

V A L U A B L E S

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

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 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".

The Journey to Self-Actualization

By Erik Strid

"When your Values are Clear, your Decisions are Easy."

— Roy Disney

Our last issue of *Valuables* expressed that most wealthy families long for more than just **Success**, but strive to live a life of **Significance**. Many wealthy families find that financial wealth can be meaningless unless it supports their ability to enhance their happiness and fulfillment. We also outlined three distinct Dangers which are presented to families who hope to use their wealth as a tool to build a more satisfied and fulfilled life...

- **Losing Financial Freedom.** Money represents our freedom and autonomy, and all humans fear the loss of control which relates to Financial Security.
- **Wealth will Negatively Impact Children and Grandchildren.** There is a sad dynamic in America that family wealth rarely lasts beyond a generation or two, and in fact inherited wealth can be a handicap to happiness for future generations.
- **Desire to Leave a Positive Legacy.** More than just leaving behind a financial estate, people want to know that they left the world a better place, and left behind a legacy of Significance.

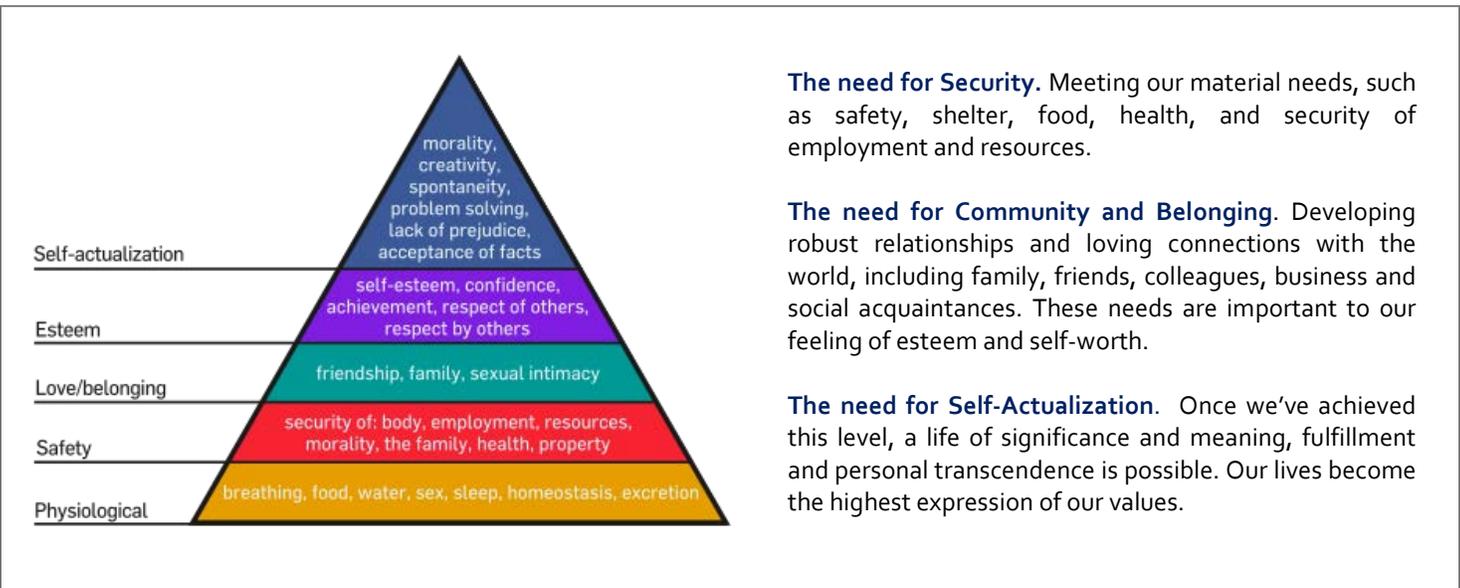
In this month's article, we hope to tie in these three dangers to a framework for understanding human values, and their power over our behavior.

The Psychology of our Values

Experience suggests that wealthy families are most interested in using their wealth to empower them to enhance their happiness and fulfillment, so that they can fully express their values and what is most important to them. Personal values have tremendous power over human behavior, and we have observed that most wealthy people have a strong ambition to enable their personal values in their lives.

Abraham Maslow, a noted psychology professor and author, developed a concept known as "Maslow's Hierarchy of Needs," which he used to explain human behavior. In this framework, human beings are in a constant quest to fulfill their personal values, and to realize their full potential, reaching a level called "self-actualization," the highest state of being. A self-actualized person lives in complete harmony with his values, and with the fullest level of functioning and achievement of potential. Such a person achieves great significance in life, by establishing meaningful relationships with the outside world.

According to Maslow, the journey to self-actualization is not easy, and other more fundamental levels of need must first be met before reaching this highest state of being. The quest for self-actualization travels through all of the five specific levels shown here in



The need for Security. Meeting our material needs, such as safety, shelter, food, health, and security of employment and resources.

The need for Community and Belonging. Developing robust relationships and loving connections with the world, including family, friends, colleagues, business and social acquaintances. These needs are important to our feeling of esteem and self-worth.

The need for Self-Actualization. Once we've achieved this level, a life of significance and meaning, fulfillment and personal transcendence is possible. Our lives become the highest expression of our values.

Maslow's hierarchy, and one cannot ascend to the next level until the needs listed in the lower level have been permanently satisfied.

Maslow's groundbreaking work on human behavior has been further developed since the time of his death. Many have consolidated his "hierarchy" into three important levels: Security, Community/Belonging and Self-Actualization.

The "Values Conversation"

In our practice, we use a tool called the "Values Conversation" to help explore and articulate the Values of client families. The Values Conversation is a series of questions intended to allow clients to explore what is most important to them. The exercise is based upon the question:

"What's important about money – to you?"

After responding to this question, participants are then asked a similar question, based upon their response to the original question. For example, if the answer to the first question were "security", the second question would be:

"What's important about security – to you?"

This same pattern of questioning continues, until the client participant has explored and identified their deepest and most important values, such as *independence, pride, providing for family, accomplishment, achievement, balance, making a difference, fulfillment, spiritual attainment, inner peace, and self worth.*

We have conducted the Values Conversation hundreds of times, and with clients of all ages, wealth, and stations in life. We have found without exception that these conversations always follow a pattern, aligned around Maslow's three levels of self-actualization:

- Typically the conversation begins with some discussion about the importance of using money to achieve some material goals, such as retirement, educating future generations, buying assets such as a new vacation home, and the achievement of security and financial freedom.
- As the conversation proceeds, client responses tend to evolve to more thoughtful discussions about doing for others and being with others. We often hear responses that it is important to *provide for family, make a difference, have an impact on the community, and develop our social consciousness.*
- At some point in the exercise, participants make a significant emotional transition and begin to focus on the "higher self". Responses begin to take on an expansive tone and become about large internal and emotional payoffs. We hear that it is important for *fulfillment of my destiny or purpose, becoming the best human being I can, spiritual fulfillment, being one with the Universe, total inner peace, nirvana, enlightenment, etc.*

"Our focus on the financial "Balance Sheet" can cause us to lose the sense of True Balance in our lives. What is required is a shift from a narrow focus on financial wealth to a much broader understanding of the family's Values, and what is important to you."

In our work with clients and the use of the Values Conversation, we have accumulated a great deal of experience that Maslow's work is accurate in the real world, and that most people's system of values are built upon a reflection of Maslow's three levels of Self Actualization. Interestingly, this pattern of values and principles also relates to the three core "Dangers" we described in our first section. In our work with clients, we have found very few exceptions to this pattern of values, or the fears that appear to stand in the way to fulfilling those values for most families. Most clients share the need to achieve Security, Community and Belonging, as well as Significance and Fulfillment, and wish to overcome the obstacles which stand in their way.

The Obsession with "Security"

In our work with wealthy clients over many years, we have learned quite clearly that the most acute of these fears is the "Fear of Losing our Freedom and Autonomy", and its related focus on Financial Security. While we may worry about the impact of inherited wealth on our children, or the prospects for leaving a positive legacy, most families are primarily focused on the prospect of running out of money or losing their financial security.

As a result, many people have great difficulty advancing beyond Maslow's most basic level: the focus on Security. No matter the level of net worth of the family, most experience a persistent sense of anxiety, 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 and tax planning strategies and returns. Many families invest tremendous amounts of time, energy and effort into the pursuit of financial wealth, to the exclusion of everything else, and often end up sacrificing their time, energy, and even friends, family and health, in the pursuit of more money.

This fear can become a barrier in the journey towards self-actualization, as the obsession with material possessions can cloud our vision of our larger values. Our focus on the financial "Balance Sheet" can cause us to lose the sense of True Balance in our lives. What is required is a shift from a narrow focus on financial wealth to a much broader understanding of the family's Values, and what is important to you. The first and most critical element of that shift is to execute a process for Securing your Financial Freedom.

Securing Your Financial Freedom

The Family Wealth Planning process must always begin by addressing "Level 1" of Maslow's hierarchy, and to focus on the security of the family's financial assets, and develop confidence in your personal long-term financial sustainability. This process helps the family overcome the most basic fear of losing autonomy and freedom.

The process for developing confidence in your future Financial Security is actually quite simple, and entails a series of critical steps and success formulas. Unfortunately, this process is often made far too complicated and difficult by many families, who allow the emotions involved to sidetrack and sabotage the process. The formula for this process includes the following critical elements:

As a first step, the family must establish the financial benchmarks that will provide them with a high degree of confidence, security, and certainty. Although this step seems elementary, very few families take the time to specifically identify in writing their long-term cash flow needs and Financial Life Goals. As a result, future spending patterns seem open-ended, which results in significant anxiety and uncertainty.

Once the primary goals have been identified, it is important to create a series of projections, to determine the probability of success in meeting the articulated goals, regardless of economic conditions. The product of this analysis is to identify the family's "Magic Number", or the level of assets required to ensure that the family's goals will be met, regardless of financial market outcomes.

Steps to Securing your Financial Freedom

IDENTIFY. Determine Long-Term Cash Flow needs and Financial Life Goals that will provide you with a high degree of confidence, security, and certainty.

ANALYZE. Create projections to stress test the probability of success in meeting the identified Goals and determine what level of assets are required to ensure that the family's goals will be met, regardless of financial market outcomes.

INVEST. Fund and invest in a series of conservative strategies designed to sustain the asset base needed to achieve the articulated Goals. Concentrating on low-risk, risk-managed, and hedging strategies to create a desirable investment result with low volatility.

MONITOR. As changes occur, it will be important to renew confidence in the plan for the family's Security. This requires the ongoing recalculation of the cash flow analytics, and tracking of the family's asset base over time.

This analysis should provide rigorous "stress testing," so that the family can achieve a high degree of confidence in the calculation of this number. This analysis ensures that the family understands the minimum asset level which will be required to remain "On Track" for securing their future family goals.

Once the family's "magic number" has been identified, the next objective is to fund and invest in a series of conservative strategies designed to sustain the asset base needed to achieve the articulated Goals. The focus should be managing risk, so that the family can continue to feel financially secure. It combines low-risk, risk-managed, and hedging strategies to create a desirable investment result with low volatility.

Families may wish to segregate these assets into a "security lockbox," a conceptual custodian which segregates a certain level of assets earmarked for long-term security but allowing excess earnings to be diverted into philanthropy or other long-term goals.

Finally, it is important for the family to maintain a framework to sustain and extend their confidence and security into the future. The funding and investment of this "Lock Box" is the first step in securing the family's Independence, but spending patterns, goals, and life circumstances are likely to change, as will financial markets. As these changes occur, it will be important to renew confidence in the plan for the family's Security. This requires the ongoing recalculation of the cash flow analytics, and tracking of the family's "Magic Number" over time.

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Disclosures

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