Long Term Preservation of Family Wealth

As noted by James Hughes in his seminal book, *Family Wealth: Keeping it in the Family*, the preservation of long-term family wealth is a question of human behavior.

While the desire to sustain wealth across generations is paramount, history tells us that very few families ever achieve this lofty goal.

Surprising to many, is the fact that less than 3%[1] of these failures stem from poor investment results or ineffective estate planning. Instead, fully 85% of failures are attributable to inadequately prepared heirs and a breakdown in communication & trust within the family.

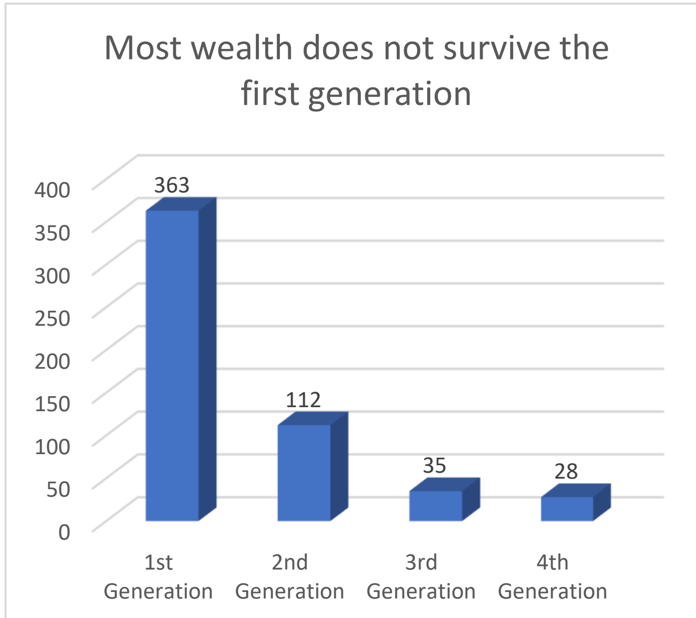

Figure 1 UBS PwC Billionaires Report

Research shows us that those who fail[2] to successfully transfer wealth focus almost exclusively on their financial capital. Yet, when we evaluate a family's capital, as we would a business enterprise, we see that a family has four sources of capital:

1. Human
2. Intellectual
3. Social
4. Financial

Human Capital comprises the individuals within the family (immediate or extended) and their unique characteristics. It is the physical and emotional well-being of its members.

[1] Preparing Heirs, Williams & Preisser
[2] Failure was defined as "involuntary loss or control of the assets"

Intellectual capital Is comprised of the knowledge gained through the life experiences of each family member or what each family member knows.

Social capital consists of a family's network, their vast relationships.

Financial capital of a family is the movable and immovable property at owns. Here we find the quantitative components of wealth. In a high-functioning family, it is understood that the financial capital is there to support the other three.

Retuning To my earlier reference of the family being similar to a business enterprise, can we imagine any business being successful it did not measure and maximize all of its forms of capital?

It is not enough to simply understand that a family possesses four forms of capital; they must understand that, to preserve wealth, it is imperative that they preserve and promote human, intellectual and social capital of the family as well.

Most families, however, attempt to avoid the "shirtsleeves-to-shirtsleeves in three generations" phenomenon by focusing on optimizing the advisory process. This information collection and analysis process began with questions such as "**what** is to be done with the wealth?" (a disposition question), "**when** should beneficiaries come into control of the wealth?" (a timing and control question). Historically, those questions did not presume that there needed to be an inter-generational mutually agreed on purpose mission for the family wealth. [3]

Counterintuitively, while the sophistication of estate planning and asset management have increased significantly over the past generations (thereby optimizing the advisory process), the failure rate remains unchanged.

What, then, is the critical element for a successful wealth transfer? It revolves around the family unit; the insight to recognize the other three forms of capital, involvement of the entire family, interdependence of the intellectual/human/social capital and a purposeful process to build communication & trust within the family. Only by changing the focus can we alter the course.

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[3] Williams & Preisser, 2003