Concentus Wealth Advisors

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VALUABLES

Ideas, Systems and Strategies for Managing Family Wealth to Fulfill Your Greatest Values.

A Life of Significance

By Erik Strid

"To leave the world a bit better, Whether by a healthy child, a garden patch, or a redeemed social condition; to know that even one life has breathed easier because you have lived…This is to have succeeded."

— Ralph Waldo Emerson

In today's world, "Success" is often viewed through the lens of material abundance. We are tempted to benchmark the "Success" of our lives using the number on our balance sheet, or on our W-2, the importance of our career, or the performance of our investments.

However, when we take a quiet moment to consider what is really most important, most people would benchmark their lives against the kind of success described by Ralph Waldo Emerson. We long for more than just **Success**, our greatest aim is to live a life of **Significance**. In particular, many wealthy families find that their financial wealth can be meaningless unless it supports their ability to enhance their happiness and fulfillment - financial wealth is not valuable in its own right, it only has value in our ability to use it to live more significant lives, as an expression of our deepest Values.

The path to a life of Significance is fraught with many Dangers, and ironically these challenges may even become more threatening as our financial wealth becomes larger. Financial Wealth may in fact become its own obstacle to our ability to cultivate our Values. In our first installment of ***Valuables***., we hope to articulate the primary Dangers we have observed in our work with wealthy families which threaten to derail their happiness and fulfillment…

Common Dangers for Wealthy Families

In our experience, there are three very distinct Dangers which are presented to all families who hope to use their wealth as a tool to build a more satisfied and fulfilled life. When we ask our clients what they are most afraid of, most share these three primary fears:

- Losing Your Financial Freedom
- Wealth will Negatively Impact Our Children and Grandchildren
- Desire to Leave a Positive Legacy

Losing Your Financial Freedom

No matter the level of Net Worth, almost every family is worried about running out of money, or not having enough to sustain their lifestyle. This fear may be irrational among very wealthy families who are in no apparent danger of running out of money, but the fear still persists.

About *Valuables.*

Many financial advisors focus on communicating with clients to provide complex analysis of the investment markets and economies. However, we have learned that most clients are not particularly interested in this complex analysis. Most clients hire an advisor for their knowledge of the markets, not for their ability to explain that knowledge. Most want to know what time it is, not how to build a watch.

Experience has taught us is that wealthy families care most about using their wealth as a means to a desirable end, which is to achieve a more satisfying, fulfilled and impactful life, and to fulfill their most important Life Values.

Valuables. is a periodic article series focused on the concepts, systems, and habits which we have observed among families who have been successful in this quest to use their wealth as a tool to live a life of significance. The most successful families share a set of habits, systems, and insights which enable them to use their wealth as a tool to fulfill their Values and what is most important to them.

We are naming this article series ***Valuables.***, because it will provide an exploration of those habits, systems, and insights. We hope it will help you to consider your assets and possessions which are most valuable to you, and how you can use your financial wealth to enhance and cultivate your true "Valuables".

Most families experience the phenomenon that their expenses seem always to rise to the level of their Income, and that no matter how wealthy they may become, their expenses always seem to keep pace. Most have noticed that while their Net Worth can become eroded due to a bad stock market or business environment, their expenses never shrink. The dual Bear Markets of 2002 and 2008 have reinforced this feeling, as many have lost faith in the stock market, and continue to fear another major decline in their Net Worth. The result is a fear that expenses may someday outstrip liquidity and earning power.

For many wealthy families, money represents more than a number on their balance sheet. Wealth is a representation of their ability to enjoy Freedom, and to avoid dependence upon others, such as family members or society. Money represents the ability to maintain Control over our own destiny. Independence is among the Values held most dear and important to all of Mankind – all humans share a strong desire to maintain Control over our Destiny, and the threat of loss of this control is one of the greatest Human Fears. The Wealthy are not immune from this basic human fear, but in fact may indeed suffer more from this fear, because they have more to lose.

It is extremely difficult to overcome this basic fear and its focus on financial security. No matter the level of wealth of the family, it is very common to experience a persistent anxiety about the financial security of the family, and a hyper focus on the level of financial assets owned. This often manifests itself in an unhealthy focus on work, career and earnings, as well as an obsession with investing strategies and returns. Many families end up investing tremendous amounts of time, energy and effort into the pursuit of financial wealth, to the exclusion of everything else.

Wealth will Negatively Impact Our Children and Grandchildren

There is a commonly held stereotype that children of wealthy families are exceptionally spoiled, lazy, privileged and highly dysfunctional. This stereotype is extremely persistent in the media, movies and television, and sadly it is often all too true.

This scourge of wealth is most common among the 3rd generation, or the grandchildren of the primary Creators of Wealth. There is a saying in America that families go from "Shirtsleeves to Shirtsleeves" in three generations, implying that family wealth rarely lasts beyond the 3rd generation. In fact, it has been estimated that less than 5% of all family wealth and businesses survive to the 4th generation and beyond Worldwide.

In our experience, there is a cycle of Wealth that is common to many wealthy families, and which perpetuates this sad dynamic:

> ***"For many wealthy families, money represents more than a number on their balance sheet. Wealth is a representation of their ability to enjoy Freedom."***

The senior "Wealth Creator" family member develops the knowledge, skills, motivation, work ethic, and thrift to create financial wealth beyond the immediate needs of the family, and surplus wealth is generated.

Because of their proximity to the "Wealth Creator", the Second Generation family members learn and retain some "watered down" version of the values, skills and work ethic which the Wealth Creator possessed. However this learning often happens in a haphazard or incidental way, so these values are often weakened. In particular, the motivation to work hard, as well as the importance of thrift may become diminished. The combination of the persistence of these values and skills, as well as the fact that the family is still manageable in terms of size, enables the second generation to at least preserve, and sometimes grow, the family's wealth.

By the Third Generation, a combination of factors may begin to conspire to challenge the family's wealth:

- The values and work ethic of the Wealth Creator are now much more removed, and much more difficult to perpetuate. It is difficult for 3rd Generation family members to possess the same desire to work hard and succeed, when all they have known is a life of privilege and abundance. Spending habits often become out of control, as family members who are accustomed to "never having to worry" about money have no context for frugality in their lives.

- By now the family has usually become more extended and difficult to manage. Instead of a linear family of parents and their children, there is now a network of outside spouses, aunts, uncles, and cousins to go along with the parents and children. The management of family wealth or business becomes much more difficult as complex relationships and competing interests cause resentments and difficulty in decision making. Very often an attitude of scarcity sets in as family members now realize that there may not be enough wealth to support ***everyone*** in the lifestyle they have become accustomed. Fights and discord may ensue as family members vie for their "piece of the pie".

This pattern of wealth can lead to significant unwanted outcomes for the family. From a financial perspective, it can lead to an eventual dissipation of the family's financial wealth. Sadly and more commonly, it can also lead to significant dysfunction, unhappiness, and negative life outcomes for the descendants of the Wealth Creator, as inherited wealth may become a significant obstacle to their happiness and development as productive members of society.

Desire to Leave a Positive Legacy

In our work with wealthy families, when we ask clients to express their highest values and what is most important to them, the response usually includes some version of a desire to "Leave the world a better place than I found it" or "To make a difference".

The desire to leave a positive legacy is a nearly Universal aspiration for wealth creators. People desire to be more than successful, they wish to be significant. However, in our experience this desire is commonly misunderstood among wealthy families. Typically, when wealthy families or their advisors talk about "leaving a legacy", they are speaking in code. What they are really talking about is estate planning, or in other words:

"Using various sophisticated tax, insurance and estate planning strategies so that we can leave a whole bunch of money to our kids and grandkids."

In the eyes of most clients, they see this as nothing but an effort to maximize the amount of Money they can push down to their descendants, without the government getting its hands on their money. But most Wealth Creators also intuitively understand that this bequest of more Money, without the skills and values to handle that money, will lead to the poor outcomes that many associate with inherited wealth. They fear that their careful planning for the transfer of their financial wealth will simply result in the dissipation of their assets, as well as the dysfunction of their children and grandchildren.

This fear is quite significant among the Baby Boomer generation, which appears to be particularly reluctant to plan for the transfer of their financial wealth to future generations. Much has been written about the enormous transfer of roughly 7 Trillion dollars of wealth which will be inherited by the children of Baby Boomers, as this huge population eventually age and pass away. However, there appears to be a real sense of antipathy among Boomers to focus on the transfer of their money to their children (see US Trust study on next page).

As a result, most wealthy families postpone and procrastinate their "Estate and Legacy Planning". In some cases, families even become outright apathetic or antagonistic to the "Estate Planning" process, because they are reluctant to undertake a process that they view as enabling the spoiling of their kids and grandkids. There are many high profile examples of this reluctance, including the two wealthiest men in America: Warren Buffet and Bill Gates have both argued against inherited wealth, and both have planned to leave the bulk of their fortunes to charity.

While leaving financial wealth to future generations may indeed be an admirable goal, most wealthy people are seeking to leave a more robust legacy, and to use their wealth to enable valuable outcomes for their families and their legacies. Most Wealth Creators prefer to focus on two critical objectives:

Objective 1. Raising high functioning, and high impact children and grandchildren, who possess healthy skills and attitudes about Family Wealth. In contrast to the dysfunctions described above, Legacy–Oriented wealth creators seek to use their money as a tool to help future generations to build on and enhance the values, experiences, and knowledge of the wealth creator, so that they can become high functioning members of society, as well as the business and philanthropic community.

Objective 2. Contributing to the betterment of the world, through philanthropy to causes that are important to the family, as well as the contribution of Time and Talent of the family. Many seek the meaning that comes from actively contributing through the application of the family's wealth and unique abilities to causes they deem important. Many wish to make Philanthropy an integral part of the fabric of the family for future generations.

Planning for this kind of legacy is much more complex than simply "Estate Planning" to pass on the family Financial Wealth, and requires a greater commitment from the Wealth

Creator to take a proactive approach to this process. To make an example of this, consider a recent quote from Gina Rinehart, who is an Australian Billionaire who has been called the richest woman in the world. Explaining why she opposed giving her kids a blank check, she said that they:

"Lack the requisite capacity or skill, knowledge, judgment or responsible work ethic"

We might challenge Ms. Rinehart on this view, by asking whose job is it to teach her children the requisite capacity or skill, knowledge, judgment or responsible work ethic? Are those qualities supposed to magically materialize in her children, or is it her job to instill and cultivate those qualities in her children, in addition to leaving them her money? True legacy planning is focused on this responsibility of stewardship: the True Legacy of a wealth creator is her ability to transfer future generations these skills, knowledge, judgment and work ethic along with the money, so that they can become high functioning human beings.

U.S. Trust:
2012 Insights on Wealth and Worth

- **Baby Boomers are less committed to keeping money in the family than those older or younger than they are.**
- **One in three boomers said they would rather leave their money to charity than to their kids**
- **Most identified that their kids are not prepared to inherit significant wealth, and are not taking steps to become prepared.**
- **Many also suggested that they believe each generation should create its own wealth**
- **Only 37% said they have fully disclosed their net worth to their children, primarily because they didn't want to inhibit their kids' work ethic.**

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