Concentus Wealth Advisors

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V A L U A B L E S

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

About V A L U A B L E S

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.

V A L U A B L E S 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 **V A L U A B L E S**, 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".

The Rinehart Paradox

By Erik Strid

"A very rich person should leave his kids enough to do anything, but not so much that they can do nothing"
~ Warren Buffett

Disinheritance

It has become so trendy among wealthy families that it even has its own name – the Rinehart Paradox. There is a significant trend among wealthy families who increasingly plan to disinherit their children, which has been made famous by a recent comment from Australian billionaire Gina Rinehart. When asked why she was planning to refuse her children access to their inheritance, she claimed it was because they lacked the "*requisite capacity, or skill or knowledge, experience, judgment or responsible work ethic*" to manage the family's money.

Since then, there has been a wave of high profile rich people who have followed suit. Bill Gates has decided to leave the majority of his assets to health care research, not to his kids. Warren Buffett also plans to leave 99% of his money to charity, not his family. Mayor Michael Bloomberg plans to leave it all to charity, and has famously proclaimed that "the best financial planning ends with bouncing a check to the undertaker". These examples of the famously superrich illuminate a broader trend we have observed – it seems that there is a major trend among wealthy members of the baby boom generation who are expressing reluctance to leave their wealth behind to their children and grandchildren.

This ambivalence seems to be founded in a significant fear that many wealthy families face: the fear that inherited wealth might be a serious impediment to the successful development of their children and grandchildren. Many fear that their wealth might "spoil" their children, or enable them to become lazy and unmotivated, or that the kids will just "blow it all" on extravagant lifestyle needs.

While this disinheritance trend may be motivated by such good intentions of parents who wish to nurture their children's development, it also may do a serious disservice to the children as well. The "Rinehart Paradox" poses the question about the fairness of raising children in a "bubble" of wealth and privilege – with lavish homes, private schools, and trips to Europe – only to "pull the rug out from under them" when they find out that they are being cut out of mom and dad's will and must make their own way in life.

A Different View

These wealthy families who have chosen "disinheritance", or leaving their wealth to charity, have identified an important problem. It is true that leaving wealth to unprepared heirs, who don't have the "requisite capacity, or skill or knowledge, experience, judgment or responsible work ethic" to handle it, can lead to disastrous outcomes. However, by disinheriting their children, perhaps these families risk sending a message to their children that they are in some way not good enough, and that they are not capable to learn and develop this kind of knowledge, skill, judgment and work ethic. Moreover, perhaps it is simply a "cop out" on the *parents' responsibility* to teach these kids these skills, habits and capabilities. After all, if parents don't take the time and effort to teach their kids these things, who do they expect will?

Perhaps there is merit to an alternative view, as practiced by another famous wealthy American, John D. Rockefeller. While Rinehart, Gates and Buffet view inherited wealth as an *anchor around the necks* of their children, Rockefeller viewed his fabulous wealth as a *platform for excellence and achievement* for his children and grandchildren. In his view, if he took the time to teach his children how to properly use the wealth he created and passed on, it could become a tool for future generations to excel and accomplish great things.

Rockefeller left his children a huge inheritance, but he also left them something far more valuable – he took the time and energy to train his children with the values and skills he felt would be important once they did receive the money. His philosophy towards money was simple, but was hammered home by the constant repetition of simple "rules", which were required to be followed by all of his descendants. Those rules were simple, as outlined by the quote below from his son Nelson Rockefeller:

1. You work for everything you get. There is value and dignity in hard work, and nobody gets a free pass.

2. You give away some of what you earn. Philanthropy and gratitude are critical.

3. You save some of what you earn

4. The rest is yours to spend.

> *"According to Nelson Rockefeller, the one-time Vice President of the United States, his father John D. Rockefeller Jr. gave each of his five sons an allowance.*
>
> *We got 25 cents a week, and had to earn the rest of the money we got. To earn part of that extra money he raised vegetables and rabbits… We always worked. All the boys were required to keep personal daily account books. They were required to give 10 percent of their income to charity, to save 10 percent, and to account for all of the rest. They had to balance their account books ever month and to be able to tell what happened to every penny they earned.* "

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- From the book "Kids and Cash"
Ken Davis and Tom Taylor
(1979 Oak Tree Publications)

Thanks to Rockefeller's constant reinforcement of money skills, his children and grandchildren inherited much more than just financial assets from him. They inherited the habits and attitude of stewardship which they would need in order to use those financial assets in a productive and effective way. The result was that the Rockefeller family has been one of the most successful and impactful families in American history, as Rockefeller's descendants went on to become leaders in business, politics, and philanthropy. In fact, it may even be true that many of the family's accomplishments were enabled, or enhanced by the family's wealth – that his descendants have been able to use the family's wealth as a tool for their success and achievements – or a *platform for achieving even greater heights.*

An Important Decision

Many people who have accumulated a certain degree of wealth may eventually come to the realization that they have more money than they will ever need to support their own lifestyle. Those fortunate enough to reach that point must next make a critical decision about their legacy.

Most people feel as though they wish to do the most good in the world with their fortune, and to leave it in such a way as to have a positive impact on the world. For many, leaving their fortune to their children would defeat this purpose, as they fear that inherited wealth will simply spoil their children and be wasted on lazy, ungrateful heirs. As articulated by Gina Rinehart, they feel as though their children are not capable, and do not have the skills to handle their inheritance, and the money would ruin them. Many of these people are instead choosing to leave their inheritance to charity.

We might suggest that inherited wealth does not necessarily have to be a burden on the successful development of future generations. In fact, for many families inherited wealth can be a wonderful tool for future success and growth – provided that the senior generations are willing to do the hard work to prepare their children for their inherited wealth, and to build the values, skills and habits they will need. If Mr. Rinehart decided to put the time and effort into it, we wonder if she could have ***taught*** her children the "requisite capacity, or skill or knowledge, experience, judgment or responsible work ethic" they would need to handle the family's money.

A Great Article

For more on this topic, we recommend:

http://www.dailylife.com.au/life-and-love/parenting-and-families/honey-i-disinherited-the-kids-20140830-3elye.html

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