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Mohamed El-Erian: The 2013 IA 25 Extended Profile

CEO/Co-CIO, PIMCO

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Photography by Jurgen Reisch.

With the 2013 IA 25, our 13th annual list of the most influential individuals in and around the advisor business, we decided to do something different. We provided examples of how, exactly, the industry is becoming more connected, using the individuals on this year's list as proxies. How is it that an industry is growing, while at the same time shrinking and more engaged?

Each of the individuals were named to this year's list for their creativity, success and—of course—impact. And kicking off the extended profiles of the IA 25 honorees is Mohamed El-Erian, who is making his third appearance on the list. Click here to view the complete list and Special Report schedule for extended profiles for each of the 2013 IA 25 honorees.

Mohamed El-Erian hardly needs any introduction. The CEO and co-CIO of investment giant PIMCO, who since the end of last year also serves as head of President Obama's Global Development Council, is one of the most talked about and influential figures in international finance. His resume, which includes top positions at Harvard Management Company, the International Monetary Fund and Salomon Smith Barney, is one of the most impressive in the business and his spoken and written words wield immense power.

Yet, despite his achievements and his position, El-Erian is a surprisingly humble and down-to-earth person, someone who believes that knowledge is infinite, and that everyone in the world, himself included, has something to learn from others.

He credits his sense of perspective to his father--a man of humble beginnings who went from a small village in Egypt to being elected one of 15 judges on the International Court of Justice, the United Nations' main judicial organ, yet never let his achievements go to his head.

"My father remained incredibly grounded, refusing any and all sense of entitlement," El-Erian said.

That he is like his father is his greatest strength, he said, but El-Erian also considers himself fortunate to work at PIMCO, which fosters a "culture of inquiry"--one that affords him the opportunity to learn "a lot from many smart people" and to put into practice what he learned during his undergraduate studies at Cambridge University: "That how you think is as important as what you think."

He spoke with Savita Iyer-Ahrestani by email on what he feels are some of the more pertinent issues for financial advisors today, both with respect to the global environment as well as to the shifting dynamics within the United States and how they affect the advisory profession.

Q: Do you think financial advisors have the right combination of knowledge and tools to help clients achieve a satisfying retirement? What's lacking?

A: I believe that the sources of return that allowed investors to meet retirement goals in the past won't necessarily be the same that enable investors to meet their objectives in the future. We also believe that correlations are evolving and the configuration of risks is changing.

As a result, the challenge for all investors, including financial advisors, is to keep an open mind in looking for additional sources of return that fit clients' needs, both return objectives and risk tolerances. This translates into broadening the opportunity set to take advantage of positive risk-return opportunities in all parts of the world, across asset classes and with a keen eye toward downside protection.

Q: Investment objectives aside, we have been reading a great deal about the importance of behavioral finance. Should financial advisors be making an effort to incorporate the principles of behavioral finance into their practices in order to cultivate the kind of deeper client/professional relationships that this post-crisis era calls for?

A: I do believe financial advisors should focus on cultivating deep client relationships to understand their clients' risk and return objectives and any biases that may drive behavior. This is particularly important during this time of global change, where fluidity seems to be the only recurrent theme.

In PIMCO's New Normal, I expect markets to exhibit higher volatility and a bumpier investment road than pre-crisis. For this reason, I believe it is important to invest for the long term within clear risk parameters, seeking to maximize an investor's potential without being held hostage to tactical traps and harmful unconscious biases.

To this end, and in addition to our work on unconscious biases, we have incorporated for quite a while now insights from behavioral finance. This speaks not only to investment strategies, but also product design, client interactions and the manner in which we organize our firm.

Q: Financial inclusion is an important component of global development and it is as important in the United States, not least because of the demographic changes here. Today, advisors and financial firms have no choice but to tailor their practices to serve the needs of a rapidly changing population. Do you see this happening? What are the attributes you think financial advisors should cultivate to do this effectively?

A: I'm definitely seeing advisors and financial firms tailoring and customizing their approaches to meet the needs of a more diverse population, and rightly so.

Demographics are evolving considerably to cover generational shifts and changing family dynamics that include dual-income families, single-parent families and multi-generation households. "Knowing your client" becomes even more important in an age of increasingly diverse societal demographics.

As a result, financial advisors are rightly focusing on understanding the dynamics of an individual and broadening their focus to learn about the needs of the entire household to build a customized plan to enable individuals to meet their financial objectives. In general, the basic assumptions behind a "one size fits all" financial strategy that may have been effective in the past—and even that is debatable—need to evolve and dynamically adjust according to individual circumstances and objectives.

Q: Studies have shown us that in many households across the United States, women are now the major breadwinners, and this is set to continue. You have served on the board of the International Center for Research on Women, and you've written about the importance of education for women globally. Do you believe financial advisors here in the United States are reaching out and relating to women, and what is PIMCO's own story on this front?

A: I have certainly noticed a positive trend in focusing on women in our industry. This is highly appropriate and not surprising.

As you note, nearly 40% of U.S. households have female primary breadwinners. Women play an important role in the allocation of investments. Accordingly, many of our partner firms have revamped their approaches to better engage with women as an important client segment.

This includes hiring more female advisors where the numbers point to progress, with women representing over 30% of financial advisors. We and others are sponsors of the Barron's Top 100 Women Financial Advisor Conference that promotes women financial advisors.

I also see programs focused on providing training to male advisors that encourages the financial planning process to be inclusive of the whole family.

At PIMCO, we are very focused on attracting, retaining and developing women, and we have lots more progress to make. We understand the powerful business edge gained by leveraging the full contribution of all employees and capitalizing on diverse perspectives. We have combined this with a better appreciation of unconscious biases in the industry, and how to counter them in a focused, result-based meritocracy like PIMCO.

Q: We have apparently entered a period of relative calm, aside from the recent incident in Cyprus. What is your view from here, and what are the macro issues that financial planners need to be aware of?

A: The situation in Cyprus is an example of the fragility that exists today across the global financial system. Indeed, Cyprus again shows how unthinkables can become reality very quickly.

As we see again, this time in Cyprus, global policy responses have generally focused on short-term fixes as opposed to much needed, long-term structural change. Without proper focus on growth and job creation, market volatility will persist and investors will be constantly subject to large potential swings in markets on account of economic, financial, social and political factors.

This type of instability will be with us for quite a while. At times, it will be suppressed by bold central bank measures; and other times it will emerge dramatically, causing overreactions.

For all these reasons, I believe that a focus on strong risk and volatility management and utilizing managers with a global focus can assist in reducing exposure to pitfalls and seeking out a broader set of opportunities.

Q: Do you think financial service regulators–the SEC in particular--are protecting consumers while fostering capital development? Is overregulation stymieing economic growth in the United States? What can U.S. regulators and legislators learn from Europe's woes or China's growth?

A: I believe we are in a period of re-regulation having come from a lax pre-crisis environment that culminated in a global financial crisis. Society is also reacting to the fact that, in the run up to the crisis, huge gains were privatized; but in its aftermath, it is huge costs that were socialized.

Today, policymakers and regulators have a delicate balance to achieve between thoughtful policy and regulation and the potential unintended consequences that may inadvertently limit much-needed economic growth. Also, the political dysfunction, including in Congress, that exists today is encumbering the ability of the United States to focus on what's important: long-term job creation and economic growth. This is the key to safely deleveraging over-indebted segments of society.

Read El-Erian's extended profiles from the 2011 and 2012 IA 25.