

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".

Family Legacies

By Erik Strid

"It has left me with nothing to hope for, with nothing definite to seek or strive for. My life was never destined to be happy. Inherited wealth is a big handicap to happiness. It is as certain death to ambition as cocaine is to morality."

— William K Vanderbilt, Grandson of Commodore Vanderbilt

In our inaugural issue of *Valuables*, we suggested a framework for the common challenges faced by wealthy families who seek to use their wealth as a tool to achieve a more significant and meaningful life. As a review, we proposed that there are three primary fears to overcome in order to achieve a life of *Significance*:

1. Losing financial freedom and autonomy
2. Inherited wealth will negatively impact children and grandchildren
3. Desire to leave a positive legacy in the world

Within this framework, our second and third dangers are closely related, and deal with the reality that money can become a serious impediment to your ability to raise a high functioning and happy family, and to leave a powerful legacy for future generations.

As we explore these three primary challenges of wealthy families, it may be helpful to consider real world outcomes for families who have been presented with these Dangers. Many wealthy families throughout history have been unable to successfully overcome these problems, and as a result have become dysfunctional. However, there are also a few examples of families who have displayed a genuine talent for identifying these Dangers, and building strategies for overcoming them. These families stand as examples that these Dangers can be transformed into strengths, in the quest to become a powerful, self actualized family unit. It may be useful to study "what went wrong" in the case of the former, as well as to identify the habits and strategies used by the latter to become successful.

Leaving a Legacy of Unhappiness

History, great literature and modern-day tabloids are filled with stories about the spoiled, lazy and dysfunctional children of privileged families. Their parents are bluebloods and hotel heirs, rock stars and sports team owners, old money and the newly rich. The common denominator is a poor attitude towards wealth and a disconnect from the toil and discipline it took to acquire it.

Whether the family is famous, infamous or quietly wealthy, inherited wealth can become a major handicap to the happiness and successful development of future generations. It is not uncommon for inherited wealth to lead to laziness and loss of motivation, incapacity to work hard and produce income, mental health issues, depression, suicide, alcoholism, divorce and family fractures, family feuds and other anti-social behaviors.

There are thousands of examples of wealthy families who have fallen prey to dysfunction among the children and grandchildren, but a perfect real world example is the Vanderbilt family. The story of the Vanderbilt family is a classic example of how inherited wealth can cause serious unhappiness for future generations, and instead can become a burden to children and grandchildren. Although your family may not be as wealthy as Commodore Vanderbilt was, this story still holds value as a cautionary tale. What is important is not the size of the fortune involved, but the impact that inherited wealth had on his family, which can be felt by a family of any level of wealth.

The House of Vanderbilt

Cornelius Vanderbilt was born in 1794, and became the wealthiest man in the world by the time he was 40. In terms of today's dollars, his fortune could rival that of Bill Gates or Warren Buffet, and one estimate indicates it was valued at over \$143 Billion in 2007 dollars. At the time of his death in 1877, he left an estate to his heirs of over \$100 million, in addition to founding Vanderbilt University.

Despite Vanderbilt's fantastic wealth, his descendants fell prey to many of the worst challenges of inherited wealth. In 1991, one of Vanderbilt's descendants, Arthur T. Vanderbilt wrote a book called "*Fortune's Children: The Fall of the House of Vanderbilt*", in which he detailed the history of the Vanderbilt family after Commodore's death.

The book details a sad family history of dysfunction, conflict, and unhappiness, as well as destruction of the family fortune that Commodore had created. Within thirty years of Commodore's death, no member of his family was still among the richest people in the United States. Forty-eight years after his death, one of his direct descendants died penniless.

The book recounts that "*This fabled golden era, this special world of luxury and privilege that the Vanderbilts created lasted but a brief moment. Over-indulgence, reckless spending, and poorly advised investments all contributed to the decline of the power and dominance of the Vanderbilt dominion.*"

The quote that opens this article is from *Fortune's Children* where Commodore's grandson, William K. Vanderbilt speaks about inherited wealth and its burdens. This reflection draws out the sad reality about the danger of financial wealth that is inherited without responsibility and the skills required to handle it.

It is bad enough that the grandchildren of Cornelius Vanderbilt wasted away his fortune. Far worse was the fact that the money itself became a chief cause of unhappiness for his descendants. The valuable lesson to learn from the Vanderbilt story is that legacy planning is not only about preserving the money. True

Abundant wealth can actually become a significant handicap to the happiness of the children and grandchildren of wealth creators.

legacy planning is about building a system to avoid the common negative outcomes that come along with money, and making sure that the money you do pass along does not become a handicap to happiness.

This story illustrates the danger of financial wealth that is inherited with no strings attached, by heirs who lack the responsibility and the skills to handle wealth.

Growing the Human and Intellectual Capital of the Family

Just as the Vanderbilt family provides us with an example of "what can go wrong", other families have demonstrated a talent for building strategies to become powerful, high-impact families.

In contrast to the Vanderbilt story, history also holds several examples of families who have been successful in passing down the financial, intellectual, human and social capital of the wealth creator, in a way that enabled the family wealth to blossom over multiple generations. Such families have been able to use their financial wealth to enable future generations to make a large impact in the world.

The Rockefeller family serves as just such an example of a family which has been exceptionally successful in raising high impact family members over a number of generations. Before we study their family history, we repeat the disclaimer - although it may be likely that your family is nowhere near as wealthy as John D. Rockefeller was, the Rockefeller story still holds value as a wonderful example of what is possible for your family. What is important is not the size of the fortune involved, but the impact that the traditions and family wealth management strategy had on his family, which can be felt by a family of any level of wealth.

Rock Rules!

John D. Rockefeller was the wealthiest man of his time, and by the time of his death in 1937 it is estimated that his fortune was over \$1.4 Billion (the Nation's entire GDP was \$92 Billion at the time!).

Even after his death, the Rockefeller family continued to expand in wealth and success. The family's financial wealth has enriched six generations of descendants, in addition to funding various high profile philanthropic efforts. Among the descendants of

John Rockefeller include many examples of successful business, political, and philanthropic leaders who have had significant impact in 20th century America, and his descendants include several governors, senators, CEO's and other business leaders.

The Rockefeller family was able to blossom because the family focused on building traditions and governances for the stewardship of their financial wealth, but also developing strategies for the cultivation of the skills, capabilities, habits, traditions and character of the family. In particular, John Jr. worked very hard to create systems of family governance and philanthropy to perpetuate the family's wealth, and is largely credited with the ongoing financial and worldly success of the family. After his father's death, John Jr. established a **family office** for both the management of the family fortune and the education of future generations. The Rockefeller family office has been intensely focused on providing future generations a strong education in financial literacy, and their responsibilities for stewardship of the family wealth. In fact, the Rockefeller family adopted a family mission statement:

***"To Grow the Human and Intellectual
Capital of the Family"***

The primary goal of this Valuables series is to identify the habits, structures and governances which are common to successful multi – generation families like the Rockefellers, in hopes of building similar systems in your family to achieve similar outcomes.

Lessons from Successful Families

While every family is different, those who have preserved and grown their wealth without spoiling their heirs and compromising their core values share these attributes:

- Made the leap from "scarcity thinking" to "abundance thinking," and have begun to look at their wealth in broader terms, for its ability to empower them as families through many generations. They are willing to transcend an obsession with the "number on their balance sheet" and consider their genuine wealth in more holistic terms.
- Take a much longer-term view during their wealth planning decisions, and focus their attention on the development of their wealth over many generations.

- Share a commitment to the financial education of their children from a very young age. They are committed to teaching children about money and how it works, and foster programs for financial literacy and the understanding of financial stewardship habits.
- Feel a sense of gratitude, and practice it regularly as a habit to move away from an attitude of entitlement to an attitude of appreciation and abundance.
- Share a commitment to family contribution. Most have institutionalized charitable giving and philanthropy, and include the entire family in philanthropic activities.
- Communicate regularly and effectively, sharing experiences, insights and knowledge, as well as information about the family's wealth. Annual family meetings or retreats are very commonly used for sharing experiences, education, contacts, networks, and business knowledge, and to document that knowledge for future generations.
- Often apply family governance structures and written rules. Many have gone as far as to create a Rothschild-style "family bank" as the source of capital for family members through member loans.
- Embrace discipline, habits and traditions. They understand that these values and the systems that support them CANNOT last and perpetuate, unless they are developed as a set of consistent and disciplined traditions. These strategies are practiced regularly and built as family conventions that will not be broken.

These common themes are universal to all families who strive to build and cultivate their financial, intellectual, human, and social capital over many generations. Any families yearning for a life of significance over generations can adopt these systems, regardless of their level of financial wealth.

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Disclosures

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