by the Triad Business Journal in your home state of North Carolina. What leadership advice do you have for other CEOs of financial planning firms?*

Having an executive coach, I think, is important because many of us in the financial planning industry didn't come with that set of skills to be a CEO. And, learning from other successful CEOs. I've had lots of mentors leading up to this point.

I think it's critical in the super trend world to have a healthy—and I underline healthy—dose of paranoia about the changes in the industry, changes in some of these trends, and to be innovative about your firm and what you're doing. I am a big believer in being on the leading edge and not the bleeding edge of these trends, and viewing your staff as your clients and making sure that they have fewer obstacles to success and more tools for productivity. And train them like you're preparing for the Super Bowl.

We have monthly Stearns Financial University sessions. Sometimes it's all hands on deck, sometimes it's small teams. We're in a continuous learning mode.

**10.** *You were a member of one of the winningest Pan-American chess teams in U.S. history, and remain an avid chess player today. Do you apply anything from your chess playing background to your work with clients?*

There's no question that it's helped in scenario planning and thinking through some of these super trends. One of my early chess mentors pounded it into my head that you have to have the strategy and think through the longer term. But then you have to balance that with what's happening on the next move. Because otherwise, if your head's in the clouds, you're going to get checkmated on the next move.

That balancing act is something that we do all the time; the short term versus the longer term. And again, the remarkable thing is that the super trends are already kind of hitting the short-term, even though they're longer-term trends, whether you talk about Brexit, or Trump, or inflation or hundreds of other effects.

I think the other lesson I learned from chess is that every move changes many of the future outcomes. So don't fall in love with one line of play or, in today's economic world, one possible economic future. Recognize that there's no such thing as: plant a flag out on a hill 30 moves from now and know for absolute certain that's where you're driving to. You have to be adaptive and know what factors would cause you to pivot off an existing approach. Adaptive skills may be the No. 1 thing everybody needs to survive the convergence of the super trends.

*Carly Schulaka is editor of the Journal. Contact her [HERE](#).*

## Learn More

Learn more about super trends and how they are impacting the economy, investments, and careers from Dennis Stearns at FPA Retreat, April 24–27, 2017, outside Atlanta, Georgia, where Stearns will give a keynote presentation and breakout session. Visit [FPARetreat.org](http://FPARetreat.org) for the full agenda.

## Reading List

Here are books on change and super trends recommended by Dennis Stearns:

***Change: The Tools You Need for the Life You Want at Work and Home***

Gary Bradt, Psy.D.

***Future Smart: Managing the Game-Changing Trends That Will Transform Your World***

James Canton, Ph.D.

***No Ordinary Disruption: The Four Global Forces Breaking All the Trends***

Richard Dobbs, James Manyika, and Jonathan Woetzel

***Thank You for Being Late: An Optimist's Guide to Thriving in the Age of Accelerations***

Thomas L. Friedman

***The Smartest Places on Earth: Why Rustbelts Are the Emerging Hotspots of Global Innovation***

Antoine van Agtmael and Fred Bakker

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