IWM Advisors, LLC
INDEPENDENT WEALTH MANAGEMENT

Where's The Biggest Risk: Inside Your Portfolio or Inside Your Family?

WEALTHY INVESTORS WORRY ABOUT MANY THINGS THAT CAN INJURE THEIR PORTFOLIOS – BAD MARKETS, FEES, TAXES. HOWEVER, THE BIGGEST DANGER TO YOUR INVESTMENTS MAY LIE OUTSIDE YOUR PORTFOLIO. IN THIS POST, FAMILY WEALTH ADVISOR PETER CULVER DISCUSSES THE IMPORTANCE OF FAMILY DYNAMICS IN PRESERVING WEALTH.

It was the classic American story. A hardworking entrepreneur, who started with nothing, built a highly successful business over his 30-year career. At the end, his best exit strategy was to sell his business, and he received a handsome payday – in cash.

The entrepreneur and his spouse began a search for an investment manager to help them with their new-found wealth. They ultimately selected one, but the reason may surprise you.

With most of the investment managers they interviewed, the pattern was the same. A "flip book" filled with investment charts and impressive stats, and lots of talk about how great the manager was.

Peter Culver used a difference approach. The conversation went like this:

Peter Culver: WITH YOUR NEW-FOUND WEALTH, WE CAN IMAGINE THERE ARE MANY WONDERFUL THINGS YOU CAN DO. OUR QUESTION IS THIS: WHAT DO YOU SEE NOW AS THE BIGGEST RISK IN YOUR FUTURE.

Entrepreneur: WE HAVE ALWAYS LIVED A MODEST LIFESTYLE, AND SO WE KNOW THAT WE WILL NEVER HAVE ANY FINANCIAL ISSUES. OUR BIGGEST WORRY IS THAT THIS TREMENDOUS WEALTH WILL HAVE MANY BAD CONSEQUENCES FOR OUR 14 YEAR-OLD SON.

Up until this point, the entrepreneur and his spouse had limited experience with liquid wealth or modern wealth management. They were "immigrants to wealth." But their concern about their son was highly astute: for families of wealth, the biggest risk to preserving that wealth is not investment performance, fees or taxes – it is whether or not they and their heirs are prepared for that wealth.

Peter Culver explains that the pattern of "shirtsleeves to shirtsleeves in three generations" is a world-wide phenomenon. In the majority of cases, entrepreneurial wealth rarely lasts beyond the entrepreneur's grandchildren. And the cause isn't investments or taxes, because this dissipation of wealth is just as prevalent in poor and wealthy countries.

What is the cause? Numerous studies show that the breakdown occurs because of "family dynamics": poor communication across the generations and no preparation of heirs to assume the responsibility of substantial wealth.

Over the long run, the key to preserving wealth is a healthy family dynamic. There are many things families can to do: hold regular family meetings, including all generations; have a family "Constitution" or

“Mission Statement”; tell your kids and grandkids about your wealth (at the right age) and train them in the skills they need to preserve it; engage in family philanthropy, where everyone is involved.

The good news is that there’s lots of help out there. For an overview of the problem, Peter Culver recommends that parents read James Hughes’s FAMILY WEALTH – KEEPING IT IN THE FAMILY. He also notes that there are wonderful practical suggestions in CHILDREN OF PARADISE: SUCCESSFUL PARENTING FOR PROSPEROUS FAMILIES, by Lee Hausner, and PREPARING HEIRS: FIVE STEPS TO A SUCCESSFUL TRANSITION OF FAMILY WEALTH AND VALUES, by Roy Williams and Vic Preisser.