

Wealth Management Point of View

Redefining Wealth through a “Family-Office” Approach to
Wealth Management

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High-net-worth individuals have proven their ability to accumulate wealth. Now they want to preserve it for future generations. A family-office approach to wealth management can help them achieve this goal. It can also help them expand their definition of wealth to encompass more than the sum of their financial assets.

Summary

The adage is true: The rich are getting richer. Today's high-net-worth individuals have more money than previous generations ever thought possible. They have more time to enjoy their wealth—and to think about what wealth means for themselves and their families. And they have a larger number of options when it comes to accumulating wealth for future generations. This "abundance of riches" has a major drawback. It generates an overwhelming number of difficult decisions—and responsibilities.

A family-office approach to wealth management can help. In this scenario, an objective "Family CFO" coordinates and oversees all of the family's relationships with multiple advisors. This reduces the family's administrative burden. It ensures that all components of a comprehensive wealth management plan are addressed and coordinated. It enables families to establish a lasting legacy via a more meaningful definition of "family wealth." Above all, it delivers the optimal benefit: peace of mind.

Trends

Several factors are converging to fundamentally change the delivery of wealth management services in the United States:

- **We are getting richer.** Today, more than two million Americans have at least \$1 million in financial assets (excluding the value of their primary residence)¹. In total, Americans are sitting on a stockpile of personal assets worth \$32 trillion. Economists believe Americans will transfer more than \$40 trillion in personal assets over the next 50 years. It is estimated that \$28 trillion of this will be passed directly to children and grandchildren².
- **We are living longer and better lives.** Thanks to medical advances and healthier lifestyle choices, 80 percent of today's 65 year-olds will live to at least 85³. Americans are also retiring earlier. In the 1950s, the typical retirement age was 67. Now, the median retirement age hovers around 63⁴.
- **We are becoming savvier investors.** The percentage of U.S. households participating in the stock market has grown dramatically. Today, nearly half of all Americans invest in stocks or stock-mutual funds⁵. The most recent trend involves a move toward instruments not directly correlated with stock market performance. These "alternative" investments protect investors from

¹ Roach, John. "'Old' Europe Has More Millionaires than U.S., Study Finds." *National Geographic News*, July 11, 2003.

² Boston College Social Welfare Research Institute

³ "Nearing Retirement: Life expectations are on the rise," The Best of America/Nationwide Life Insurance Company

⁴ "Retirement Planning: How many years do you need to plan for?" The Best of America/Nationwide Life Insurance Company

⁵ "Key Trends in the Securities Industry," November 3, 2003. Securities Industry Association.

losses that can occur when volatility shifts from one asset class to another. The most common alternative investments include real estate, private equity, managed futures, and hedge funds.

Against this backdrop of good news, many high-net-worth individuals are expanding their wealth management strategies. They have accumulated more wealth than they can (or may want to) spend in a lifetime. Now, they want to share as much wealth as possible with future generations either through gifts and bequests to heirs or via philanthropic initiatives. This marks a significant paradigm shift: Strategies focused solely on *wealth accumulation* are giving way to financial plans that emphasize *wealth preservation*.

Gaps

In creating a preservation-focused wealth management plan, high-net-worth individuals typically rely on a number of third-party advisors. Attorneys, CPAs, insurance agents, investment brokers, and even business psychologists can be involved in shaping a comprehensive, forward-looking plan. The difficulty lies in managing these multiple third-party relationships effectively. High-net-worth individuals simply don't have the time to oversee a large number of advisors. And they often don't have the expertise needed to evaluate or implement their advisors' suggestions. As a result, they often end up with a plan that sits on a shelf or does not suit their changing goals and needs.

Plans can also be inadequate if they are based on a limited definition of "family wealth." Accumulating wealth requires an individual to build financial security. *Preserving* family wealth becomes more complicated. There are other, equally important, dimensions of family wealth that must be developed. These include a shared history, a shared vision of wealth, and a shared commitment to creating a lasting legacy. By failing to address these non-financial factors, high-net-worth individuals will find it difficult to optimize the wealth that is sitting in the family tree.

Challenges

Wealthy individuals have always been challenged to make the right wealth management decisions. Today, the challenge is even more daunting. People want to plan wisely for longer retirements. They want to provide for their children and grandchildren. They want to make meaningful contributions to charitable causes. They want to minimize their estate taxes. They want to understand new and complex investment options. Above all, they want peace of mind.

Many believe they are destined to face these challenges alone. That can be a daunting proposition. Where do they start? Whom should they turn to for help? What will be included in the final plan? How will the family agree? Despite these difficult questions, many high-net-worth individuals believe they can orchestrate a plan that will meet their family's needs. Others convince themselves that their existing estate plans will be adequate to preserve the most important components of family wealth. Still others believe they do not have enough assets or complexity to warrant a plan.

All of these groups are mistaken. High-net-worth individuals must face today's wealth management challenges with a comprehensive plan. They need the help of an objective advisor who can coordinate the various plan components. And they need guidance in defining wealth in a way that makes sense for their families. If they fail to secure this sort of help, they risk losing the assets they have accumulated. They risk jeopardizing the legacy they want to create for their children and grandchildren. Perhaps most importantly, they risk losing the peace

of mind their wealth management plan was supposed to provide.

Solution

To help high-net-worth individuals take advantage of wealth preservation opportunities, some advisors are now providing a "family-office" approach to wealth management. In this scenario, a single advisor assumes the role of "CFO" for the high-net-worth individual's family. This advisor:

- Assists the individual in defining the family's mission, vision, values, goals, and objectives
- Manages the creation of a comprehensive financial plan
- Coordinates the activities of multiple wealth management advisors
- Minimizes the administrative burden that typically falls to the individual
- Guides the family to make the right wealth management decisions
- Provides a holistic view of a family's holdings
- Serves as an advocate to help align wealth to a family's mission
- Implements innovative strategies that will preserve wealth for future generations

In establishing a family office, high-net-worth individuals should look for advisors that meet certain criteria. They must have wealth management expertise and be able to oversee a number of third-party service providers, such as attorneys and investment brokers.

High-net-worth individuals often overlook two fundamental criteria when selecting a family-office advisor. The first is trust. The advisor should be an objective advocate and family partner. Given the skepticism investors feel toward the financial management community today, finding a trustworthy family-office advisor may seem impossible. But it is not. The solution lies in selecting a fee-only planning and investment advisor. Fee-only advisors do not represent or sell specific financial products. Neither do they make commissions on the buying and selling of investments, insurance, or other products. Investors pay only for objective advice. They never pay hidden fees, assessments, commissions, or backdoor costs.

Finally, high-net-worth individuals should look for a family-office advisor who promotes a more expansive concept of "family wealth." This view of wealth should encompass:

- **Human Wealth** – Human wealth is based on the individuals that make up a family unit. It comprises the relationships that bind family members together. As such, it is the primary component of wealth for any family. Taking time to understand the traditions, stories, and history that make their families unique can reveal embedded family values that have existed for generations. It also can illustrate how family members have come together in the past to achieve common goals. These insights can help families work together to create a common legacy.
- **Intellectual Wealth** – Intellectual wealth is more than a collection of formal educational accomplishments. It comprises the knowledge gained by family members through various life experiences. Families should consider how they pass along intellectual wealth to future generations. And they should strive to understand how the family unit learns, manifests new knowledge, and improves. These exercises will shed light on the family's capacity to govern, resolve conflict, and openly communicate—three critical components

for family-focused wealth management.

- **Social Wealth** – Social wealth is generated every time a family member volunteers for a community organization or donates money to a worthy cause. As with human and intellectual wealth, social wealth is difficult to measure. But it is at the core of true family wealth. Families should examine their investments in social causes. Are they charitable? If so, what motivates them to support others? How do they make the biggest difference? Are there common causes that family members can rally behind? By answering these questions, families will be in a much better position to create legacies that extend beyond the family tree.
- **Financial Wealth** – Financial wealth is what most people consider when they think about wealth. It comprises the family's tangible assets. It is also a tool that can be used to develop other components of wealth. Naturally, families will review their financial holdings when implementing a wealth management plan. But their returns will be greater when they do so with an eye toward building their human, intellectual, and social wealth.

By hiring a fee-only, family-office advisor who takes a comprehensive view of wealth management, families will achieve more than asset preservation. They will create a common, more meaningful vision of wealth. They will establish a framework for future decision-making. They will grow stronger, bound by their collective dreams. Above all, they will be able to create wealth management plans that maximize their families' true wealth for generations to come.

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